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Mills and Hand-looms

LALA SHRI RAM does not join the great debate on productivity and employment, but to the most important sector of the controversy, namely, cotton textiles—how much of it is left, once this controversy has been settled?—he has two points to contribute. One is technical. Now, idle capacity anywhere, and not only in the textile industry, is a social waste. That such idle capacity, wherever it may exist, should be utilised is accepted on all hands. In fact this is what gives the strongest support to the case for hand-looms. The usual explanation for the existence of idle capacity is market imperfections of one sort or another—bottlenecks and non-availability of transport, labour and raw materials or deliberate restriction of output in order to maximize profits. So if there is unutilized capacity in the mills, economists would not be wanting who see in it an attempt to fleece the consumers. The relative movements of prices of raw cotton and cloth, particularly of the finer varieties, will support this interpretation, assuming the existence of idle capacity as real

Speaking at the Annual General Meeting of the Delhi Cloth Mills, Lala Shri Ram said that this was a mere figment of the imagination. To quote his exact words:

"May I, with whatever experience I have had during the last 50 years, say that there is a very big number of mills where the machinery is in such a bad state of repair, and so old and inefficient, that it would be impossible to increase the shifts, except, perhaps, in a mill or two here and there. In fact, if these had been in a position to run extra shifts, they certainly could have done so even now when the margin of profit is certainly above the average."

Further expansion of mill production, therefore, will involve heavy investment. To this extent, his case is prejudiced, once it is agreed that investment should be canalised to the maximum extent possible according to priorities that have been planned.

The case for hand-looms, Lala Shri Ram is willing to concede. In fact, he is on very firm ground in advising the country not to rely on the Ambar Charkha, at least not for the second Plan period, if we are really serious in our intention to rehabilitate hand-loom weaving. For the first casualty of shortage of 'free' yarn will not be consumers of cloth but the hand-loom weaver. The political pressure behind Ambar Charkha can hardly be exaggerated. The technical merits of this invention, which is expected to revolutionize spinning, however, remains to be established. The administrative feasibility of introducing the Ambar Charkha and organization of spinning on an India-wide scale is so formidable a task that even Pandit Nehru shrinks from it. But for the advocates that it has found in the Cabinet, the proposal is too fantastic to have deserved any serious consideration strictly on its merits.

There is much ignorance among economists and others about the actual working of the rural sector. This is frankly admitted, and until very recently, no systematic attempt has been made to study the facts and collect statistics. The hand-loom industry also, along with the rest of the rural economy, it may be justly complained, has suffered from neglect. But this neglect in its particular case is only in matters of rehabilitation, administrative and financial. It would be wrong to suggest

that the study of hand-looms has also been neglected. On the contrary, there has been a considerable volume of literature on this subject. Many careful and scientific enquiries have been carried out on its actual working. Though remedial measures may not have been taken, it would be idle to complain that ignorance lies at the root of this failure. All these studies, the general consensus of opinion and universal experience combine to support two propositions viz hand-loom weavers must have a steady supply of yarn at reasonable prices and they must also have a market. The latter will be taken care of, even without reservation of lines of production, whenever there is scarcity of cloth, and scarcity is a relative term, depending on the means of purchase put in the hands of consumers which means the entire population of the country. Anything, therefore, that jeopardises the supply of yarn, the vital requirement of hand-loom weavers, can bode no good to our largest cottage industry.

This is not to suggest that spinning has necessarily to be centralized. A measure of decentralisation is possible in spinning also, but that will take time and much effort, and can be taken up after some progress has been made in building up the industrial base of the economy. The experience of khadi during Gandhiji's life-time as well as in the last seven years of Congress Government should at least open the eyes of Congressmen who should to-day find a useful field of activity, instead of wasting their time and energy in chasing fancy solutions that run counter to both reason and experience. The one single measure which will help hand-looms most is the establishment, as expeditiously as possible, of ten spinning mills, preferably in the public sector.

Accepting the case for hand-looms, the controversy boils down to this: Should we watch and wait to see how hand-loom production comes up, after it is given all assistance short of a ban on mill production, and hold the ban in reserve, to be imposed only when it is found that hand-loom production can take up the slack? Or should we start with the ban and wait for hand-loom production to come up, leaving it to the future to relax restrictions on mill production if it is found necessary to do so at a later stage. The latter course, Lala Shri Ram contends, would be dangerous because, among other reasons, mill production cannot be controlled by traffic signals and made to stop and go at short notice. This puts an entirely different complexion on the problem, particularly when dependence on textile exports has been made so much greater by the yawning gap likely to be left in the balance of payments by the second Plan. True the Draft Plan-frame does not contemplate any restrictions on mill production for export, but expansion exclusively for export may not be a feasible proposition, administratively.

The controversy, it may be confidently believed, will lose its sharpness and edge pretty soon when expenditure on the scale now being planned begins to be incurred. The present demand for cloth is an indication which way the wind may blow. The country should be able to absorb comfortably the production both of the mill industry and of hand-looms. This optimistic view of the situation is not unwarranted by facts.

The hard core of the problem, however, is different—viz the saleability of mill cloth and hand-loom products, side by side, when consumer preference is decidedly for the former. Division of markets does not go very far in resolving this conflict. If the claims of employment and economic growth are to be reconciled via hand-looms, and division of markets, by which products of hand-looms can be made to complement mill production, proves inadequate in practice, the final solution will have to be some sort of controlled distribution. Consumer preference may have to be interfered with to the extent necessary for maintaining employment in an important sector of the rural economy, by rationing out cloth in some fixed proportions of mill and hand-loom products. The solution will not appeal to many, least of all to the present administration. But unless the Planning Commission is prepared to face the issue squarely and take the bull by the horns, so to say, it will have to modify its present attitude to the textile industry. To ensure a sheltered position to the mills by freezing competition and guaranteeing them a market far in excess of their current production capacity, would be offering them a reward without asking for a return. The possible impact of such a policy on textile exports is no less dangerous. This has been pointed out by many and very forcefully by Lala Shri Ram: "A home market in which supplies are short and prices are rising will necessarily divert supplies from the export to the national market".

The Draft Plan-frame was only a draft. Months have passed since it was presented. The Planning Commission has not made any progress even in working out the implication of what it wants to do. Flying in the face of logic and facts is no way of working out a Plan.

Dualism in Congress

FREEDOM without social and economic progress is a shadow without substance. To-day, for the first time since independence, there is awareness within the country that first things must come first. International developments have helped New Delhi to assess problems in their proper perspective. Peace has not yet dawned on the world. But the "Geneva spirit" persists. There are ominous implications of a "hydrogen stalemate". But hope lingers that disputes will not be settled through use of force, but by peaceful negotiation. As fears of a third world war have receded, undeveloped countries, including India, have gained hope that their efforts to ensure plenty will not be hampered by diversion of resources for war purposes. Gradual evolution of a "Point Four" Programme by Russia is the most tangible outcome of the "Geneva spirit". Under-developed countries are hopeful that they will be the major beneficiaries of competitive co-existence.

Once it is realised that world peace is an essential condition of economic progress in undeveloped countries, India's peaceful foreign policy will be better appreciated. Her foreign policy has helped the creation of a more congenial international political climate. Internal developments have emboldened New Delhi to frame a bolder second Plan. Achievements of the first Plan are impressive. Attainments of the last five years have deepened the conviction that much more can be achieved. When at the beginning of last year, Congress re-defined its aim at Avadi, it was hesitant in its approach. But the popular enthusiasm evoked by Avadi encouraged Congress to spell out its new policy. Industry was

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and is, combative. Economic experts warned New Delhi that the ambitious targets could not be reached. But the popular response and enthusiasm leaves no choice to New Delhi but to plan boldly.

Congress is not a Socialist Party. But the social and economic legislation during 1955 indicated the political pressures which were goading it to implement its avowed aim of ensuring a "Socialistic pattern of society". Zamindari had already been abolished. In the year, legislation was passed to restrict the rights and powers of managing agents. This attempt at industrial reform matched the aims of Congress to introduce agricultural reforms. Congress decided to expand heavy industries and mineral resources through the public sector. Plans for providing employment through development of village and small-scale industries were formulated.

Decentralisation, not only of the economy but also of the polity, is an essential principle of social issue. New Delhi's acceptance of the basic recommendations of the States Reorganisation Commission was the political counterpart of economic decentralisation. Congress was wise to acknowledge that the formation of linguistic States was not a threat to the unity of the Republic. Nor was it an obstacle to planned economic development. Both the sense of common citizenship and the popular response to the second Plan should be encouraged as the urgent social, political and cultural aspirations of the people are fulfilled. Even as New Delhi has got over its infant State bogey, the debate in Parliament on the reorganisation of States has dispelled fears about any threat to the territorial integrity of the Republic.

It is as well that India starts the second Plan with some of the basic social, political and economic implications of Socialism well under process of implementation. There are certain aspects of the second Plan which are not beyond controversy. In its emphasis on "household and hand" industries, it carries decentralisation to its illogical extreme. Estimates about the resources for the Plan reflect either the lack of conviction of Congress in its avowal of Socialism, or its confusion that it has not the prestige of a national, popular Government. Basic aspects of the second Plan are not directly under discussion here. But the inherent political contradictions within Congress have economic projections which are not without significance.

Congress has been accused of timidity in framing the first Plan. It is under no such political or economic limitations now. Unlike the first Plan, the second Plan has not been hastily prepared as a vote-catching device. Cynics may discover electioneering tactics in the Government's acceptance of the recommendations of the Karve Committee as well as of the Plan-frame's emphasis on "household and hand" industries. But there are deeper political compulsions behind the Congress policy on employment. Unemployment is a menace to social, political and economic stability. Elimination of unemployment is a desirable aim. But the means approved by Congress to achieve the end underline the wrong political and unrealistic economic approach to the problem. Congress equates itself with the country. But on all crucial issues since independence, it has been led by the people, instead of leading them.

It would be idle to pretend that the democratic inclinations of Congress compel it to behave as it does. Congress to-day has no political rival. Communists have been outmanouvred. Socialists are ridden by dissensions. Communal organisations like the Hindu Mahasabha have lost popular support. Congress, under the leadership of Pandit Jawaharlal Nehru, has not been unsuccessful in discrediting its political opponents. Congress is for a secular State. Both Communists and Socialists have lost popularity as Congress has enunciated its aim of implementing a "Socialistic pattern of society". Its negative achievements are impressive. But its inability as well as unwillingness to pursue a positive Socialistic policy reflects visibly the pronounced duality in the Congress Party. This may not prevent Congress from ruling the country for five more years. But unless Congress proves that it is sincere in its intention to ensure a "Socialistic pattern of society", it may not be returned to power in the elections after the coming general election. Within the next five years, Congress must demonstrate its sincerity by deeds, and not by words.

Is it Name that Matters?

ACCORDING to Professor M S Thacker, Director of the Council of Scientific and Industrial Research, Government of India has decided to establish in the quickest possible time a 'Scientific Civil Service'. The purpose of doing so, says the Professor, is to ensure that scientific talent in India is economically secured and absorbed in the field of science rather than be wasted in administrative services.

Few will dispute the urgency of utilising the scientific talent available in the country to the best possible advantage. There will also be general agreement on the need for provision of extension facilities to training and research institutes. But why a 'Scientific Civil Service'? Surely if the object is furtherance of scientific knowledge, it could be done by other ways than creating a hierachy of officers and assistants. If it is a question of guaranteeing an adequate and secure income to those who waste their time and energy for widening the frontiers of knowledge, it could and should be done converting them into a bureaucracy. But apparently, the term 'Civil Service' has a strange fascination to the elders in this country; and they can measure the adequacy of the apparatus for achieving desired objectives only by the extent to which it resembles the hoary Indian Civil Service of yore.

Annual Number 1956

THE next Annual Number of The Economic Weekly will be issued on January 26, 1956, and will contain a minimum of 120 pages bound neatly in art cover. It will be priced at Rs. 2|8|- per copy.

This bumper issue will highlight the major questions of policy and analysis that arise in connection with India's Second Five-Year Plan. The size of the investment budget, the widening gap in resources, policy in regard to large and small scale industries, the employment potential of the next Plan—these and many other related issues will be adequately covered.

For details regarding advertising space in the Annual Number, please contact the undersigned.

A Fernandes
Business Manager

Weekly Notes

No Flouting of Bank Award

THE bank employees' dispute has dragged on for years and in the process it has assumed, quite without justification, a national importance which is the result of an accident. Had not the dispute been treated on an all-India basis right from the beginning, bank employees would not have attained the position which they now occupy. Apart from the inconvenience caused to the public and the disturbances to business and trade, the dispute is holding up one of the major nation building efforts in the shape of planned expansion of the State Bank. Even without the dispute, the State Bank would have found it not so easy to transform itself from a commercial bank into an effective instrument of social policy for decentralisation of the economy. It is difficult to take over a running institution and inject into it the Avadi spirit overnight. Old hands who had joined the bank for a good salary may not find the change congenial and volunteer readily for a life of plain living and high thinking. And yet the ceiling on personal incomes that it has in mind and the maximum salary that the Government of India has fixed for new entrants set a standard that has to be enforced, albeit gradually, in all State run institutions. The mixedness of the economy here presents a particularly knotty problem. Bank managers are bank managers; can they be expected to agree readily to different scales of remuneration for doing the same kind of job? Other joint stock banks feel no compulsion yet to conform to this standard; why should the employees of the State Bank alone do so? Disgruntled foremen and discontented workers are not the best material with which to launch the largest so far socialized institution in the country and the State Bank has a big bill to fill—opening of hundreds of branches and erecting the frame-work that will 'institutionalise' agricultural credit.

Turning to the lowlier situation, it may not be just as bad, for it does not hold up development, but it is bad enough, for it makes day-to-day working troublesome. The hope that the Industrial Disputes (Banking Companies) Decision Act passed last year and the subsequent Award would end the long drawn dispute between banks and their employees have now vanished. Employees of most of the banks all over India went on strike yesterday in protest against the 'cut' in their emoluments effected under the terms of the last Award. The situation in Calcutta has been quite alarming. Clearing of cheques has been suspended since the beginning of the year and cheques worth about Rs 52 crores remain uncleared as banks are unable to cope with cheques received by them due to "frequent strikes and shortage of clearing staff". The difficulties created to the public in general and small accounts holders in particular can be well imagined.

It is really surprising how such a situation was allowed to develop where bank employees can hold the entire community to ransom. There cannot be two opinions about the 'illegality' of the strike. If any point in the implementation of the Bank Award Commission Recommendations is disapproved by the employees, it can be referred to the Tribunal machinery already provided for. The decision of the employees to resort to 'direct action', instead, is unsupportable. The well wishers of the employees should advise them to keep to constitutional methods. They have lost public sympathy by going on pendown strikes. The banks had a prosperous year as forecast by the Bank Award Commission. So some of them can afford to be a little more liberal in their interpretation of the Commission's recommendation. But it does not follow that bank employees can flout the Award with impunity.

Distribution of Key Imports

THE import licensing policy announced for the first half of the year does not deviate from established lines. Changes, therefore, mostly minor, are in the direction of giving effect to principles introduced and established in the earlier licensing periods. Thus, substitution of imports by domestic production wherever possible has led to a reduction of quotas for a group of imports in pursuit of the principle of giving special attention to small-scale industries which was initiated in the second half of 1955, quotas for a number of small tools like milling and gear cutters, reamers, twist drills and carbide tipped drills have been raised and licensing for these items has been transferred to the ports.

Higher industrial production in the country has made larger imports necessary in the case of others, such as card cans, packing and wrapping paper and mutton tallow. Agricultural development has been maintained well enough to absorb the domestic production of diesel engines, and this has made it possible to license the imports of special types of 3-10 H.P. electric motors which are required for agricultural purposes.

The most notable feature of the new licensing policy, however, is the extension of the scheme of canalising imports through approved channels. The success of the experiment carried out last year with soda ash has encouraged this step. Auctioning of licences for imports for which the demand is so keen that re-sales at a premium are inevitable has often been suggested. The present situation is not favourable for trying it out. In any case, the experiment can be tried only in the case of luxury consumer goods and of these, we are not importing many. When the import in question is a raw material of industry, obviously this device would be of no use. Hence the scheme inaugurated last year of purchase by foreign tenders, that is, at the cheapest price and controlled distribution to actual users through approved agents. In the case of soda ash, which was selected for controlled distribution last year, I C I and TOMCO, the distributors for Tata Chemicals, agreed to act as agents. Purchase abroad was made through tenders. Curiously enough, East Germany got the order in the first half of the year, its tender being the lowest, and China succeeded in the second half. I C I was also given a small quota. As a result, actual consumers, mostly industrial users, got their soda ash at a reasonably fair price on the whole. And speculative holding of stocks was largely averted.

The Ministry of Commerce and Industry has decided to bring raw rubber, caustic soda and sodium bicarbonate under this scheme in the current licensing period. The basis on which the imports of these items will be canalised, however, still remains to be determined but it may be presumed that the same principle will be followed as in the case of soda ash.

India Steamship to Quit ?

THE two hardy perennials in Sir A Ramaswamy Mudaliar's address to the shareholders of India Steamship at the Annual General meeting are of course delay in ports and difficulties of membership of various conference lines. Of these two, the latter, it now seems, may drop off! Not that the conferences are going to accommodate India Steamship any better, India Steamship may drop out from the conferences. Referring to the ban on picking up cargo from intermediate ports, Sir Ramaswamy said:

"We have attempted time and again to get a reasonable settlement of this question but so far we have failed to get any results from several of these Conferences. I feel that the time has now come when with due regard to our convenience and interest we must make our entry into these routes irrespecttive of whether members of such Conferences desire it or not".

These words can mean nothing less than that if the India Steamship found entry into Conference lines difficult, continuance of membership appears to be even more difficult. The experience of India Steamship, as is well known, has been unfortunate. In the economics of shipping as it has come to be ordered out, economies of scale favour only the owners of large fleets who can deploy their fleet in a manner to profit from rather than be handicapped by the severe restrictions under which the Conference lines operate. The very same restrictions turn out to be baffling obstacles for the smaller companies who have yet to establish themselves and cannot get full load from terminus to terminus and are yet debarred by the rules from picking up cargo from intermediate ports. The result is perpetuation of idle capacity for some and dull loads for others. India Steamship, unfortunately, falls in the first category.

To be quite correct, all this is by no means implicit in the economics of shipping as such, but happens to be the features, and unchangeable features, of the arrangements made by the happy family to keep all the shipping to themselves.

Flag Discrimination

SIR RAMASWAMY has also grave misgivings about any eventual solution of the problem of dock labour that may be put in force on the recommendation of the Committee of which he was himself a member. The employers, he has no doubt, will abide by whatever decisions are made in this regard and will also loyally carry them out, but he is not equally sure that the present labour leadership will also do so. Therefore, the only solution, and that is also the most urgent need of the hour, is the right kind of leadership of labour. True, he closes this part of his address with the hope that "with a Minister of Labour so well aware of labour conditions, it will be possible to install such right leadership everywhere", but he does not seem to share the conviction that a change of leadership is in the offing.

There are conferences in which Indian shipping, and hence the Indian viewpoint, is not represented. "I trust", Sir Ramaswami concludes, "that the second Five-Year Plan will make adequate provisions to bring about a better balanced position for Indian shipping in the world picture of shipping." Frequently, false accusations and statements are made about flag discrimination by Governments anxious to promote the nascent shipping industry of their countries. Such accusations have been made against New Delhi. Sir Ramaswami suggests that these unreal allegations and statements should be ignored, and that Indian delegates, even if they attend such conferences, "should not take part in these futile and meaningless debates and discussions".

Two ships were added to the fleet of the Company in the year to March last. Two more ships have been ordered. During the next five years, the directors hope to add at least one ship a year to the Company's fleet to reach the target of 18 ships by 1960. Sir Ramaswami acknowledges that the Government is offering considerable aid by way of loans. Despite adverse factors, "the financial position of the Company remains heealthy". Sir Ramaswami expresses the hope that the additions to the Company's fleet "will improve the freight results substantially".

Malayan Talks Fail

IT would be hasty to blame the Malayan Communists for the failure of talks. Terms offered by the Chief Ministers of the Federation and of Singapore left no room for compromise. The attitude of the Chief Ministers would seem to suggest that they were not interested in reaching a just and honourable settlement. Atrocities committed by the Communists cannot be condoned. But it would be unrealistic to expect them to accept abject surrender. By inviting the Communist leader, Chin Peng, to discuss the terms for a settlement, the two Chief Ministers conceded, by implication, a political status to the Communists. Their outright refusal to recognise MCP was, therefore, a calculated diplomatic rebuff.

Two factors may have provoked the Chief Ministers to be uncompromising in their attitude. Britain strengthened their bargaining position by her announcement that continuation of the emergency will not be allowed to delay the promised transfer of power to the Federation of Malaya. With such an assurance, the Chief Ministers of Malaya and Singapore could afford to be unyielding in their demands. Both the Chief Ministers are heads of governments chosen by the people. During the talks, both made it evident that each represented the people. In agreeing to participate in talks, Chin Peng recognised the representative status of the Chief Ministers. Whether they were wise in not reciprocating Chin Peng's overtures, is a different matter.

It was the presence of the third party by proxy that caused the failure of the talks. Both Mr Marshall and Tengku Abdul Rahman bay be the chosen leaders of the people. But neither Singapore nor Malaya yet enjoys independence. In dicitating their terms to the Communists, the two Chief Ministers implied that they, as the peoples' representatives, had the right to demand acceptance of their conditions. Chin Peng's refusal to accept the terms was not unconditional. Confronted with the demand for surrender, Chin Peng was diplomatic in making a concession in his counter-proposal. He promised that the Communists would "lay down their arms and disband their forces" as and when the Tengku Government assumed control over internal security and the local armed forces. Evidently, the two Chief Ministers did not like to be reminded that neither Malaya nor Singapore was yet an independent entity.

Malaya is a multi-racial country. There is a huge Chinese population in the Federation. Though the Tengku Government was elected mainly by the vote of Malays, the Communists are mostly Chinese. This racial aspect of Malayan politics was implicit in the two Chief Ministers' categorical demand that

the Communists accept investigation of their loyalty. It will be recalled that Singapore's Chief Minister had accused the Communists that they were fighting for Communism, and not against colonialism. There is a distinct danger that the failure of talks may precipitate a racial conflict in Malaya. Whether the Malayan problem can be solved in a manner indicated by the two Chief Ministers is doubtful.

Tests for Selection

WITH the elections in view, and also perhaps with no little awareness of the jockeying for seats that has already begun, Pandit Nehru has suggested certain principles to guide the selection of candidates for the Congress party. He wants adequate representation to be given to minorities; and he would like women to be returned in 'as large a number as possible'. No one would be entitled to selection just because he had been a sitting member. He would be judged by the work he had been doing as a legislator. Communal, caste or sectional considerations are to be kept out, and the choice must fall on the best candidate available. The most important test prescribed by Pandit Nehru relates, of course, to the political outlook of the candidate seeking selection. "Only those persons, who believe as an article of faith in the Congress ideology and a socialistic pattern of society, should be given Congress tickets."

If one remembers aright, Pandit Nehru did speak of certain guiding principles before the last elections also; and though minority communities might not have been neglected, women got scant attention. As for the record of services rendered by the candidates selected, the period of their association with the Congress or the degree of their devotion to the organisation and its programme, one wonders whether it was these considerations rather than the appeal of the candidate to particular voting groups or the adequacy of his resources that finally decided the selection except in a few outstanding cases. History need not necessarily repeat itself; but the exigencies of election are such that the final verdict can come only after the event.

Some of the principles put forward by Pandit Nehru are easily workable no doubt. But are those in charge of the selection of candidates, particularly in the States, likely to be actuated by the same high motives as Pandit Nehru in the heat of electioneering and the anxiety to win as many seats as possible for the party? Apart from the supreme lure of being in a position to exercise power, there is also a sort of rivalry among the top State leaders to outdo one another in the wresting of electoral trophies, which was blatantly evident in the last elections.

There is one test, however, obviously the offspring of Avadi, suggested by Pandit Nehru this time, which challenges attention as to its practicability. It is no doubt a test which few Congressmen can cavil at if the Party's conversion to the Avadi resolution is as real as its frequent protestations make it out to be. And even though Congress may be taken to be irrevocably wedded to the ideal of promoting a socialistic pattern of society, it is questionable how many of the more prominent State leaders themselves, not to speak of the rank and file, have taken whole-heartedly to it. In these circumstances, it would be interesting to see whether it is only or largely those who have made the socialistic quest an article of faith or rather such as subscribe to that convenient version of the quest that commends itself to a particular regional boss or only such as just burn incense before him, innocent of all ideological inclinations—it would be interesting to see which of these will figure prominently in the selection.

In any case, there is no wholly dependable means of probing into the workings of a candidate's mind; and he would indeed be a most indiscreet candidate for selection who does not seemingly adapt himself to the prevailing wind, particularly on the eve of elections, whatever his inner feelings may be. Whether such easy conversions or superficial conformism will be a reliable factor in Pandit Nehru's drive for a substantial transformation of the present pattern of society and life in the country is a question that eludes immediate answer. Indeed, as in the past, it may be only his own insuperable will and the awe which his position and personality undoubtedly command that may well have to be the decisive factor in the years to come too. And that can hardly be a source of adequate solace to those who are in a hurry to spark a non-violent revolution in the land.

While the City Sinks

THERE is tragic irony in the fact that while politicians are at one another's throat, statesmen hardly get any sleep, constructive thinkers are at their wit's end and the whole country is not a little exercised over the future of Bombay, the City on its part should be sinking little by little into the sea. Anyway, that is what Dr W D West, Head of the Geology Department of Sagar University, thinks, and he should know a thing or two about the relative stability of the odd linguistic bits we have all been quarrelling over. According to him, there has already been some subsidence, thanks to geological changes around the Bombay island; and the process he thinks will be completed in a few thousand years. Maybe, at the rate at which the earth around has been lately registering tremors under the impact of linquistic fury and fusillade, the island will be put out of its misery even earlier. But this lacks the geological support of Dr West.

Living in Bombay, one had somehow come to feel that the City would not only live, but also keep on growing bigger and bigger, for ever—with only the sky as the limit, if any, in space, and the next deluge as the only possible limiting factor in time. And one should not be surprised if this overwhelming sense of stability and the exhilaration of never-ending growth and prosperity have had not a little to do with the mounting intensity of the desire in various quarters to cling to it at all costs. Now that Dr West has knocked the very bottom out of this fond illusion and given only a few thousand years for the island to exist through various stages of gradual descent into the sea, it may well be asked whether there will be a better sense of realism all round. There is no indication of it yet; but should it come, Dr West may yet be hailed as one who made the most tangible contribution to the solution of the dispute over Bombay. And he may even be thanked for saving the City from human wrath—in advance of its final dissolution in cold sea water.

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Off the Record

More Light on Rural Economy

IF Lakshmi is inconstant and capricious in dispensing her favour, the Goddess of Learning also has her whims and can sometimes be ironical. Knowledge may spring from the most unexpected quarters and our economists may come to know more about the actual working of our rural economy—that inadequately mapped hinterland, variously described as pre-industrial, a-capitalistic or unorganised sector of subsistence economy—from Britain's dollar shortage. This is a plausible and permissible deduction from Professor Ganguli's address at the Economic Conference at Poona. The President called upon our economists to turn back home and get to grips with the reality around them. Prof. Ganguli himself went back to Ranade and Dadabhai Naoroji, to the first for perceiving clearly that the postulates of classical economics furnished "no suggestions" as to "dynamic progress or development" and to the latter, for grasping the basic truth about 'transfer loss' in his treatment of home charges as a drain on India's resources. Again from Ranade, he got the basic postulates of the Indian economy—the immobility of factors, partly for obvious social reasons and partly ordained by facts of geography. Cairnes had it long ago that exchange between non-competing groups could only be explained in terms of the theory of international trade and that theory, properly elaborated, can illuminate many obscure patches of our rural economy.

That Prof. Ganguli happens to hold the Chair of International Trade in the Delhi School of Economics has nothing to do with all this. He has no inhibitions against poaching on others' ground. Nor does he object to others doing so, in fact he invites others to help themselves and offers to them his own discipline as a key that will unlock many of the mysteries that have been baffling them. The concept of transfer costs, he suggests, will explain much of the stagnation of the rural economy. And the theory of protection to infant industries will put a powerful weapon in the hands of the supporters of hand and house-hold industries.

There is much more in Prof. Ganguli's address which began with an argument for the recognition of groups as units for explaining patterns of economic behaviour, to replace the present atomic structure of theoretical economics, aggregative thinking in terms of atoms being not only unrealistic, but unmeaning. In a serious rethinking of Indian economics, one has to begin with group behaviour on the one hand and significant orders or sectors on the other. Aggregation of atoms has definitely to be discarded. If this is done, it will be found that "the argument for protection on the basis of uneven economic development due to lack of diversification of occupations" can be extended to rural industry, with only this difference that we are considering in this case two broad sectors of a certain country, and not two countries, with a wide disparity in their standards of living. The concept of Terms of Trade applies neatly to the study of rural-urban economic relations.

"Lastly, a point that is made with regard to poor countries, viz., that freer trade causes an increase in their propensity to import and consume and leads to maldistribution of income, slows down progress and may also cause social tension and inflation, is also a valid point in the context of the economically depressed rural sector."

This is a powerful argument to reverse the prevailing currents of thought and turn them homewards but it is also a sad reflection that economists are wise only after the event. The owl of Minerva takes her flight only in the evening!

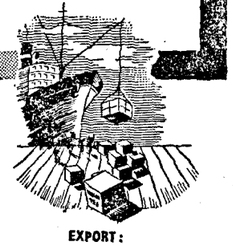
Of course, in a gathering of academicians, the learned professor naturally put all this in terms of approved methodology when he suggested the application of the principles of international trade to a study of our rural problems, commending as a model Hicks's latest formulation of the theory of value in similar terms.

No one would suspect that dollar shortage might be at the root of all this re-thinking but it might well be and probably it is. In his Drummond lectures, Prof. Hicks offered an explanation for Britain's dollar problems in terms of dissimilar rates of growth of the British and American economies. Prof. Williams had suggested it earlier in his Stamp Memorial Lectures. This is presumably also the economic theory behind the Colombo Plan.* It appears plausible enough that the concept of relative rates of growth might throw fresh light on the causes of the stagnation of our rural economy, of capital formation at the urban end and disinvestment at the rural end which have remained obscure.

This incursion into forbidden territory for non-academics may now be placed along-side the theory that has so long held the field based on Rosenstein-Roden's celebrated solution for the economic development by starting production along several lines so that a market may simultaneously be created for each line of

*Discriminatory Restrictions and the Dollar Gap. By A K Dasgupta. Essays in Honour of MacCall, Economic Weekly, June 1954.

India's Tea-India's Wealth



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production. The basic idea here is that of extension of markets; one can read it into Marshall's external economy. Allyn Young did that and one could of course trace it farther back to Adam Smith: "Division of labour is limited by the extent of the market".

All this is away from the aggregative thinking in which our younger economists have wallowed so long and points to the firmer ground of traditional analysis, but not in terms of its atomic structure and by no means to reach the same traditional conclusions.

* * * *

In his address to the Agricultural Economists' Conference, which also met in Poona at the same time, Prof. Anjaria served an entirely different kind of fare, which again was refreshingly different from what is usually served on such occasions. The President himself was an interesting study, not in split personality—I would not say that, his loyalties are beyond reproach—but in plural personality. There is nothing like leather and as an agricultural economist, he would like to grab as big a share of the Plan for the agricultural sector as he could get. But happily, he was not representing the Agricultural Ministry. In fact, as the Economic Adviser to the Ministry of Finance and even more, as the chief of the Finance Division of the Planning Commission, it is his job to hold the scales even between rival claimants and he could see, and was quite frank about it, that the development of agriculture needs larger and larger investment in the other sectors of the economy, particularly in the industrial sector, so that through the steadily increasing demand for agricultural produce and simultaneous withdrawal of labour into industry, smaller numbers should be left on land, with resulting improvements in the organisation of farming and productivity in agriculture.

Indeed, not being in the Agricultural Ministry, he could do more. And though still a Government Economist, as President of the Conference, Prof. Anjaria allowed himself the freedom to survey the agricultural scene and remarked on the "debacle" that tenancy reform had led to. True, legislation had been passed by many States to protect the tenant, but such legislation had woefully miscarried. At least the results were often the opposite of what the law had intended. Why be surprised? There had been a spate of legislation from the depression years of the early thirties onwards to restrict the rate of interest charged by money-lenders. Yet, the Rural Credit Survey carried out by the Reserve Bank of India reported that cultivators had usually to borrow at 30 per cent or more! If that was the state of affairs in money lending and if the peasant has still to pay these rates of interest for credit which he cannot do without, is it surprising that he would have to pay a heavy price for the right to cultivate? Where the legislation had miscarried was both in the right given to owners to resume land for self-cultivation—this is particularly troublesome to define—and in making the owner the direct recipient of rent, whether the rent be fixed in terms of money or of produce. It is useless to reduce the upper limit for rent by law, instead of conferring the right of collection of rent on the State. The Bombay Tenancy Act has done just that.

* * * *

We will soon be getting to know something about the actual state of affairs regarding the position of tenants. By this, I mean the tenant at will or the share cropper. The term means something very different in permanently settled areas where Zamindari has now been abolished. The Gokhale Institute has completed a survey of tenancy in the Bombay State. The National Sample Survey in its last round also included the status of tenants in its questionnaire. The results of both should be available in the near future.

This poses a question. The enquiry into the conditions of agricultural labour was conducted in 1950-51; many things have happened since then. What has been the impact of these changes on the conditions of agricultural labour? It is important to know, if the Second Plan has to fulfil what is expected of it by way of rural rehabilitation. There is, therefore, a clear case for another enquiry. This time, however, the mistake need not be repeated of isolating agricultural labour from the rest of the rural economy. After all rural economy is a complete whole in itself, and no enquiry would serve the purpose fully unless the whole of it is covered. If the theoretical explanation to which the President of the Economic Association pointed the way and further elaboration of which has been set for the next conference make some headway in the meanwhile, by the time the results for the fresh survey are in hand, we should get to know something about the workings of the rural economy.

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From the London End

The Autumn Crisis - New Facts

THE **National Income Blue Book** which is just out and the new estimates of savings and investments given in the current issue of the **London and Cambridge Bulletin** have brought out some new facts which explain the underlying causes of the Autumn economic crisis. The facts now brought out also show how inadequate are the measures proposed by Mr Butler in his Autumn Budget. The crisis, it would now appear, was due to the high level of internal investment, and not to what up to now has been regarded as the main cause viz the current level of consumer expenditure.

In the case of a crisis in the United Kingdom, the impact of a disequilibrium in the internal economy is quickly felt on the balance of payment front. The sharp increase in the trade deficit which in the months of April-September 1955 was running at a monthly average level of £74 million compared to £51 million in the same period a year earlier, is now seen to be largely due to the sharp increase of some 31 per cent in the import into the United Kingdom of manufactured and semi-manufactured goods, in particuar steel, steel products and non-ferrous metals. The increase in the import of foodstuffs has not been all that remarkable; neither has there been any considerable diversion of consumer goods exports to the domestic market. What is significant in the data given in the **Blue Book** and the **London and Cambridge Bulletin** is the sharp increase in the volume of investments that have taken place in the country. It is estimated that in 1955 the total investible resources made up of savings, depreciation, capital grants and transfers from overseas) will amount to £3,155 million at current market prices, or about £2,230 million at 1948 market prices. Of this, over £2,000 million (at 1948 prices) is going into fixed capital formation—the larger part into new plant and machinery and building. In other words, out of a total gross national income of just over £14,000 million, some 16 per cent is being made avaiable for fixed investment.

Domestic fixed capital formation is thus taking a large chunk of these investible resources and is leaving very little for the accumulation of stocks of material, foreign investment and addition to the gold reserves. In an article in the current issue of the **District Bank Review,** Mr Harrod, therefore, rightly comes to the conclusion that "It is difficult to see how any responsibility for current pressures can be attributed to the current level of consumption". On the other hand, he believes that what appears to have happened since 1954 was that Britain 'went into a strong boom in industrial investment of a type long familiar to students of the trade cycle."

Personal savings have been running at a remarkably high level in 1954 compared to 1952 when savings were running very high at £588 million. Savings in 1955, it is now estimated, may reach the peak figure of £610 million. Savings on the part of companies and public corporations, however, remain virtually unchanged at between £1,000 million and £1,200 million. With the sharp reductions in tax over the year as well as the increase in public expenditure, budgetary surpluses available for investment are now about £300 million compared to £580 million in 1950. On the whole, however, total national savings in real terms has since 1950 constituted a rising proportion of a rapidly rising real national income, and it is now estimated that the increase has been more than one third since 1951. By all measures, the extremely high level of personal savings, apart from the other sources of savings, is sufficient to maintain not only a steady volume of domestic capital formation, but a reasonable flow of foreign investments and accumulations in the gold reserve. In other words, the current level of savings can be considered as "adequate". It is adequate in that it can allow for an annual rate of growth of about 4 per cent to 5 per cent which is particularly good for a highly industrialised country like Britain.

Figures now available for the investment boom which commenced in 1954 show that of the increase of £817 million in gross savings between 1951 and 1954, a greater part i.e. £610 million went into augmenting domestic fixed investments, leaving the balance for increasing stock accumulation and foreign investments. The improvement in the foreign balance in this period was, however, largely compensated by the fall in the accumulation of stocks. Thus, already by 1954 far too much of the increase in savings had been absorbed in expanding domestic fixed investment, as F W Paish writes in the **London and Cambridge Bulletin** "to be compatible with the achievement of both a favourable balance of payments of £300 million a year and the maintenance of a stock accumulation at a rate proportionate to the increase in production". The trouble in 1955, he goes on to say, was due to "a further rise in the high level of domestic fixed investment".

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Building in the public sector i.e. building by local authorities has been pruned by Government action. Local authorities have been subject to various pressures; in particular, the difficulty of obtaining loans from the Treasury's Public Works Loan Board; more than that, they are being called upon to pay interest rates which are as high as 5½ per cent. Thus, in the public sector fixed domestic capital formation is being reduced, but domestic fixed capital formation in the private sector of British industry continues unimpeded, and there can be little doubt that the reductions in the public sector are being compensated for by the investments undertaken in the private sector. It is estimated that in 1955 private domestic fixed capital formation will amount to just under £1,000 million (at 1948 prices), i.e. about half of the total estimated fixed capital investment in the country.

The crisis orginating from such a high level of investment must however be seen in a longer-term perspective. In 1951 and 1952 the Government had feared that the then low levels of investment in industry were likely to impinge upon production and so make British exports difficult to market. It was also then noticed that West Germany and other countries of Continental Europe and the United States were devoting a larger proportion of their national income towards the modernisation of their industries. In 1953 and 1954 the Government, therefore, made various tax concessions as a means of inducing industrialists to expand fixed investment, and at the same time relaxed restrictions on industrial and commercial buildings. For some time these measures had little apparent effect, but since the end of 1954, industrial and commercial investment has risen sharply and it is this increase which seems to have pushed up total fixed investment to the point where the inadequacy of resources for foreign investment brought a recurrence of balance of payments difficulties.

As against this, the remedial measures of the Chancellor aim not at restraining the tempo of investment activity even where such investment is not economic, but at curbing present consumption standards. The Autumn Budget lays particular emphasis on the purchase tax (which has now been widened to include virtually all consumer goods). The investment allowances given to industry in previous years have not been withdrawn and no significant official statement has emerged since which could restrain industrialists from maintaining the present level of fixed investment expansion. Nevertheless, there can be little doubt that the present crisis will be overcome. The overcoming of the crisis, however, is being made to depend upon Government measures which do not attack that sector of the economy which has more than any other contributed to the crisis. It is in this sense that the policy of the Government is discriminatory and inappropriate in the circumstances.

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Economic Conference at Poona

(From Our Own Correspondent)

THE gathering of economists at Poona for the 38th Indian Economic Conference was one of the largest, it is said, in the history of this association. The academic tradition of Poona, to which Mr Jayakar referred in his welcome address, its cool bracing weather in this part of the year, the Silver Jubilee of the Gokhale Institute of Economics and the association of one of the most active senior economists with that Institute and Poona—these were probably the main attractions to most of the economists to attend this conference. The arrangements at Poona were simple and unostentatious, yet quite comfortable and suited to the needs of an academic conference. The conference was held in the newly built main hall of the Law College. With its spacious grounds, fine garden and a beautiful hill at the back, the surroundings were picturesque and pleasing, neither austere nor gorgeous.

The conference papers were, as usual, poor summaries of what their authors had read so far on their respective subjects. They were reproduced from published books and journals either with quotation marks or without them. There were about 26 papers on Economic Growth, six on Balance of Payments and about ten on Rural Credit. On Economic Growth, not a single paper presented even a good analysis of the subject, not to speak of contributing any original ideas. Some papers on Balance of Payments did not even give correct statistics. On Rural Credit, most papers drew heavily on the Rural Credit Survey Report.

The discussions on these topics were a little more lively than the papers. The discussion on Economic Growth centred mostly on the issues connected with the Second Five Year Plan and was linked up with the discussion on the general topic of Employment Potentialities of the Second Five-Year Plan. Opinions were sharply divided not so much with regard to the general scale of priorities accepted by the Planning Commission but with regard to the production techniques for the consumption goods industries. Prof VKRV Rao, Prof Paul Baran, Dr Madan and Prof Bettelheim argued in favour of highly capital-intensive techniques. Their case was very cogently put forward only by Prof Bettelheim, who argued that by adopting uptodate capital-intensive techniques, the marketable surplus of consumption goods would be larger, and hence the rate of growth, faster. Employment, though it may not increase very much immediately, is bound to increase at a later stage at a faster rate. Profs Karve and Gadgil defended more or less the Karve Committee approach to this problem. The main problem, according to Prof Gadgil, was to decide whether the present unemployment situation was tolerable. If it was not, and in his opinion it was acute, the only right thing to do was to adopt such production techniques as would give us a tolerable rate of increase of employment in the near future, and the highest rate of growth consistent with this rate of increase of employment.

Thus, Professor Gadgil implied, but did not quite put it that way that the main problem was that of choosing our primary objectives. If we want merely to maximise our rate of growth, then, of course, Prof Bettelheim is correct. However, if rate of growth and employment both be our primary objectives, we have a choice between a faster rate of growth and a little lower rate of increase of employment and a little lower rate of growth and a little higher rate of increase of employment. This choice will depend upon one's judgment regarding the tolerable rate of increase of employment. Once we fix this rate, we can also fix the maximum possible rate of growth consistent with that rate of increase of employment. The main controversy at the conference then turned, not on logical issues, but on issues regarding primary objectives. This, of course, is a matter of judgment and opinion and Prof Gadgil's judgment of the Indian situation is likely to be sounder than that of his opponents.

It was rather surprising to find those who had signed the Economists' Panel Report now openly repudiating it. Of course, one admires their regard for truth as against mere consistency. But then how can we expect governments to rely on judgments of persons, who change their minds, so often and so quickly? Of course, one can never expect twenty-one competent economists to agree on any issue. If they do, the agreement is absurd and meaningless, as we have found out now; if they do not, it is a question whether an Economists' Panel is necessary at all.

There was not much interest at the conference in the discussion on Balance of Payments. Dr V V Bhatt, of the Reserve Bank, however, made some important observations. He pointed out that the real measure of deficit financing was a deficit in the domestic budget and not an accounting deficit. Thus, when adjustments are made in the budget of the Government of India for the Government's foreign transactions, it will be found that not only there was no domestic budget deficit during the first three years of the Five-Year Plan, but on the contrary, there was a huge budget surplus. This is often neglected by economists in their discussion of deficit financing and it continually perplexes the students of the money market. Dr Bhatt also maintained that there was no longer any pressing necessity of maintaining sterling assets as currency reserves at the old conventional level.

During the discussion on Rural Credit, Prof Driver made an important point regarding the land system in India. He was of the view that though all the measures recommended by the Rural Credit Survey Committee were welcome, they, by themselves, would not solve India's agricultural problems, unless appropriate changes were made in the land system as such, so as to make agriculture a paying concern.

Quite in contrast to the level of the conference papers, the Presidential address was undoubtedly of a high standard. As compared to the presidential address of the last few years, this year's address broke new ground.

Prof Ganguli quite rightly held that there should be a harmonious development between theoretical and empirical work if economics was not to be sterile. He again rightly stressed the importance of 'group' as a unit of economic analysis, which should, according to him, try to explain economic change. In the second part of his speech, he dwelt at length on how international trade theory could be fruitfully applied to inter-sectoral and inter-regional re-

lations under certain circumstances and as an exercise, applied it to the urban-rural relations in India. That exchange between non-competing groups within the same economy can be treated only by international trade theory is one of those accepted and forgotten doctrines that are relegated to the domain of the classics. But its revival in the present context is certainly novel and the possibility it holds out of throwing light on our domestic economic relations prompted Prof V K R V Rao to suggest it as one of the subjects for the next year's conference. The suggestion was warmly accepted.

This year's Indian Economic Conference was on the whole a good social get-together. However, like the earlier ones, from the point of view of serious academic discussions, it was rather sterile. It appears that this sterility is partly the result of defective organisation. It is not at all understandable why the association should invite papers from all those who want to write, irrespective of their competence to do so. Instead of doing this, if the association invited two persons, who were working on a specific topic, to write papers and chose a select team to participate in the discussion, then permitting anybody else, if he wanted, to do so, the proceedings would become more fruitful. If such a scheme is adopted, the association could keep, say, about half a dozen such seminars, which only the persons interested would attend. Two to three such seminars could go on simultaneously. The American Economic Association's annual conferences follow this arrangement and we could adopt its procedure here.

In such seminars, only those should participate who are seriously interested in the respective topics. Excessive respect for age and status also mars the proceedings. Why, for example, should an economist be invited to participate in the discussions merely on account of his seniority or status? One had a feeling at this conference that seniority and status were given precedence; others who were eager to participate in the discussions because they were interested in the subject and might have something to contribute were often left out in consequence. The sooner we do away with some of these traits of the conference, the greater will be its success.

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India Steamship Company Limited

Sir Ramaswami Mudaliar Reviews The Steady Progress Of The Company

ADDRESSING the Shareholders of India Steamship Company Limited at its Annual General Meeting held on 20th December 1955, Sir A Ramaswami Mudaliar, K C S I, D C L (Oxon), Chairman of the Company, said:

Gentlemen,

The Audited Accounts and Director's Report for the period ending March 31st, 1955 has been in your possession for some time. With your permission I shall take them as read.

Trading Experience

The Directors' Report shows that the freight earned during the year is Rs 4,01,00,132-3-4, about Rs 41 lakhs more than the freight of the previous year, but this is counterbalanced by increased port charges, stevedoring charges, transhipment charges and other expenditure. The time taken in the turn-round of ships materially affected the profit which the Company could have made. During the year the average time taken for a round voyage was 16 days more than in the previous year, the economic consequences of which do not require detailed explanation.

Despite these adverse factors your Company made a profit of about 24 lakhs before providing for depreciation. The year under review has been an even more anxious and disturbing year than the last and it required all the care and ingenuity of the various departments of the Company and of our Agents abroad to obtain this result.

Delay in Ports

I referred in my last Speech to the serious delays that occured in some of the Indian Ports owing to resort to a 'go-slow' movement by a section of the Dock Workers. The situation deteriorated further during the year, Calcutta being the worst affected and Bombay being not far behind. While the position in India was creating anxiety, a disastrous strike took place in London and in some of the other main British Ports like Liverpool, lasting over six weeks which further accentuated the situation. The Indian situation was to some extent due either to the desire of some of the leaders of labour unions to find employment for as much pool labour at a port as possible by spreading out their work or to shortage of labour. The British situation on the other hand had no justification either because wages and conditions of service were not satisfactory or because of want of employment. It was purely a result of a dispute between rival unions for which neither stevedores nor Shipowners were responsible nor had they any means of controlling or settling the disputes.

Remedial Measures

The Dock Labour situation towards the end of the year under review became so serious that a proposal to levy a surcharge in the ports of Bombay and Calcutta was put forward by the Conference Lines. The Government of India had, however, realised the situation a little earlier and had appointed a Committee called the Vasist Committee to examine the whole question and propose remedies to restore normal conditions at Indian Ports. I was invited by the Government to be a member of this Committee and, therefore, had opportunities of studying the situation in all its aspects. The Vasist Committee submitted its report to the Government and I understand practically all the recommendations of this Committee have been accepted. The most important of these recommendations is that special powers should be given to the Chairmen of the Dock Labour Boards on the lines of the emergency powers that have recently been given to the Chairman of the Calcutta Port Trust. The second recommendation which is even more important is that the piecerate system should be introduced in connection with work of stevedore labour and consequentially of port labour also. These two reforms have now been realised by those responsible at the highest level, the Transport Minister and the Labour Minister, to be essential, and I trust that they will be put into effect before the end of the year. I should like to take this opportunity of complimenting the Chairman of the Dock Labour Enquiry Committee, Mr S S Vasist, for the thoroughness with which he conducted the enquiry, for his patience and sense of fairness. It will now be for the Chairmen of the Dock Labour Boards to carry out their responsibilities firmly, fairly and equitably without being thwarted in their work either by the intransigence of certain sections of labour or by any unreasonable attitude which stevedores may take in connection with reasonable amenities required by labour.

Labour and Employers

The Second Five-Year Plan that the Government is contemplating, the expansion of Indian Shipping tonnage which Government is anxious to promote and the public eager to see, the industrialisation of the country which is the basis for that larger employment which is envisaged will all prove illusory, unless better relations prevail between the employer and the employees. It must be frankly stated that while the employer feels that he is bound to carry out the suggestions of Government or of labour tribunals or of conciliators, there is no such feeling amongst certain sections of labour that these decisions should be loyally accepted and carried out. The right kind of leadership of labour is the most urgent need of the hour and I trust that with a Minister of Labour so well aware of labour conditions, it will be possible to instal such right leadership everywhere.

Prospects

In spite of the adverse effects on trading results due to factors to which I have referred above, the financial position of the Company remains healthy. Your Directors are, therefore, contemplating the further addition of ships to your fleet at the rate of at least one ship every year during the next five years, so that by 1960, if not earlier, we may reach the goal of 18 ships.

Conference Membership

I need not refer to the hardy annual which has formed a feature of my annual speeches—membership of your Line in various Conferences from ports on the route between India, the U. K. and the Continent.

We have attempted time and again to get a reasonable settlement of this question but so far we have failed to get any results from several of these Conferences. I feel that the time has now come when with due regard to our convenience and interest we must make our entry into these routes irrespective of whether members of such Conferences desire it or not.

Flag Discrimination

I have repeatedly referred to the charge of 'flag-discrimination' which Shipping companies with strong vested interests, which have come into existence owing to the practice of extreme forms of flag discrimination, undiluted and uncontrolled, in the past, are now making in an attitude of self-righteousness and accusing Governments anxious to promote the nascent shipping industry of their countries. At the last session of the International Chamber of Commerce held at Tokyo in May of this year, this question was again raised and my esteemed colleague Sir Bijoy Prosad Singh Roy made a very carefully reasoned and firm speech on what really constitutes flag discrimination. In spite of this the vested interests have seen to it that such unreal allegations continue to be made. I feel that it is high time that we ignore these statements and I would suggest that the Indian delegates, even if they attend such Conference, do not take part in these futile and meaningless debates and discussions.

Tribute

I would like to emphasise the tribute that has been paid by your Directors to the Minister, S Lal Bahadur Shastri, the Deputy Minister, the Secretary and the officers of the Secretariat for the sustained interest that has been shown in the development and expansion of Indian Shipping. I would also like to thank the Minister of Labour who has courageously pointed out the path of duty to labour in general and to Dock labour in particular and I trust that in implementing various suggestions and recommendations the same courage and firmness will continue to be evinced so that National interest may be safeguarded and the Nations' progress assured. The Director General of Shipping and the Deputy Director General and other officers have shown keen solicitude towards Indian Shipping and have by their advice and encouragement greatly assisted your Company.

Hindusthan Insurance

DR. N N LAW, Chairman of Hindusthan Co-operative Insurance, confirms the implied argument of the Controller of Insurance that the better economic climate helped insurance business in 1954. "We (Hindusthan) profited by the same (improved economy)", Dr Law aptly emphasises, "as reflected by our increased new business figures". There were, however, certain limiting factors which hampered insurance business.

Agricultural prices were falling. This restricted the capacity of the farming community to take out life insurance policies. It is reassuring to be told by Dr Law that the agriculturist is becoming insurance-minded. Acute unemployment was another limiting factor. "This, coupled with the continuing high cost of living", Dr Law deplores, "considerably crippled what otherwise promised to be a rapidly expanding field catering by the life insurers".

The Hindusthan Chairman was ingenious in explaining away the unduly high management expenses of insurers in India. India is a land of vast distances. "Carrying the benefits to the interiors", Dr Law explains, "where means of conveyance, road facilities and other amenities were much too meagre, Indian insurers had naturally to incur rather high organisation expenses". Dr Law deplores that now, when the time is coming for the insurers to reap the benefit of their past endeavours, the Government is issuing the threat of nationalisation. His argument that the threat is hampering private initiative will be echoed by all insurers.

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The Delhi Cloth & General Mills Co., Limited

Sir Shri Ram's Speech

SPEAKING to the share-holders of the Delhi Cloth & General Mills Co. Ltd., at their Annual General Meeting held on 29.12.1955, Sir Shri Ram, Chairman of the Company, stated that the profits for the year 1954-55 were comparable to some of the best years in the financial history of the Company. In keeping with their progressive policies the Company had carried out large programmes of modernisation and expansion, such as the new Textile Mill at Hissar, already gone into production, the Silk Mill, which would soon start working, and expansion of Caustic Soda and Sulphuric Acid Plants. Proceeding he said:—

The foremost among important events during the year was the publication of the tentative frame work of the Second Plan which will come into operation in a few months from now. The discussions have not yet reached a stage of finality but the broad contours of a Plan bigger and bolder than the First Five Year Plan are fairly clear, and this is as it should be. It is proposed to step up the tempo of economic development in such a manner that the national income in 1960-61, the last year of the Second Plan, will be 25% higher than it is in the current year, which is the last year of the First Plan period.

The Plan Frame, as you all know, is an extensive document dealing with numerous industries. But speaking to the share-holders of the Delhi Cloth & General Mills, I will confine my remarks to the industries in which we are directly interested.

I am happy to note that in the case of sugar the target has been kept quite high, and fortunately unlike Textiles, no curbs on output or expansion are proposed for the benefit of the Khandsari Cottage Industry.

In the case of Chemicals and Vanaspati, likewise, adequate scope is being afforded for growth and progress.

I am, however, sorry to say that in the matter of cotton textiles, there are very strong differences of opinion not only as regards the targets of the Second Five-Year Plan but also regarding the means of production. In offering my views on cotton textiles, I am deeply conscious of the urge to solve the problem of unemployment, which is regarded as the main inspiration for these suggestions.

There is a set of people—politicians and others who strongly believe that the requirements of cloth will increase by only 28%, and they calculate it on the basis of 18 yards per person as against the 15 yards consumed at present. There are others who equally strongly and honestly believe that the consumption of cloth, which is the next most important item of consumption next to cereals, could not be less than 22 yards per person. Personally I believe that definitely 18 yards is too low a figure. I place below the percentage of increase in production which Government themselves have set as the target for a few other commodities of common use:

Sugar	....	50%
Vanaspati	....	33%
Paper	....	43%
Bicycles	....	100%
Soap	....	43%

While there cannot, of course, be a uniform increase for all industries, the percentage of increase provided for Textiles, which, on the basis of 18 yards per capita consumption, comes to only 28%, contrasts with the higher percentages listed above, for items most of which are less important than cloth or cereals.

Even if 22 yards is considered to be a very generous figure—and I am confident that with the increasing purchasing power which Planned development should put into the hands of people, it is not a generous figure at all—even then at least 20 yards will not be too high a figure and will certainly be required.

The next and more important difference between the two schools of thought is with regard to the means of increased production. There is a school who honestly and strongly believe that all the extra cloth required could be produced by handloom workers. On the other hand, there are others who equally and strongly believe that even if 18 yards be the target, leave alone 20 yards or 22 yards per capita, the hand-loom workers will not be able to produce the required quantity.

I believe that neither those who believe that hand-looms could produce, nor those who believe that hand-looms could not produce, could be absolutely certain in their belief and definitely say that they are right. I, therefore, humbly suggest that a complete ban should not be placed on the increase in production of cloth by big scale industry. If at any time it is found that the hand-looms are producing what is required by the country in enough quantities, the restriction can be brought on the mill industry at that stage. Even in the Five-Year Plan, there could be no absolute rigidity, and as our Prime Minister has rightly expressed more than once, our approach has to be dynamic, changes may have to be made from time to time even after the Five-Year Plan has been accepted. And, in any case, we will have many more Five Year plans—all with the object of raising the standard of living—which will mean that not merely 18 yards, or 20 yards, or even 22 yards but perhaps we would like our people to use 30 yards per capita or even more. This mid course will, on the one hand, not stand in the way of all the help and subsidy that is proposed to be given to the cottage industry, and on the other hand, avoid the grave risk of heavy shortages, leading to controls and black-marketing.

There is a feeling among certain people that in case of shortage, whether of yarn or of cloth, certain mills, which are not running 2nd or 3rd shift, could be asked to do so and thus save the situation.

May I, with whatever experience I have had during the last 30 years, say that there is a very big number of mills where the machinery is in such a bad state of repair, and so old and inefficient, that it would not be possible to increase the shifts, except, perhaps, in a mill or two here and there. In fact, if these had been in a position to run extra shifts, they certainly could have done so even now when the margin of profit is certainly above the average.

There is a still more controversial and serious matter where there are even stronger differences than in the matter of cloth, and that is about increasing the spinning capacity of the mills or depending upon the Ambar Charkha. I am giving a few figures as regards the extra labour cost in the case of Ambar Charkha, and this has been taken from a recent Number of the A.I.C.C. Economic Review. (See Table below)

It is all too easy, in considering a matter of this kind, to make little of the problem of quality and cost of production, and I am therefore taking the liberty of quoting two paragraphs on this point from the University Education Commission's Report:

"For Government to try to manufacture and to distribute this vast variety of goods (i.e. consumer goods in general) on a non-competitive basis would result in a lack of technical progress. Such goods as a rule can best be supplied by the free play of private enterprise and initiative, with the public in effect voting on the need and worth of each article by buying or not buying."

"When the manufacture of a new product is considered, there is a final test of its practical worth which is equal to the decision of the public to buy or not to buy. If a new article is faulty or its cost too great, there is no greater incentive to its improvement than the desire of the manufacturer to make it acceptable to the buying public. To that end he will carry on research and try to improve this product, and to lower cost and prices."

Apart from these general effects, it has also to be remembered that these inevitable increases in prices, arising from higher cost of production, must affect seriously many whose incomes will not and cannot expand in proportion to the rise in prices.

Even, however, if all the claims made for the Ambar Charkha are proved to be correct, to be able to produce so many 'charkhas' —25 lakhs or so—to induce so many people to make it up and organise the whole thing, will probably be not achieved, in spite of all the good wishes of its protagonists, even in the whole period of the Second Five-Year Plan.

While in the case of shortage of cloth, it will be the consumer alone and not the mills that will suffer, in the case of shortage of yarn even those hand-loom weavers whom it is intended to help, will suffer. And if my fear of the Ambar Charkha not being able to produce sufficient quantity of yarn in time comes true, then even those, who believe that the hand-loom could produce all the cloth required, will find that, on the one hand, the increase in the mill production was banned, and, on the other, the hand-loom people, without the yarn, will not be able to produce, and there will be heavy shortage of cloth as a whole in the country with most deplorable results.

There is one other point, which I must mention, that the Finance Minister believes that deficit financing to the extent of 1,200 crores of rupees will be necessary to carry out the Plan. In the past, there has been deficit financing, but of a much smaller magnitude, and this has gone on without producing any evil effects, for the very simple reason that agricultural and industrial production had increased, if anything, at a faster rate, and it was due to this increase in agricultural and industrial production that there was no inflation.

With deficit financing of much bigger dimensions, it is absolutely necessary that we should not only not do anything by which production may be restricted but take all such steps as may be possible to increase production, so that inflation may be avoided.

There is yet another matter which is equally important and that is of earning extra foreign exchange to the tune of 800 crores of rupees. The commodities, which can earn exchange, are well-known. I do not think that the production or export of tea can be increased by a stroke of the pen. It will mainly be jute goods, cotton textiles, engineering goods and certain raw materials that will earn, and I am almost certain that the export of cotton textiles could certainly increase by something like 50% given certain conditions. I may as well say that exports can only be possible on commodity for which there is a good home market.

I would, therefore, again in all earnestness appeal to all those concerned that the increase in spindles and looms should not be completely banned but permitted in restricted numbers, and at any time, when it is found, even after a year, two years, or three years, that Ambar Charkha and the handlooms have come up to the expectations and demands, immediate steps could then be taken to stop further expansion of spindles and/or looms. What with the difficulties of Planning, Finance, obtainment of machines and so on, the possible increase in spindles and looms by the mill industry even without a ban during the waiting period could only be limited and hardly such as to impair the prospects of expansion in other sectors. What I fervently urge is that the matter should be approached with an open mind by all concerned, and not in a dogmatic spirit.

We industrialists are a much-maligned lot as some debates in Parliament during this year have shown. But I do wish to point out that most of us, at any rate, are not lesser patriots. Indian industrial enterprise has served the country well. Its achievements during the First Plan period are a testimony won in spite of numerous handicaps. And I am confident that given reasonable opportunity and a co-operative administrative environment, it can deliver the goods in the Second Plan. Let us have the tools, and we will do the job.

The need for greater participation on the part of labour in the management of industrial enterprises has been in the air for some time now. I think, in terms of providing a wide range of opportunities for participation in management functions, production committees and works committees are likely to be more useful

(Continued on Page 25)

I. No. of Man-hours required to produce 100 lbs of 20s yarn

On Ambar Charkha	By Mills
2,000 man-hours	35.84 man-hours

II. Ratio of Man-hours required for a given output:

1 : 55.56

III. Cost of Production per pound of 20s yarn

	Mill	Ambar Charkha
1 Raw Material	224 pies	224 pies
2 Wage Cost	30 pies	480 pies
3 Stores, Power & Light, Depreciation & Overheads	35 pies	17.5 pies
Cost per pound	289 pies	721.5 pies

Standard Batteries Limited

Speech of the Chairman Shri R D Char

THE following is the speech of the Chairman Shri R D Char at the Tenth Annual General Meeting of the Company held on January 5, 1955:—

Gentlemen:

On behalf of myself and my colleagues on the Board, I extend to you all a warm welcome at this Tenth Annual General Meeting of your Company, and have the pleasure in presenting to you the Directors' Report and the audited statement of accounts together with the Auditor's Report for the year ending 30th June 1955.

It has been the constant endeavour and policy of your Company to manage its business on the principle of Trusteeship with regard to the three primary factors which mainly contribute towards the strength and progress of the industry, namely:—

(a) Responsibility towards the consuming public;

(b) Responsibility towards you who have provided the risk capital, and

(c) Responsibility towards our employees and operatives.

You will be glad to hear that during the year under report, there has been a great spurt in the demand for your Company's products, especially the automobile batteries, throughout the country. The consuming public evidently have appreciated the persistent effort of your Company to build batteries to accepted standards under strict laboratory control from raw material right up to the finished products and maintain proper sales and service policy. This goodwill from the motoring public for your Company's products is reflected by 20,000 more car and truck owners using our battery as against the previous year. Your Directors are very much alive to quality control and with this end in view, laboratory and testing facilities are being further augmented with qualified personnel during the current year.

I have mentioned in my last year's report to you about the finalisation of our Technical Collaboration Agreement with Messrs. A.B. Tudor, Stockholm, Sweden. During the year under report, we have been able to implement several vital improvements in our manufacturing technique and orders have been placed for new equipment to rationalise and increase production to meet the increasing demand from the public. One of Messrs. Tudor's engineers and technicians is now employed in your Works to further the objects of our responsibilities towards the consuming public.

During the year, in spite of the incidence of higher wages, implementation of several welfare schemes for our operatives and the highly competitive internal market, the working of your Company has maintained satisfactory results. Your Directors have recommended the same rate of dividend of eight per cent as last year for your consideration and approval.

The properties of your company have been insured fully; and buildings, plant and machinery and stores have been kept in proper repair and storage. As you can see from the Balance Sheet, adequate depreciation has been provided from the working results of your Company.

The lead recovery and refining plant is now put in operation and it is expected that the Microporous Latex Rubber Separator Plant would be in production in the current year.

As already mentioned earlier, new equipment for rationalising production in the different sections of your factory has started arriving and provisions have been made for their installation. In the current year, it is hoped that all component parts that go into the making of a modern high quality battery would be manufactured under one roof and under strict control. This is a further great step to ensure a standardised quality product at reasonable prices.

I have mentioned in the previous year that development schemes for the manufacture of special batteries for aircraft and army requirements had been undertaken and I am glad to inform you that all the preliminaries have been completed and production of these special batteries have since been taken up. Production of new type of railway cells under Tudor's Patent has been taken up and the trials have been very satisfactory and your company looks forward with optimism to fulfil a substantial percentage of the requirements in train lighting batteries for Indian Railways.

During the year under report, Batteries came under Excise Duty which is now being charged on an ad valorem basis and is varying from centre to centre and sometimes from factory to factory in the same centre. We have made several representations to the Excise Authorities to charge a uniform specific duty throughout the country. Moreover, the present system puts organised industries like yours to great hardships and gives a premium to unorganised, small, back-room sweat shops, who escape completely the excise duty.

Our effort to export the products of your factory to Middle East and South East Asian countries has not proved fruitful. The reason for this being, as I expressed in my previous year's report to you, the low man-hour productive capacity in the industry. If inefficiency is thus protected and at the same time the country wants to export its products, some way will have to be found to neutralise this factor.

During the year, the incidence of higher wages and the implementation of several welfare schemes as detailed in the Profit & Loss Account have increased by 22% against the previous year. We have introduced during the year free milk distribution to the staff and operatives directly involved in the manufacturing processes and have also introduced a Life Insurance Scheme for all the monthly paid staff as a measure of compulsory saving and provision for their families. For your information, I am presenting to you the details of the percentage of increase over that of last year under the respective heads:—

(1) Salaries and wages.	21%
(2) Contribution to State Insurance.	64%
(3) Contribution to Provident Fund.	23%

Medical expenses have been absorbed in the State Insurance.

Your Company, during the current year, have bought land measuring about 50,000 square yards near your factory for implementing a scheme for housing our staff and operatives. Your Directors earnestly hope that sufficient funds could

be saved from the working of your Company in the years to come, to achieve their ambition to have comfortable homes for people who are working with us.

The Principle of participation of labour in the management which is now agitating the minds of our Parliamentarians, legislators and the labour leaders is a welcome sign and no progressive manufacturer should object to it in the present context. The only point for argument is the pace of implementing this scheme. Trade Unionism in our country is still in the stage of slogans and agitation. It is more or less working on the principle "that a crying child always gets more'. A period of apprenticeship in every walk of life is considered essential for progress. There is still a big gap between the present stage of trade unionism and the sober thinking and appreciation of the many problems of medium scale industries which is necessary for their development under existing conditions. Demand for greater and greater wages and other facilities for the few inside, without linking it up to: (a) the general standards of living prevailing all over the country (b) production per man hour and (c) finance required for expansion and modernising, is the greatest handicap, especially for organised medium scale industries like yours throughout the country.

Gentlemen, your industrial undertaking has passed through the formative and consolidating stages and is now on the threshold for greater expansion. Your Company has passed from adolescence to manhood and it has been the constant endeavour of your Directors and the management to conserve all possible earnings of the company, subject to the three responsibilities and obligations which I have already mentioned earlier, to expand and diversify its production in the various fields of lead acid battery application. With the completion of all the new schemes that have been now undertaken during the current year, I view the future of the Company with confidence.

I take this opportunity of thanking on your behalf all the officers, members of the staff and operatives of the Company for their co-operation and assistance in the development of the Company.

Around Calcutta Markets

Shake-out in Equities

Wednesday, Evening

DEVELOPMENTS in stock markets during the last fortnight indicate the Government's desire to curb speculation. It had been known that New Delhi had issued directives to both Calcutta and Bombay stock exchange authorities to introduce measures to check speculative activity in shares. Though the stock exchange authorities have taken no steps to curb speculation, some other intervening developments have caused a shake-out in equities.

Two weeks ago, the police in Calcutta made it clear that they were determined to stop kerb trading in and around the Calcutta Stock Exchange. These warnings had their effects. Kerb trading was less active. Clearing shares developed a downward trend. Some days ago, the police took drastic action against the unofficial futures market in jute goods. Many arrests were made. Police intervention has had a sobering effect on markets.

"Stags"

In the main, however, the recent fall in equities is a sequel to developments in Bombay. Tata Steels dived down as it became known that Government was in favour of issuing right shares by the Company at a premium. ACC were pushed up in anticipation of a new capital issue. But ACC also lost considerable ground on fears that Government may not permit the issue of new shares at par. It will be recalled that Indian Iron were bid up to dizzy heights in anticipation of a bonus issue.

This raises a peculiar market problem. In the last few months, many companies have issued right or bonus shares. Some companies have issued fresh capital. Stags have been busy. In anticipation of such issues, they have pushed the shares concerned to higher levels. Now the stags have taken fright. They are unloading their holdings. Hence the fall in equities. Drop in Tata Steels and in ACC is mainly due to unloading by stags. Setback in Indian iron is also an indirect consequence of similar speculative activities.

Two Factors

Two factors have helped the spurt in some equities in the last six months. For some months, cornerers were active. When the cornering activity subsided, hopes of bonus issues or issues of fresh capital for expansion sustained the spurt in Paper, Miscellaneous and Engineering shares. As both these influences have ceased to be in operation, these groups have developed an irregularly lower trend. Strength in these groups was sustaining the market as a whole. Weakness in these shares, coupled with the drop in Indian Iron, has aggravated the downward trend in equities in general.

Buoyancy in stock markets has certain advantages. It helps activity in the new issue market. It reflects the gradual increase in incomes and savings. But, beyond a certain limit, speculation is a menace. As more funds are employed for speculative purposes in stock markets, there is so much less available for investment for productive purposes. There is need for diverting the flow of funds away from stock market speculation to productive investment.

New Issue Market

Stock markets' response to Government's reported unwillingness to allow issues of right shares at par by Tata Steels and ACC is a rude reminder that unhealthy speculation in stock markets can damage the new issue market. Suggestions were made that Government could easily canalise the expanded money incomes and bank credits by raising its borrowing target. Its decision to setp up the original estimate for borrowings during the second Plan, justifies this criticism.

As deficit financing continues on an enlarged scale, money incomes and money supplies will expand. This necessitates a bolder borrowing programme to minimise the inflationary consequences of deficit financing. In the wider interest of the national economy, the Government's decision to raise borrowings will be welcomed. So will be the proposed legislation to regulate futures tradings in stocks and shares. These measures will minimise the danger of a run-away boom in equities, but will not prevent healthy expansion in stock market activities.

Technical Position

There has been a sharp recession in equities in the last few weeks. This has improved the technical position of the market. Even so, equities remain hesitant. A temporary improvement is not unlikely. But investment support may not be forthcoming until the budget uncertainties are over. There has been no New Year enthusiasm in stock markets. Bulls have been punished severely. And it will take some time before equities can move up confidently. This is the time of the year when stock markets usually suffer from budget uncertainties.

1955 was not a bad year for stock markets. But it was the year during which the Calcutta Stock Exchange witnessed certain basic structural adjustments. Tea shares were depressed for nine moths of the year. These shares started falling after the first quarter of the year. Tea shares are still losing ground, as auction results continue to be unsatisfactory. If the present position is gloomy, the immediate future seems to be equally bleak. Nor are prospects for Coal shares bright.

Market Leaders

During the general set-back, Paper, Engineering and Miscellaneous shares have lost considerable ground. These groups may yield some more ground. But the outlook for these shares is not unpromising. In 1956, as in 1955, and for the same reasons, Paper, Miscellaneous and Engineering shares are likely to be the dominating counters in the Calcutta Stock Exchange. Even at the current low level, the yield from Indian Iron is not attractive. It should not be difficult for the Company to maintain the devidend. But a higher dividend may be ruled out of consideration.

It is yet too early to asses the behaviour of Jute shares in the immediate future. There are abundant indications that the investor does not share the industry's confidence in the future. IJMA has unsealed 2½ per cent of the sealed looms. This reflects the industry's faith in the growing demand for its expanded output. But Jute shares have not responded to this gesture by IJMA. Fears of growing Pakistani competition persist. Raw jute prices remain relatively steady. Meanwhile, IJMA's decision to unseal 2½ per cent of the sealed looms has had a softening effect on the gunny market. These trends cannot be ignored. Even so, there is just a possibility that Jute shares may regain their popularity in the current year.

Around Bombay Markets

Depressed Sentiment

Thursday, Morning

IN line with the year-end kerb trading, which closed on a subdued note on the eve of Christmas holidays, the equity market entered the New Year with trepidation, sentiment being depressed by fears of a bearish Budget. On Tuesday, Dalal Street received a severe jolt from the reported proposal of the Planning Commission to tax individual wealth, impose a tax on capital gains, raise the corporation tax and excise levies and finally, to put a ceiling on incomes! This is a pretty packet in itself but that apart, Government's action in checking speculative activity in the commodity markets—the suspension of trading in cotton futures may be only an instance—has also disturbed the market. Dalal Street still looks askance at Securities Contracts (Regulation) Bill which continues to act as a damper. All told, Government policy, or rather the pre-view of it, has shaken the confidence of the investors which the Finance Minister had taken such pains to build up. This was reflected in the heavy losses sustained by the leading scrips. Tata Steel, which recorded a recent high of Rs 277-4, were quoted on Tuesday at Rs 243-8. Bombay Dyeing came down from Rs 628-12 to Rs 556-4, while Century dropped from Rs 528 to Rs 474.

The feeling is gaining ground that New Delhi may not allow the issue of fresh capital at par. This had its repercussions on the miscellaneous section. ACC which were at one time quoting as high as Rs 233 came down to Rs 210, while National Rayons lost 25 points at Rs 217-8.

Cotton

Continued Impasse

THE cotton futures market is passing through a crisis, following the suspension of trading from the 23rd of last month. The immediate provocation for Government to resort to this extreme step was the "rigging up of prices due to heavy speculation and option dealings". Although the East India Cotton Association took up the issue with the Forward Markets Commission, nothing tangible has resulted so far and the suspension has been extended till Friday, the 6th. The stalemate continues and the market is in a state of suspended animation.

It is hard to apportion praise or blame for the present state of affairs. Much can be said on both sides. Government considers that the rise in futures prices was unwarranted, and as being solely due to speculation. The trading community is convinced, on the other hand, that Government's action is wholly unjustified inasmuch as the rise was brought about by the normal forces of supply and demand, the shortage of tenderable cotton being the main factor in the situation. This view has been strongly supported by Sir Purshotamdas Thakurdas, President of the East India Cotton Association, who observed at the Association's Annual meeting last week, that the realities behind the recent rally in prices were the "higher prices realised for cloth by Indian Mills, change in the structure of the Contract from 25/32" to 13/16", the amendment of by-law 55 which lays down rather rigidly the manner of fixing tendering differences, damage to the quality of the crop—particularly Jarilla which forms the basis of the Contract—and reduction in the size of the crop".

The Forward Markets Commission and the EICA, however, agree on one point viz. the mischief done by

double option and Sir Purshotamdas politely returns the compliment by inviting the Commission to check this evil. Then, again, there is the matter of price ceiling. Government fixed it at Rs 840 and not the EICA, and speculation or no speculation, cotton futures had not come any where near the ceiling when the Commission took this extreme step. What about it? Well, on this point the Forward Markets Commission, it is understood, is willing enough to observe propriety, if that is what is bothering Sir Purshotamdas, by bringing down the ceiling.

As a way out, the Forward Markets Commission is actually reported to have suggested a reduction of the ceiling to one around Rs 700, and making it a pre-condition for the resumption of future trading. The sub-committtee of the East India Cotton Association, which was asked to go into this question, however, is reported to have held that the operative ceiling should be at least Rs 750. In view of this divergence of opinion, the stalemate continues. While going to press, it is learnt that forward trading will be resumed on the 7th, subject to a ceiling of Rs 700.

In the circumstances, the spot market has naturally been listless. Even export business remains virtually suspended, as shippers want to wait and see how the US programme of cotton disposal actually works in practice.

Oils and Oilseeds

Undeterred

UNLIKE the stock market which was heavily depressed and the cotton market, which did not function at all owing to suspension of futures trading, the oildseeds market presented an exceptionally firm front throughout the fortnight. True enough, suspension of cotton futures had its reaction on this market, too. There was some apprehension that the authorities might take similar measures as for cotton, to arrest the rising trend in oilseeds and oils. This resulted in margin operators and small holders liquidating their holdings. The buying by shrewd bulls however, was on such scale that the sales were more than offset. Prices of both oils and oilseeds in general maintained a rising trend.

In the castor section, although the May delivery declined initially from Rs. 116 to Rs. 111, it improved, on revival of confidence later in the week, to Rs. 122-14.

OILS AND OILSEEDS

	Jan. 4, 1956	Week's Range High	Week's Range Low	Dec. 28, 1955
Seeds :				
Castor May 1955 (per candy)	122- 0	122-14	111- 8	114- 8
Groundnut Dec.-Jan. (per cwt)	29- 4	29- 4	27- 4	28- 4
Linseed Feb.-Mar. ,,	31- 8	31- 8	29- 4	29- 8
Kardi Ready ,,	16- 8	16- 8	15-12	15-12
Nigerseed ,, ,,	24- 8	24- 8	23-12	24- 0
Oils :				
Castor Commercial (per quarter)	13- 2	13- 2	12- 6	12- 7
Groundnut RR ,,	15- 2	15- 2	14-12	14-10
Linseed ,,	18- 4	18- 4	17-12	17-14

Prices of ready castor also sustained some losses initially only to recover and improve towards the close. Thus, from Rs. 20-8 early week, it improved to Rs. 21-4 at the close.

In the groundnut section also, the pattern of trading was more or less similar, the earlier subdued tone being replaced at the close by a renewed optimism. February-March delivery which came down from Rs. 28-6 to Rs. 27-8 improved to Rs. 29-8 at the close. Groundnut oil prices also registered a smart rally. U. K. rate of groundnut oil remained steady at around £114 per ton c.i.f. Although this rate was considered unremunerative by shippers, groundnut oil improved in sympathy with the general bullish trend in the other sections of the oilseeds market. Arrivals in Bombay were more or less on the same scale as in recent weeks. The volume would have increased considerably, but for the shortage of wagons reported from some terminal markets.

Linseed was particularly firm throughout the fortnight. The main reason for this sustained firmness was the end-of-season paucity of ready stock and continued overseas demand for linseed oil, particularly from Australia. While linseed February-March was quoted as high as Rs. 31-8, linseed oil ruled firm at Rs. 18-4.

Bullion

Firm Tone

If the report of forthcoming tax on total wealth proved a bearish factor for the stock exchange, it certainly imparted strength to the bullion market which showed marked buoyancy. The reason is not far to seek. In fact for the past few days bullion has been ruling firm and but for the earlier improvement, the rise on Tuesday would have been much higher. The sustained advance in the last few days provoked heavy realisation the pressure of which cut into the gains on that day. Arrivals continued to be meagre, while there was no slackening of demand. The turnover was fairly high both in gold and silver, while rates for both tended to harden.

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Note : Candidates possessing exceptionally good qualifications and experience may be given a higher starting salary in the prescribed scales.

(B) **Additions to pay**

1) **Local Pay:** 10% of pay with a minimum of Rs. 10/- per mensem rounded up to next higher complete rupee to the staff working at Bombay, Calcutta, Madras, Delhi, Kanpur and Ahmedabad.

2) **House Rent Allowance:**

Research Officer, Assistant Accountant and Rural Credit Officers.	15% of pay with a minimum of Rs 60/- and a maximum of Rs 300/- per mensem.
Probationary Assistants.	10% of pay with a maximum of Rs 50/- per mensem.
Economic Assistants.	10% of pay with a maximum of Rs 20/- per mensem for pay upto Rs 400/- per mensem and thereafter at Rs 25/- per mensem for pay upto Rs 500/- while stationed in Bombay or Calcutta.

3) **Dearness Allowance:** At prescribed rates.

Research Officer, Assistant Accountant, Rural Credit Officers.	The present rate is 16-2|3% of pay with a maximum of Rs 125/- per mensem.
Probationary Assistants.	Rs 65/- per mensem for pay (including local pay) upto Rs 300/- per mensem.
Economic Assistants.	Rs 50/- per mensem for pay (including local pay) upto Rs 200/- per mensem.

(The rate of Dearness Allowance is subject to revision from time to time)

(C) **Age limit as on 1st January 1956**

Research Officer, Assistant Accountant, Rural Credit Officers.	Candidates should not ordinarily be over 30 years of age.
Probationary Assistants.	Candidates should not ordinarily be over 24 years of age except in regard to the posts of Probationary Assistants in Legal Division where the age limit would be extended upto 30 years.
Economic Assistants.	Candidates should not ordinarily be over 24 years of age. The maximum age limit may be extended but not beyond 30 years, in the case of (i) candidates with approved war service, (ii) ex-employees of Banking Institutions whose services have had to be terminated for reasons of economy or as consequence of the closure of unremunerative branches or as a result of the Bank going into liquidation, (iii) personnel retrenched from Government offices after at least one year's service, applying through the Employment Exchange, and (iv) candidates belonging to the Scheduled Castes or Scheduled Tribes.

(D) QUALIFICATIONS :

(1) Research Officer, Department of Research & Statistics.

First or high second class Master's degree in Economics of an Indian University, or first or high second class degree in Economics of a foreign University, or a Doctorate degree in Economics of an Indian or Foreign University and specialisation and research in Agricultural Economics.

(2) Assistant Accountant, Department of Banking Development.

Applicants should possess a first or high second class M.A. in Economics or M.Com. degree of a recognised University. **In addition,** the candidate should possess adequate experience of one or more aspects of Industrial Finance or, be a Chartered or Incorporated Accountant with experience of accountancy and audit in a firm of standing and repute.

(3) Rural Credit Officers, Agricultural Credit Department.

Applicants should possess very high academic qualifications of Indian or Foreign Universities, (preferably post-graduate) in Economics, Sociology or other Social Sciences, and possess degrees which are either first class or high second class. Special study or knowledge of rural economics or rural sociology will be an additional qualification; so also will be the experience gained in a responsible position in a Co-operative Department or in a Co-operative Institution.

(4) Probationary Assistants, Agricultural Credit Department and Department of Banking Development.

Applicants should possess a first or high second class Master's degree of an Indian or Foreign University in Economics, Sociology or other Social Sciences or in Commerce. Special study or knowledge of rural economics or rural sociology will be an additional qualification; so also will be the experience gained in a responsible position in a Co-operative Department or in a Co-operative Institution. Proficiency in drafting notes, memoranda, reports etc. is expected.

(5) Probationary Assistants, Legal Division.

Applicants should be advocates or Solicitors and should possess in addition to high academic qualifications in Law, practical experience of work in an Advocate's or Solicitor's Office or have practised independently, for at least 5 years. Preference will be given to candidates having M.L. or LL.M. or other equivalent qualifications and special knowledge of banking and company law and to candidates who have passed the Advocates' (O.S.) examination held by the Bombay High Court or the Solicitors' examination held by the Calcutta High Court or by the Bombay Incorporated Law Society.

(6) Economic Assistants.

Applicants should possess a high second class Master's degree or a first class Bachelor's degree in Economics or Commerce of an Indian or Foreign University and have practical experience in the Co-operative Department of any State in India or abroad or in a Co-operative Institution of standing. Specialised study in Rural Sociology will be an additional qualification. Graduates who have passed out of any of the Training centres organised by the Central Committee for Co-operative Training or those run by State Governments may also apply.

The Board will insist on a very high standard of suitability in making selections for the above posts and only candidates who possess good academic qualifications and adequate experience of the type specified are advised to apply. Candidates who wish to apply for more than one category of posts must submit separate applications accompanied by separate application fees.

The selected candidates for the posts of Research Officer, Assistant Accountant, Rural Credit Officers and Probationary Assistants will ordinarily be on probation for a period of 3 years which may be reduced or extended at the Bank's discretion. Candidates selected for the posts of Economic Assistants will be on probation for a period of one year. Candidates selected for the posts in Department of Research & Statistics, Department of Banking Development and Legal Division will ordinarily be stationed in Bombay but those selected for the posts in the Agricultural Credit Department must be prepared to serve in any office of the Bank in India and to undertake tours when required.

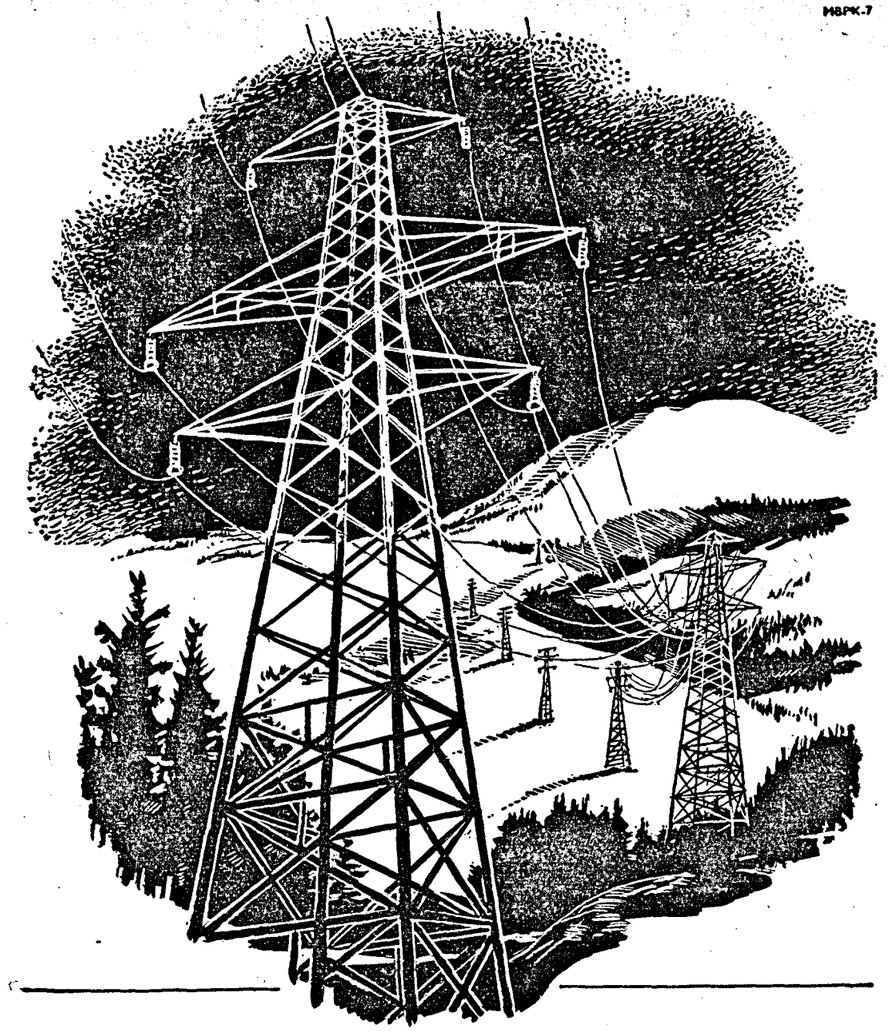
Applications should be in a special form to be obtained from any office of the Reserve Bank. All the applications should be accompanied by copies of two testimonials (originals should not be sent; the Bank *does* **NOT** *accept responsibility for returning the originals* if sent through oversight) and forwarded to the Secretary, Central Recruitment Board, Reserve Bank of India, Central Office, Post Box No. 406, Bombay No. 1 so as to reach him on or before 31st January 1956. Candidates already in service must submit their applications through their employers. Candidates belonging to Scheduled Castes or Scheduled Tribes should mention this fact prominently on their applications.

Applicants for all the above posts except Economic Assistants must remit application fees of Rs 7|8|- per application by Postal Order, Cheque or Bank Draft on a **Scheduled Bank payable at Bombay** along with the application. Candidates for the posts of Economic Assistants must remit an application fee of Rs 2|- in a similar manner. The application fee is in no case refundable. Bonafide refugee candidates who are **not in employment** applying through any of the Government Empoyment Exchanges are exempted from payment of application fees while in the case of Scheduled Castes/ Scheduled Tribes candidates the fee will be reduced to ¼th.

Appointments will be subject to candidates being found medically fit for service in the Bank. If any candidate desires to have his application acknowledged he should enclose a stamped self-addressed envelope or a post-card. Apart from those who may be specially called, interviews will not be granted to candidates nor will the Bank enter into any correspondence with them.

Canvassing in any form will be regarded a disqualification.

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Wage Earners During War & Post-war Boom

Ayodhia Singh

[This is the second of the two articles, the first of which appeared in the issue of December 24, 1955, in which the author examines the movement of wages, employment and cost of living during the war and post-war boom years]

THERE was a general psychology of depression in the country at the end of the hostilities in August 1945. It was believed that with the end of the hostilities, the inflationary pressure would come to an end. In actual practice, however, events turned to be different from what had been expected. There was a good *deal of repressed inflation* in the country, which burst out into an open inflation as soon as wartime controls came to be relaxed. During the war, labour had mostly failed to get its earnings increased in proportion to the rise in the cost of living. After the war, there was a wave of strikes and a good deal of industrial unrest. Industrial labour got belated relief after the war and wages showed a constant tendency to rise. All round rise in wages and scarcity of labour as also the difficulties arising out of the partition of the country in August 1947 resulted in an unprecedented rise of prices which created a good deal of discontent in the country.

During the early years of the post-war period, there was an almost continuous rise in cost of living in all the four industrial centres (Table I). *The year 1946 recorded* an increase against 1945 in all the centres except Calcutta, the increase being quite significant in Bombay and Kanpur. This upward trend in cost of living became more conspicuous during 1947 in all the four centres. The increase in 1947 compared to 1946 was the *highest in* the Kanpur (50 points) followed by Madras (37 points) and Calcutta (34 points), the smallest rise being in Bombay (19 points). The position of the wage-earners deteriorated in all the centres further in 1947, though the extent of deterioration differed from region to region. The wage-earners of Mad*ras were better off than those of UP* and Bengal. Bombay wage-earners, having suffered the least deterioration both relatively and absolutely, were *comparatively in a better position* than the wage-earners of the other three centres. Calcutta wage-earners, as in other years since 1953, were the worst sufferers in 1947, next only to the Kanpur workers whose condition was most miserable.

During 1948 the highest rise recorded was in the Kanpur cost of living index, viz 93 points, the rise at the other centres being moderate. This implies that the economic condition of Kanpur wage-earners, who were already in a worse condition in comparison with the other groups during 1947, and also before, underwent further deterioration during 1948. Bombay wage-earners suffered least, Madras which was in a better position than Bombay during 1946 and only slightly worse during 1947, faced greater deterioration during 1948.

Though the cost of living indices of all the centres continued to rise in 1949 also, the extent of the rise was not significant. As in previous years, the Kanpur wage-earners were still the worst sufferers and the Bombay wage-earners suffered the least. The position of wage-earners of Madras and Calcutta was midway between these two. Thus the four groups stood in the same relation to each other during 1949 as in 1948. However, the chief difference to be noted was that during 1949 the relative position of Madras wage-earners had deteriorated compared to that of others.

During 1950, the rise in the cost of living was not only slowed down, there was a decline of 44 points in the Kanpur index as compared with the preceding year. The relative position of the different groups remained almost unchanged, the only change being in the position of Kanpur wage-earners which improved a little relatively to other groups, though they continued to be the worst sufferers.

Decline in Living Standards

On the whole over the period 1946-50, the rise in the cost of living of different classes led to a decline in their living standards. The least affected were the wage-earners of Bombay followed by those of Madras, while the worst affected were the wage-earners of Kanpur followed by those of Calcutta.

Forces of Adjustment

However, the above conclusions would hold only in so far as other factors, for example, earnings, employment etc. remained constant. These other factors may be examined. First let us take earnings.

A study of the movement of wages in relation to the rising cost of living is essential for understanding the economic position of wage earners. Table II which sets out indices of average annual earnings of factory workers of perennial industries in the four regions, shows that during 1946 the index of earnings (base 1939 = 100) was 215.4 as against 207.2 in 1945. We notice a decrease in earnings in Bombay by 9.6% and increases of the order of 18.7% in Madras, 7.6% in U.P. and 6.6% in Bengal.

During 1947 everage annual earnings rose by 19.2% as compared to 1946. The higheest percentage increase was recorded in Madras, being 32.7%, followed by Bombay where the corresponding rise was 20.4%. West Bengal and U.P. registerd increases of 14% and 13% respectively.

The increase in average earnings in 1948 as compared to 1947 was 20.7%.U.P. recorded the highest increase, being 31.9%. Bombay wage rate, however, was still the highest (Rs. 1142) and recorded an increase of 16.8%. The increase in the level of earnings in Madras was only 9.2%.

Trend Reversed in 1950

The rising trend in average earinngs which had been evident since 1946 was maintained in 1949. In Madras there was an increase of 18.8% in earnings compared to preceding year while West Bengal, U P and Bombay recorded increases of 15.9%, 11.9% and 6% respectively.

The trend was reversed in 1950 when average annual earnings came down to Rs 966.8 from Rs. 985.8 in 1949. Unlike West Bengal, where a moderate increase of 2.6% was recorded over 1949, Bombay, Madras and U P suffered declines of 5.3%, 22.1% and 5.8% in earnings during 1950. An important reason for the decline appears to be the extension of the coverage of the Factories Act, 1948 to small factories where generally wages were comparatively low.

From the above it appears that generally up to 1947, average earnings were moving with the cost of living. In almost all the provinces, there was a sharp increase in the average earnings during 1947, 1948 and 1949 with the result that the rate of increase in earnings in *this period was fairly steep*, while cost of living followed a flatter course.

Table I

Working Class Cost of Living Index

(Base shifted to August 1939 = 100)

Year	B'bay	Kanpur	C'utta	Madras
1942	150	181	144	136
1943	219	306	289	180
1944	226	314	279	207
1945	224	308	284	228
1946	246	328	275	240
1947	265	378	309	277
1948	288	471	339	315
1949	292	478	348	330
1950	298	434	349	332

Source : **Indian Labour Year Book, 1949-50**

TABLE II

Average Annual Earnings of Factory Workers

State	Earnings in 1939	Index Numbers (Base 1939=100) 1945	1946	1947	1948	1949	1950
Bombay	Rs 370.4	223.6	220.8	267.3	314.7	336.9	318.6
			(−0.3)	(+20.4)	(+16.8)	(+6.0)	(−5.3)
Madras	Rs 175.9	204.0	243.4	337.6	371.8	438.9	341.5
			(+8.1)	(+32.7)	(+9.2)	(+18.8)	(−22.1)
UP	Rs 235.6	223.7	242.2	284.0	380.9	427.2	401.9
			(+7.6)	(+13.3)	(+31.9)	(+11.9)	(−5.8)
W. Bengal	Rs 248.7	176.7	193.6	222.8	282.3	335.5	344.7
			(+6.6)	(+14.4)	(+27.5)	(+15.9)	(+2.6)
Indian Union	Rs 292.3	210.5	208.6	253.2	304.0	340.3	324.2
			(−4.0)	(+19.2)	(+20.7)	(+11.9)	(−4.6)

Figures in brackets indicate the percentage increase (+) or decrease (−) compared to the preceding year.

Source : **Annual Returns under the Payment of Wages Act, 1936, Indian Labour Gazette, 1948-53.**

(To be Continued)

Workers' Participation in Management

WORKERS' participation, through their representatives, in the management of industry is one of those idealistic measures which has made even less headway than profit-sharing. The latter, in select cases, has been found to work but workers' participation in management at higher than workers' council level remains as unattainable as ever. It is one of the declared objectives of the Indian National Trade Union Congress to bring this about and with two of the moving spirits of the INTUC on the Cabinet, it will be surprising if labour participation in industry is not pushed during the life of the second Five-year Plan. And though he has not made any important policy statement since then, it must not be forgotten that Pandit Nehru became an instant convert to the idea during his visit to Yugoslavia.

Though non-political support for such participation comes from the belief that it will ensure better relations between labour and capital and put an end to industrial strife, and it has usually met opposition from employers in the past, opposition from labour to the proposal, it seems, may be even more difficult to overcome. The Labour Panel set up by the Planning Commission to go into this question has not yet completed its task but its proceedings so far have brought this out in an unmistakeable manner. Far from being enthusiastic about it, labour representatives hesitate to join the Board of Directors because they are afraid of losing their class identity and also the loyalty of the workers if they do so. For this may mean losing their position in trade unions and inability to function as labour leaders.

The Conference of Labour and Welfare Officers which met at Nagpur last month did not think that labour participation in management was possible at this stage. The concensus of opinion was that workers' representatives did not have the necessary technical knowledge or the experience to be able to participate in management successfully. This also appears to be the considered view of industry. Tatas have come forward with a proposal for workers' participation, not on the Board of the Tata Industries, but both at the administrative and technical level. The Tata scheme, it is reported, has been favourably received by the Ministries of Planning, Labour, Commerce and Industry. The final aim is progressive participation of workers in the management of industry. This is to be achieved within the next 7 to 10 years. The scheme envisages the setting up of two types of Work Council, one administrative, the other technical. The Work Council on the administrative side would be, to start with, kept fully informed about policy matters, sales, purchases and finance. As for technical matters, the Work Council would be encouraged to suggest modifications, improvements and economic devices as a prelude to more responsible work. If Tatas come forward, others cannot lag far behind, at least not for long.

But while such ambitious proposals are being actively canvassed at the highest level, workers' participation in the humbler spheres through Work Councils does not seem to have made any headway at all. This is one more of the paradoxes of the times in which we live and in which we seem to revel.

(Continued from page 16)

for a long time to come. Due to many reasons, works and production committees have not yet been made a success. As employers, we share a part of the blame, as much as the employees must. But I am confident that given the good-will and co-operation, our works and production committees can be transformed from mere grievance platforms into vital, living institutions which can provide a multipoint contact, at an easily assimilable level, for a large number of the workers. To my mind, this constitutes a more desirable channel, from the point of view of its value as education in management, into which the urge for greater participation in management can at this stage be most usefully directed.

Before I conclude, ladies & gentlemen, I have great pleasure in putting on record my appreciation of the efforts of all my colleagues, big and small, and I convey to them our thanks for the same."

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	A Week Ago	A Month Ago	A Year Ago
1. Note circulation	1361.97	1351.57	1335.72	1200.48
2. Rupee Coin	108.44	108.73	109.04	105.58
3. Deposits				
a) Central Government's	54.00	50.95	51.35	54.38
b) Banks'	57.86	55 23	62.37	69.12
c) Other Governments'	10.62	7.95	10.15	16.7
d) Others'	15.81	16.07	15.48	34.38
4. Foreign Securities	686 87	676.87	647.06	663.15
5. Balances held abroad	48.30	59.36	71.24	67.64
6. Rupee Securities	538.67	533.10	553.57	417.74
7. Investments	50.54	50.43	50.43	75.34
8. Loans and advances to Governments	3.66	5.29	2.00	1.67
Scheduled Banks				
1. Demand liabilities (net)	599.85	603.80	635.86	562.3
2. Time Liabilities	420.28	421.85	424.27	367.26
3. Cash on hand	33.95	34.07	35.27	32.03
4. Borrowings from Reserve Bank	17.72	15.26	8.03	1.46
of which against Usance Bills	10.66	7.15	6.45	0.90
5. Advances and Bills discounted	575.32	568.06	546.88	508.18
of which State Bank's	100.48	99.30	93.07	100.66
6. Investments	387.93	391.93	394.76	348.98
of which State Bank's	109.23	109.21	109.29	97.36
Cheque Clearance	105.19	155.04	141.45	106.84

†For Reserve Bank and Cheque Clearance week ended 30-12-55. Scheduled Banks week ended 23-12-55

Bombay Money Rates	30-12-55	23-12-55	2-12-55	31-12-54
Inter-Bank Call Rate	3	2⅞	2⅞	3
3 months deposits	3	3	3	3
6 months deposits	3	3	3	3

Bombay Bullion — In Rupees and Annas

	5-1-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	95-2	93-8	94-8	88-7
Forward	95-14	94-3	95-0	88-9
Silver (per 100 tolas)				
Spot	175-11	171-3	173-6	157-7
Forward	176-5	172-7	174-3	153-7

INDUSTRIAL DISPUTES IN BOMBAY STATE

	No. of disputes	No. of workers involved	No. of working days lost
1947	650	726,594	3,783,817
1948	536	384,385	1,810,793
1949	376	279,883	1,765,583
1950	271	374,649	10,251,718
1951	315	206,645	1,112,972
1952	265	428,649	1,207,753
1953	179	141,525	618,192
1954	201	111,273	396,187
1954:			
October	24	16,879	30,435
November	16	9,052	91,359
December	18	5,987	62,145
1955:			
March	24	27,915	34,630
April	28	9,260	43,927
May	27	8,182	25,153
June	27	6,214	50,092
July	27	3,329	19,168
August	30	7,623	53,425
Sept.	28	3,365	7,299
October	22	5,263	15,875(a)

(a) Provisional — Source: **Labour Gazette**

ABSENTEEISM IN THE COTTON TEXTILE INDUSTRY

Bombay State

(Monthly Averages)

Average percentage of absenteeism in

	Bombay City	Ahmedabad	Sholapur	Viramgam	East Khandesh	All Centres
1947	14.39	6.39	19.13	2.81	—	12.04
1948	13.29	5.87	18.10	8.24	20.65	11.06
1949	15.91	7.38	21.20	10.33	14.49	13.19
1950	14.50	8.36	20.22	9.36	12.56	12.57
1951	12.83	8.34	18.80	9.43	13.16	11.53
1952	12.70	9.49	20.22	10.41	12.81	11.90
1953	12.62	9.43	20.53	10.93	14.42	11.93
1954	10.80	8.72	17.35	9.00	13.77	10.44
1954:						
Oct.	8.21	7.76	14.55	11.84	14.84	8.50
Nov.	7.43	6.12	15.43	10.96	10.00	7.45
Dec.	6.86	5.86	15.73	10.77	8.06	7.03
1955:						
March	8.57	6.88	18.22	13.71	13.37	8.53
April	9.62	7.64	19.80	13.36	15.23	9.57
May	10.21	8.67	23.46	14.51	15.58	10.49
June	8.73	7.53	18.54	10.97	11.82	8.86
July	7.75	6.58	16.03	10.38	10.43	7.85
Aug.	7.43	6.15	14.79	10.63	10.74	7.43
Sept.	7.62	6.59	15.39	11.23	11.98	7.71
Oct.	7.75	6.51	16.92	11.57	11.09	7.91

Source: **Labour Gazette**

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group	Week ending 17-12-55	Week Ago	Month Ago	Year Ago
I **Food Articles:**	**320 4**	**328.2**	**321.8**	**317.4**
Cereals	380	388	390	365
Pulses	348	333	323	230
Others	235	232	228	267
II **Industrial Raw Materials:**	**440.7**	**428.1**	**419.5**	**432.6**
Fibres	447	433	425	463
Oilseeds	430	413	403	390
Minerals	424	425	421	403
Others	463	463	452	444
III **Semi-Manufactures:**	**345.9**	**343.4**	**338.8**	**346.6**
Leather	398	393	382	382
Mineral Oils	202	202	202	221
Vegetable Oils	417	406	395	410
Cotton Yarn	422	418	410	448
Metals	279	279	277	240
Oilcakes	349	359	365	373
Others	330	330	330	330
Manufactures:	**372.8**	**372.7**	**373.6**	**374.3**
Textiles	405	404	406	417
Jute	415	414	425	441
Cotton	399	399	399	412
Rayon & Silk	486	486	479	452
Woollen	278	278	278	310
Metal Products	371	371	371	340
Others	284	284	284	284
Miscellaneous:	**541.9**	**542.5**	**542.4**	**576.1**
All Commodities:	**367.4**	**366.0**	**363.6**	**366.6**

COAL PRODUCTION AND DISTRIBUTION

(Monthly Averages or Calendar Months)

('000 tons)

	Raisings	Despatches	Stock at Pit-heads
1948	2,485	2,155	2,262
1949	2,621	2,339	1,417
1950	2,666	2,401	2,008
1951	2,859	2,426	2,646
1952	3,019	2,566	3,519
1953	2,987	2,588	3,411
1954	3,064	2,662	3,771
1954:			
April	3,037	2,599	4,051
May	2,977	2,621	4,093
June	2,885	2,576	3,950
July	2,966	2,810	3,693
Aug.	2,958	2,926	3,380
Sept.	3,171	2,888	3,210
Oct.	2,921	2,787	2,914
Nov.	3,323	2,728	3,161
Dec.	3,503	2,747	3,468
1955:			
April	3,230	2,692	4,062
May	3,175	2,743	4,094
June	3,075	2,658	4,122
July	2,956	2,755	3,885
August	3,118	2,879	3,697
Sept.	3,378	2,802	—
Oct.	3,085	2,883	—

Source: (i) **Directorate of Statistics** (ii) **Indian Trade Journal**

ELECTRICITY GENERATION AND DISTRIBUTION

(Monthly Average or Calendar Month) (in million kwh)

	Generation	Distribution: Domestic consumption	Commercial light and small power	Industrial power	Public lighting	Traction	Irrigation	Public works & sewage pumping	Total
1948-49 ..	390.1	34.8	20.3	206.0	4.2	23.8	11.0	14.7	427.9
1952-53 ..	525.1	51.5	29.2	275.6	6.0	27.7	19.2	19.4	464.4
1953-54 ..	573.1	68.3	31.7	298.1	6.5	29.7	19.1	20.6	474.0
1954-55 ..	646.6	62.6	28.9	344.6	7.5	31.7	20.0	22.1	517.4
June ..	629.4	61.6	37.7	325.9	6.9	32.6	22.2	23.2	510.3
July ..	633.4	62.3	37.5	338.6	7.1	31.9	15.6	22.9	515.8
August ..	635.0	64.9	37.2	338.8	7.3	27.3	11.7	23.2	510.5
September	647.6	65.0	37.4	344.6	7.4	27.6	18.4	23.1	523.3
October ..	626.5	63.7	35.3	336.6	7.7	30.8	14.9	22.6	511.6
November	656.5	63.4	35.2	351.2	7.7	31.9	22.5	22.6	534.6
December	683.5	63.2	36.2	370.9	8.1	33.2	23.0	23.5	558.0
1955 January	668.5	62.1	36.3	362.5	8.0	32.1	21.4	22.9	545.2
February	628.7	60.8	35.1	346.7	7.5	29.4	20.7	21.5	521.8
March ..	698.7	63.3	38.7	375.5	7.9	35.2	24.2	23.6	568.3
April ..	691.1	62.6	43.6	368.9	7.6	32.0	25.6	23.7	563.9
May ..	706.5	64.2	39.7	377.2	7.8	34.1	21.5	24.9	569.4
June ..	716.2	67.8	38.5	379.7	7.6	33.2	24.7	24.6	576.1
July ..	724.8	67.6	38.3	390.2	7.8	34.2	20.8	24.5	583.3
August ..	708.9	69.5	39.6	380.4	8.3	34.2	17.3	25.1	574.4
September	719.3	70.0	40.2	390.8	8.3	33.6	19.8	24.3	587.0

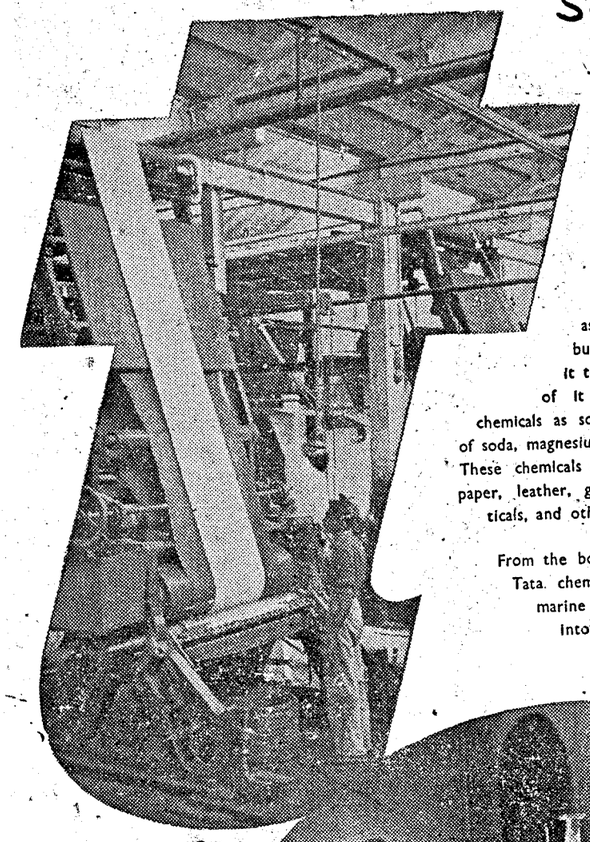
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Regd. No. B. 5489

Imagine a world without salt!

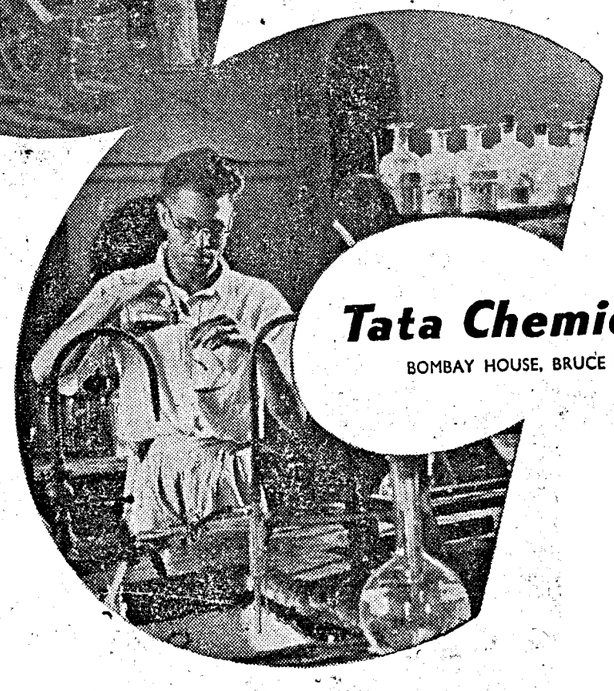




Can you imagine how poor the world would be without salt? Your food would lose its savour; there would be no paper to write on; no leather for shoes; no glass to replace the broken window panes; no medicine for the ailing.

In olden days man used common salt as an article of currency and commerce, but the scientists of today have turned it to richer and more varied uses. Out of it they produce such basic heavy chemicals as soda ash, caustic soda, bicarbonate of soda, magnesium chloride and bleaching powder. These chemicals are used in the manufacture of paper, leather, glass, soap, textiles, pharmaceuticals, and other useful commodities.

From the boundless sea as its ore mine, Tata chemicals recover salt and other marine products to convert them into alkalis and heavy chemicals so essential to Indian industry.



Tata Chemicals Ltd

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External Assistance

THERE *is a polite convention that the Plan Papers—in this particular* case, the Draft Plan—are to be treated as confidential until they are published, and circulated for eliciting public opinion. This will be some time at the *end of February, along with the Budget papers,* or early in March. So, until then, high secrecy must cover all deliberations. But as the National Development Council was set up to enlist the support of the States as also of the people to the Plan, when the Standing Committee of this Council meets, or for the matter that, when the Panel of Economists meets, certain things come out in bits and pieces. The trained seals who frequent the Finance Ministry catch the fish and are allowed to have access to some of the details which they have neither the time nor the appetite to digest. These they pass on to their papers untouched and news editors, always on the look out for scoops, and convinced that anything about the Plan is good copy, pass them on to their readers. The result is good publicity, more confusion and little understanding.

Though much remains to be known about the Plan, however, it is not because of this veil of secrecy. For, the polite convention notwithstanding, the Draft Plan has not remained such a great secret; it cannot when Bombay money bags want to read the writing on the wall and speculators want it for possible tips. There are so few cards to be put on the table. What remains to be known is something that the Planning Commission themselves do not know. The target has been raised. The Planning Commission, with their fingers on the pulse of the country, could not possibly have done otherwise. The target, however, is a reading of the political barometre; resources are quite another matter. Not that there is no scope for wishful thinking in figuring out the latter. After all, these are but estimates and estimates can be optimistic or they may be on the low side. It is all a matter of the psychological approach to the problem. Here the Finance Ministry is not under the usual constraint of past receipts and rates of increase, or whatever the criteria that it uses in forecasting revenue. These estimates are spread over a number of years and in fields that are untrodden. But even with all this, only half the resources are visible; the other half is just not there or no one can see them.

True, the situation might have been no better when the Draft Plan-frame was presented in last April but since then, it is to be presumed, the Planning Commission must have put in a lot of labour and the Finance Ministry had time to probe, scrutinise and investigate. What is the result of these labours and researches? The Finance Minister has agreed to raising the target. The Finance Ministry has persuaded itself that the upper limit of deficit financing suggested some months ago can now be regarded as safe. Allowing for this larger measure of optimism, there still remains a gap. But the gap is now smaller than what it looked in April. Indeed, it is only half of what it was. This is because, after prolonged deliberation, one would presume, it has been found possible to bank on a larger measure of external assistance. The gap, in short, has been reduced by half and external assistance has been doubled.

Not to speak of foreign aid, even foreign exchange earnings may be tricky in the extreme. Of that there was a painful reminder this week. While TTK is busy with export promotion and in ensuring that the quality of cloth exported maintains a proper standard, and a Committee has just been set up to devise ways and means for insuring exporters against some of the risks of export trade, Burma has decided to reserve 60 per cent of import licences for communist countries, which will mean a severe cut on Indian cloth exports to that country.

The required and not the promised external assistance has only to be converted in terms of dollars to explain why even the restoration of the cut in American Aid to India for the current US fiscal year has not aroused any enthusiasm. What is $60 m against $4000 m that is required? This is, however, not a fair comparison. American assistance during the first Plan period would not compare unfavourably to the total foreign assistance that India received, the aid under the T C M for these years being of the order of $250 m. against the total of foreign assistance received of some 200 crores in rupees or $1000 m. If to the TCM aid is added the wheat loan, the total American assistance will come to $450 m, which is about half of all the foreign aid that India received, in the period which slightly exceeds the First Plan period. Of course, the current year's U S aid can suggest nothing, one way or the other, about the probable magnitude of American assistance for the Second Plan.

True, Point Four running in millions is not even a fraction of Marshall Aid for Europe that flowed out in billions. True also, since the Korean war U S non-military aid has sharply come down while foreign military aid has not only been kept up but has been substantially augmented. But India has not fared badly so far, nor can one cavil at the purposes of this aid. Indo-American technical co-operation has ranged over so wide a ground that its focus has never been very sharp at any one point. It began with Community Projects. Though a recent U N publication has given a chit that community projects represent the evolution of Gandhian philosophy, which is a very polite compliment indeed, the Ford Foundation had much more to do with it than Wardha. But though TCM might have been community projects oriented in the beginning, the emphasis soon shifted to agricultural development in general. Later, may other things came in. A break-down of the programme for the U S fiscal years 1952-55 shows that agriculture and natural resources got the first priority with $73 m out of a total of $268 m; industry and mining came a close second, with $69 m; and transport came third with $41. A recent State Department assessment runs as follows:

> "In the first years, emphasis of the Indo-American programme was very largely on agricultural development, since this occupies top priority in the First Five Year Plan. . . . Although much emphasis remains on agriculture, natural resources and health under the 1955 program, increasing importance is attached to industrial projects **in line with the accelerated programme of industrial development** under India's Five Year Plan." (Bold ours)

So if the Second Plan is oriented towards heavy industry, there is no reason to suppose that T C M will fail to keep in step or be deflected by ideological considerations.

But whether Russia smiles and America frowns or America smiles and Russia frowns or both cheerfully agree to foot the bill, it is neither wise nor realistic to count on external assistance of this magnitude. At best, such assistance should only be marginal. For what is planned development, if it is not based securely on self-help? Even if others are willing to help, why embarras them with such importunate demands?

Islamic Pakistan

EIGHT years ago, Congress agreed to the partition of the sub-continent on the basis of regional self-determination. Independent India adopted a written Constitution under which she became a secular, sovereign, democratic Republic. Eight years later, after prolonged political controversies and bickerings, Pakistan has framed a Draft Constitution. Well-wishers of Pakistan will welcome that a Draft Constitution has, at long last, been prepared. But this welcome will be accompanied by a profound disappointment that the Draft has a pronounced theocratic and undemocratic bias. From a perusal of the Draft, the question arises as to the basic purpose of a Constitution. In the main, a Constitution seeks to ensure equality of rights and opportunities to the country's population as well as to safeguard the interests of the people against the arbitrary excesses of the State. Pakistan's Draft Constitution is a negation of these basic principles.

Under the Indian Constitution, India has not been declared a Hindu Republic. Hindus and Muslims have only one, common citizenship. Muslims have equal rights and privileges as Hindus. Under the Draft Constitution, Pakistan will be an Islamic Republic. Only a Muslim shall be the Head of the State. Only a Muslim can be the Vice-President of the Islamic Republic of Pakistan. "No law shall be enacted which is repugnant to the injunctions of Islam, as laid down in the Holy Quran and the Sunnah". There is a provision in the Draft that Islamisation of the law, which will govern the people after the codification has been completed and accepted by the Federal Parliament, will not affect "the personal laws of non-Muslims, the status of non-Muslims as citizens of Pakistan . . ." Fundamental Rights and Directive Principles will be included in the Constitution.

These provisions cannot obscure the Islamic status of Pakistan. That has never been in doubt. But hopes have been entertained that Karachi will have the statesmanship to assure statutory recognition of equal rights and citizenship to Pakistan's non-Muslim minorities. Mr I I Chundrigar, Pakistan Law Minister, is honest in his speech in introducing the Constitution Bill to the Constituent Assembly. There are apologists who cite the safeguarding provisions in the Draft Constitution as evidence that Karachi has no intention to impose an inferior status of citizenship on non-Muslim minorities. Mr Chundrigar is blunt, but not dishonest, in his claim that the Draft Constitution "envisages the establishment of an independent sovereign State consistent with the ideology for which Pakistan was established". Karachi never accepted New Delhi's interpretation of the political basis of partition of the subcontinent. Despite Mr Jinnah's assurance that Pakistani citizenship will have no religious basis or complexion, the Draft Constitution relegates the Hindus of Pakistan to a secondary, inferior status under the Constitution. It is difficult to appreciate how the proposed Fundamental Rights and Directive Principles can ensure equal rights to Hindus when these are explicitly denied to them under the Draft Constitution.

Not only is an inferior status of citizenship made explicit in the Draft Constitution, it is also implicit in the postponement of the basis of elections in Pakistan. Written Constitutions invariably include a provision as to the basis of elections. But the Draft Constitution has left it to Parliament to decide whether elections in National and Provincial Assemblies shall be by joint or separate electorates. It was the Coalition Parliamentary Organisation, representative of the major political parties of both wings, which prepared the Draft Constitution. If it has not been possible for such an Organisation to evolve a scheme of joint electorates, it is idle to pretend that a future Parliament will have the vision to vote for a system of joint electorates. If the Muslim League and the United Front have not succeeded in recommending joint electorates as the basis of elections, it is clear that there are powerful political elements in Pakistan which are determined to perpetuate separate electorates. To stress that the system of separate electorates is a negation of equal rights and citizenship to the minorities is to emphasise the most obvious.

Only on some minor aspects has the Central Parliamentary Organisation succeeded in reconciling the conflict and rivalry between the two wings of Pakistan. Eastern Pakistan will have equal representation with Western Pakistan, after its merger into a single unit, in the unicameral National Assembly. This controversy about the basis of representation was diplomatically by-passed by the integration of the provinces of Western Pakistan into one single unit. Even so, equal representation to Eastern Pakistan does not do full justice to this wing as it is still numerically stronger than the Western wing. It is possible that the United Front has succeeded in granting recognition to Bengali along with Urdu as State [illegible] hence. But those who are familiar with the trend of developments in Eastern Bengal will doubt whether even the statutory recognition of Bengali as one of the State languages will prevent tthe progressive domination of Urdu and Arabic influence in the eastern wing of Pakistan.

Hostile response to the Draft Constitution in Eastern Pakistan deepens these doubts. Under the Draft Constitution, Pakistan will be a federation, with a strong and powerful Centre. Demands for full regional autonomy have, thus, been rejected. Besides the problem of safeguarding the interests of non-Muslim minorities, this is one of the major issues in dispute in Pakis[illegible] on service facil[illegible] to small units powers between the fe[illegible] been urged the federating units a[illegible] Industry the Draft Constitution, [illegible] likely to in the eastern wing of P[illegible]uction of would be idle to pretend th[illegible] second tration of authority at the [illegible]mount Centre stems from considera[illegible]ents territorial integrity. Such a [illegible]rial can only lead to gradual negle[illegible] a not deliberate suppression, of E[illegible] gali tradition and culture in Easte[illegible] Pakistan. It is to be deplored deep[illegible]ly that the Draft Constitution has not only denied equal rights and privileges to Pakistan's minorities, but it has also ignored the urgent aspirations of the people of Eastern Pakistan.



January 14, 1956

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ny years in Ahmedabad, the home
of Congress Trade Unionism.

The agreement reached by Tata Iron and Steel Co. with the Tata Workers Union in Jamshedpur, however, did not need the intervention of the Labour Minister. And it is the most comprehensive of the agreements reached in the recent past, or at any time in the history of the labour movement in this country. The price that the Company has to pay is the recognition given to Tata Workers Union as the sole bargaining agents of the employees. In exchange for a 'closed shop', the Company wins willing and active participation by labour for solving all the problems which plague capital-labour relations e.g. in fixing the size of the labour forces, in carrying out improvements in labour productivity, job evaluation, Works Committees, in evolving a procedure for redressing grievances and in selections for promotions. As in the Bombay agreement, adequate contribution by employers to schemes for housing labour is one of the important stipulations.

Indo-Italian Amity

Those who assumed hastily that one of the results of the Russian leaders' visit to this country was a shift in India's foreign policy in favour of the Communist bloc will feel assured at the joint communique issued by the Prime Minister and Italy's Foreign Minister. Italy will now become a memeber of the United Nations. She is a NATO Power. But, as a member-State, Italy agrees to have "close and cordial co-operation" with India to ensure world peace within the framework of the United Nations. Attainment as well as maintenance of world peace is the basic aim of India's foreign policy. In pursuit of this aim, India is always willing to co-operate with Communist Russia as well as with non-Communist Italy. With the possible exception of America, no ther Western Power has mistaken dia's desire to have economic co- ation with Russia as New elhi's alignment with Moscow.

Community—Structured

REAL decentralization means that the country should be covered with a net-work of small-scale industries (not necessarily household and hand) which should be co-operatively owned. Without wider dispersion of ownership, reduction of inequality through progressive direct taxation alone does not go very far. But who will set up and organize the producers? China had the party to do it; our administration would not be equal to the job. Congress does not seem to be interested or capable of delivering the goods. Then, again, there is the question of resources. Electricity has to be taken to the villages, that itself will require an immense volume of equipment, new techniques will have to be developed and perfected; small machines and tools have to be supplied in large numbers. Nothing of the sort can be attempted until we have developed steel production and a widely based machine making industry. So all this can come only in the third or fourth Plan. Meanwhile, as much of the existing idle capacity (not creation of new capacity) should be utilized to supplement production of consumer goods in the organized sector. That is how it looks at the moment.

So all this is yet, to be. It is not here and now. Of course, the ultimate solution of educated unemployed is not to allow such a class to grow at all. Catch them young, and let only the select ones to go to college and higher up. This is what the Member of the Planning Commission for Education, Dr J C Ghosh rightly advises when he suggests that education should be "community-structured". That is to say only the pick of the lot should be sent up for higher education, after a separate and a stiff test. Results at the school final or matriculation examination are not enough and should not entitle the boys to gain admission to colleges. The rest, some 85 per cent or more of the total, should be taught some trade or useful craft at the secondary stage, so that they may be able to make a living either from agriculture or small industry.

Social inequalities enable some, simply because their parents are better off, to go in for college education. Others drift into it because there is nothing else to do. Technical education in the absence of industries expanding fast enough to absorb the technically qualified is no solution. Until the other day, it was by no means unusual to find engineering graduates, or others with similar qualifications, joining Law classes to kill time, or crowd into the general line.

For reorienting the educational system, Dr Ghosh wants to borrow one idea from Gandhiji's basic education—not education through craft, but training in a craft and turning the period of training to some economic advantage. This may be done in two ways. Students may earn something on their own, by practising the craft which they are being taught and the schools may supplement their resources by selling some of the products turned out by the students, so that the cost of education may be lightened both for the school and for the students.

Even this, however, does not go to the heart of the problem which is, can enterprise be taught in schools? For organising small-scale industries, technical training is not enough. Producers who experience difficulties which can be solved, if they get organised in co-operatives, are the right material for starting such co-operatives. How can fresh products of secondary schools be turned into such producers? Not only the economic climate, but a whole set of values will have to be changed before education can be "Community-structured".

1956 Annual

In view of our Annual Number on January 26, there will be No Issues of the Economic Weekly on January 21 and 28. The Annual Number will be Priced Rs. 2/8/- and will be supplied free to subscribers.

Non-subscribers are requested to order their copies in advance.

A. Fernandes
Business Manager

Assistance to Small-scale Industries

THE efforts of the Government of India to develop small-scale industries have run up against the usual snag. In official parlance, they are being impeded by serious administrative bottle-necks. One of the important objects of Shri T T Krishnamachari's last visit to Bombay was to remove some of these. Hence the discussions with the representatives of State Governments of Bombay, Saurashtra, Vindhya Pradesh, Madhya Pradesh and Kutch.

The Government of India have tentatively budgeted a sum of Rs. 55 crores during the period of the Second Five Year Plan for grants and loans to aid development of small-scale industries. Budget allocation under this head has steadily gone up. In 1954-55, it was only Rs 1.04 crores.

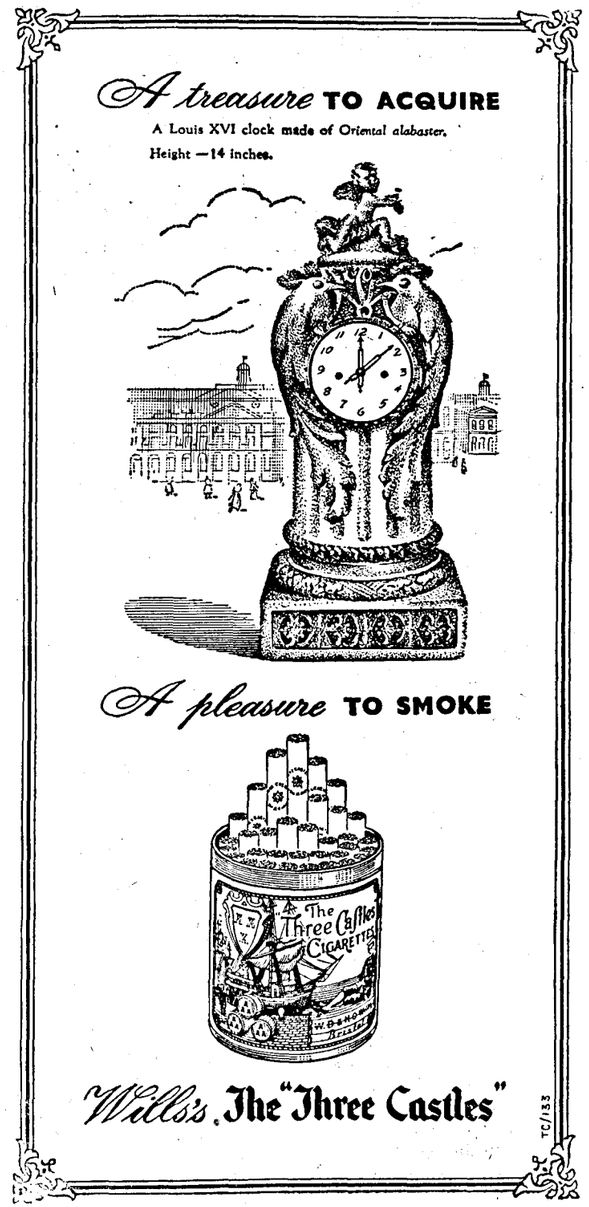
The amounts budgeted, however, are not being fully utilised, the reason being cumbersome rules and complicated procedures for sanction of loans under the State Aid to Industries Act. At the meeting held in Bombay last Wednesday, the Commerce and Industry Minister pointed out that the Government of India had recommended to the State Governments that loans up to 75 per cent of the value of the security offered should be advanced. Such security should include equipment, stock-in-trade, and other assets created out of the loan. The rate of interest to be charged to individual small units was 3 per cent and to co-operative societies 2½ per cent. The Central Government would pay the difference between the rate of interest at which loans were sanctioned by the Centre to the State Governments and the reduced rate at which loans were advanced to small units.

For working capital, the meeting of the Small-Scale Industries Board held last month at Rajkot decided that the State Governments be requested to liberalise their rules (i) to allow loans being granted to bonafide small manufacturers up to an amount of Rs. 1,000 on a personal bond, (ii) to allow loans up to Rs. 5,000 to be advanced to small units on the security of one or more personal sureties, and (iii) to allow local industries officers to sanction loans to small units up to an amount of Rs. 2,000 in their own discretion.

The financing of small-scale units by commercial banks, co-operative banks, State Bank of India, State Financial Corporation etc. (with the assistance of the Reserve Bank of India), is also being looked into. The Government of India has appointed Shri S V Ramamurthi, Adviser to the Planning Commission, to make a special investigation on the subject and submit recommendations to Government.

Trading Estates and Machines

A SPEEDY implementation of the scheme for industrial estates where factory space, electric supply, water and common service facilities could be provided to small units on rental basis has also been urged by the Commerce and Industry Minister. A large sum is likely to be set apart for the construction of industrial estates during the second Plan period and the entire amount required by the State Governments for the purpose of starting industrial estates would be sanctioned as a long-term loan for 20 to 30 years at the rate of 4½ per cent.



A scheme for the supply of machinery to small units on hire-purchase supplements the above. Applications had been invited a few months ago by the Regional Small Industries Service Institutes for supply of machinery to small-scale units. It is understood that applications for supply of about Rs. 10 lakhs worth of machinery to small-scale units were recommended by the Small Industries Service Institutes. However, recently, the National Small Industries Corporation, which will actually execute the agreement and supply the machines, decided that the Director of Industries of the State where the small-scale factory is situated should also recommend the application for loan. Small units are to pay outright 20 to 40 per cent of the cost of the machines depending on the nature of the machine, and the balance would be realised in suitable instalments spread over a period of five years or 50 per cent of the estimated life of the machine, whichever is earlier. Interest will be charged at 5 per cent from industrial co-operatives and at 6 per cent from the other small units on the block capital. It may be noted that the rate of interest charged on machinery loans is double that charged on "money" loans.

Jobs for Educated Unemployed

WHILE Shri Krishnamachari was urging expeditious execution of schemes of State Governments for development of Small-scale Industries in Bombay, Shri G L Nanda, the Planning Minister, announced at Delhi that employment opportunities for the educated unemployed would be increased by organising small-scale industries and the co-operative movement. The Development Commissioner for Small-scale Industries had originally put up a scheme for training a lakh unemployed matriculates to set up small-scale industries e.g., hand tools, sports goods, cutlery, agricultural implements, bicycle parts, small machines, machinery parts, automobile parts, repair shops, etc. and later, a study group of the Planning Commission went into the entire question. The report of the study group has not been published yet, but it is significant that Shri Nanda should make it clear that small industries meant 'town industries, and not village industries. The idea appeals, but can the Government's administrative machinery be suitably geared to implement such a training and production scheme?

U S Foreign Aid

THIS is the election year in America. In recent history, election years have invariably seen political stalemate in the States. Today, President Eisenhower is in a dilemma which paralysed Mr Truman at the end of his second term. Both Houses are dominated y Democrats, the political rivals of the Republican Party. In such circumstances, it is natural that President Eisenhower, the Republican President, is hesitant to initiate any new policy. Yet, this was just the time and occasion when President Eisenhower could have enhanced his Party's chances in the coming elections by enunciating a bold and imaginative policy. His State of the Union message shows that he has lost the opportunity.

There is an implied admission in his message that the international situation has changed since the "summit" conference at Geneva among the Heads of State. President Eisenhower is not unaware that Russia has taken the initiative in exploiting the "Geneva spirit" to her advantage. But he interprets the post-Geneva Russian diplomacy to mean "reliance on division, enticement and duplicity". He emphasises that the Russian threat may have become "less obvious", but has not become less dangerous. It has been remarked that the post-Geneva policy of Russia is not yet properly appreciated by the Western Powers. President Eisenhower's State of the Union message confirms such suspicions.

Some of the observations of the Russian leaders during their visit to this country have been criticised on the ground that these statements underline Moscow's determination to perpetuate the "cold war". On second thoughts, such an assessment of Russia's policy since Geneva, is admitted to be hasty. There has been a shift in Russia's foreign policy. It is clear that Russia's current diplomacy assumes that there will be no third world war. On this assumption, Russia started the drive for competitive co-existence. It is evident that the implications of this shift in Russian policy is either not adequately understood or deliberately ignored by Washington. "Our policy", President Eisenhower observes, "must be dynamic and flexible, designed to forward achievement of our own objective rather than to meet each shift and change in the communist front". This explains President Eisenhower's implied assertion that America's policy will continue to be based on negotiation through strength.

Even though President Eisenhower takes elaborate pains to deny that there has been any basic change in Russian foreign policy, one of his major recommendations in his State of the Union message belies such an appraisal of the current phase of Russia's foreign policy. In requesting Congress "to grant limited authority to make longer-term commitments" to non-Communist countries, President Eisenhower confesses, by implication, that Russia's "Point Four" policy needs to be matched by an extended foreign aid programme by America. This is the only positive aspect in President Eisenhower's State of the Union message. His request to Congress is a clear proof that Washington admits that the shift in Russian policy demands a similar change in Washington's foreign economic policy. Underdeveloped countries will welcome the American President's awareness of the implications of competitive co-existence.



REVENUE :

The Indian Tea Industry contributed to the National Exchequer Rs. 19 crores as export duty, and over Rs. 3 crores as central excise duty in 1954-55. Besides, it contributed large sums by way of State income tax, agricultural tax, road tax and certain imposts.

TEA BOARD INDIA

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PST 139

Off the Record

Land—The Biggest Challenge

THE present situation differs in important respects from that prevailing in July 1951. The very success of the first Plan has made it necessary to plan more ambitiously. The political developments of the intervening period also point in the same direction. Discussions so far, however, about financial resources have not gone beyond the present structure of public finances. Tax measures were looked into by an expert Commission; and the results of their findings have been fully availed of. Programmes of borrowing have had the benefit of successful experiments. Even so, the target of investment that is now being considered is far above what, it is now estimated, can possibly be obtained from these two sources. No serious attempt has been made for exploring unorthodox methods of raising resources. Of the latter, the two proposals that have been put forward at one time or another are State trading and nationalisation of insurance. It is not certain yet how far these proposals have any support from Government. Nor has surplus from land figured prominently in the quest for resources. Acquisition of intermediary rights in land has been carried out by different States up to varying points. To the extent that along with it a ceiling is sought to be imposed on rents from land, the surplus arising from land will not be directly available to the State. Acquisition of intermediary rights, however, imposes a social responsibility. Employment and means of livelihood will have to be provided for the people who are dispossessed of their shares in the rent from land. This would be a problem of considerable magnitude if land-owning classes are really displaced. To the extent that the position of tenants is secured not only in law but in fact, landed classes who have enjoyed a status and have exercised authority will not be easily reconciled to a change which deprives them of both. They may be more easily absorbed if, along with real changes in tenancy, opportunities of productive employment are thrown open by decentralisation of the economy in the form of assisted development of small-scale and village industries.

Here it is presumed that there will be room in the co-operative sector for a class whose upbringing and social back-ground qualifies it to discharge the function of management and control. If land is to be given to tillers and intermediaries are to have no place, this class will have no function left. Girasdars masquerading as protected tenants or owner-cultivators are no greater social menace than the more spirited ones among them who take to brigandage.

The argument against re-distribution of land to indigent peasantry on the ground that however desirable it may be as social policy, economically it will be a backward step, as it will lower the efficiency of cultivation, will take a lot of answering. To answer it effectively, it is not enough to say that it is implicit in the re-distribution of land that the State undertakes the responsibility of providing credit and finding the resources necessary for efficient cultivation. Even that is not enough. For the answer, the First Plan depended on co-operative farming. This has made so little progress, however, and experience of these five years has given little hope of its ever being realised. Even the allocation of Rs. 50 lakhs recommended in the First Plan for experiments in co-operative farming has remained unclaimed.

The realists may also claim facts to be on their side in resisting the policy of distribution being carried too far. The progress in agriculture during the last two to three years is undeniable even when a generous allowance is made for favourable monsoons. If inequalities of land holding are a serious impediment to agricultural improvement, how could these remarkable results have been achieved without any substantial progress in the direction of redistribution?

Apart from the economic argument, however, which rests primarily on the powerful incentive which ownership gives to the urge for development, there is a powerful social case for a new deal to the landless. This is based on the study of village society. The village community does not represent a harmony of interests; on the contrary, it is torn by internal dissensions largely arising from the maldistribution of land. It is very often divided into warring camps, on the one side being those who have the land, mostly belonging to the upper castes, and on the other, the landless — mostly the Harijans and the lower castes. So, to talk of building from the bottom, and creating a healthy rural base, are equally unmeaning until this basic disparity is removed.

When land is given away to tillers, economics of cultivation demands that cultivation should be organised on a basis other than that of petty and fragmented holdings. Since we have no means of organising mutual aid under central direction except in so far as community projects may achieve this object, how to reconcile equity with efficiency of cultivation? Those who are impressed most by the urgency of redistribution of land fondly hope that once land is given to him, the peasant will not be found lacking and will have the sense to work out a system of joint cultivation on his own, without waiting for the blessings of the Registrar of Co-operative Societies. However that may be, land is going to present the biggest challenge; an approriate social policy will have to be worked out in respect of land-ownership in the second Plan period.

And not only in regard to land. Indeed, it looks as if questions of social policy will come up uppermost, not at the stage of the formulation of the second Plan perhaps, but in the course of its execution. The emphasis on employment itself is a thin end of the wedge; for gradually employment is coming to be recognized as one of the given premises according to which planning has to be modified, even if in that process, the rate of growth achieved becomes slower than what it could be otherwise.

(*Continued from next page*)

the reduced inequalities needed for promoting consumption and economic growth and the inequality required to channel resources for investments, by keeping down consumption and by increasing the marginal rate of saving, a balance has to be struck. Even if the 'golden mean eludes our grasp, there must be a due sense of responsibility in deciding how the maximum advantage can be derived. This has been grossly lacking and the excuse in putting forward such spectacular proposals of redistribution is that they arise for consideration, if not for acceptance, from the socialistic patteral of the Plan.

Our Delhi Letter

Discussions on the Draft

After the economists, the Standing Committee of the National Development Council has considered the Draft Memorandum of the Second Five Year Plan and a press communique has been issued to summarize the trend of discussions. The anomaly is that the Draft memorandum has not been made public and it is difficult to follow the cryptic statements in the press note. The Standing Committee, we are told, approved the proposals relating to Prohibition set out in the Draft Memorandum. What are these proposals? It appears that second thoughts have brought some understanding on this matter and the Planning Commission has resolved to let the States phase their own programme of total prohibition. If they had been given a deadline, as suggested by the Prohibition Enquiry Committee, the problem of finding resources to make up for the deficit would have passed back to the Centre. The States first submitted to the decision that they should find Rs. 160 crores by way of additional taxation and they are now being called upon to find a further sum of Rs. 65 crores which is difficult enough by all standards. All these were known when the Planning Commission, in a moment of exuberance, set up the Committee and packed it in a way which determined its conclusion in advance. Some tribute is, therefore, due for the courage shown in this retreat towards moderation.

Other concessions to realities of a similar nature are also reported to have been made in the final stages of the Draft. There is the case of coal, for example, on which a very rigid attitude was taken all along about the sharing of the additional production between the public and the private sectors and about guarantees to new investment. It seems the Draft has now omitted any reference to these rigid limits and the Production Minister answered, at a meeting of coal producers a few days ago, that the figure of 8 million tons of coal allotted to the private sector as its share of additional production was not a rigid one. In turn, the coal producers have taken the hint and have wisely refrained from pressing their demands for guarantees. Here again the truth is that an investment of about Rs. 100 crores would have been necessary in the public sector if 15 million tons more of coal had to be raised by 1960, while the private sector needed no more than a fourth of the amount, which it can find from its own resources. There will be greater certainty now of coal becoming available as and when the demand arises. If the responsibility had been left to the public sector, which may take some time to find its mines and start operation, there would be no assurance about supplies. In the Korba fields, for example, it is understood that exploration is slow and the sources of good metallurgical coal have not been located. All these considerations did not weigh strongly with the Production Ministry; but the severe rationing of the resources available for the public sector has led to a wiser decision now.

The third major advance has been made in the attitude to village and small-scale industries, which had provided a lively controversy in the last few months. The issues related mainly to the proposal to check organised industry (by ceiling on spindles, for example) and to the grant of large subsidies for production in this sector. It is now agreed that encouragment to village and small-scale industries should not involve large transfers of funds from one sector to another by way of subsidies. When it is difficult for Government to mobilize resources, it would be folly to part with them for payment of subsidies. Thus, by all these little acts of prudence, the Planning Commission has tried hard to prune some of the loose ends of the Plan. This has not solved the central problem of finding resources of the order of Rs. 4800 crores; but it would certainly help to prevent the position from becoming worse.

Considering that a battle royal was fought over controls at the beginning of the First Five Year Plan and that all the assumptions made then were subsequently thrown over, it is surprising that the question of controls should have been discussed almost on the same lines in the NDC Standing Committee. The Food Minister is reported to have taken a definite stand against a return to physical controls and rationing. Freedom of movement and limited interference with the market, have so far helped to stabilize food prices without hardship to the consumer and it would be unfortunate if controls are to be reimposed on pre-conceived ideas about their necessity. The theory that there will have to be restraints on consumption in order to divert resources to investments may involve fiscal and monetary measures, but physical controls on necessities would be too drastic to contemplate as means to achieve capital formation.

The immediate sources of controversy will be the proposal for reducing disparities in income and wealth which the Standing Committee is reported to have "considered absolutely essential for the success of democracy as a political system". This is a staggering sentence. News agencies have leaked out that the Draft Memorandum has put forward 'modest' proposals for considering a tax on total wealth—which the Taxation Enquiry Commission had dismissed on the ground that the flame was not worth the candle—and ceilings on salaries and incomes of Rs. 20,000 and Rs. 30,000 respectively per annum, after tax. Opinion has naturally been divided even within the Standing Committee and the laconic conclusion, reported above, may mean anything or nothing. It is remarkable that these questions have not been discussed in relation to incentives or savings which are really the governing factors. Would the considerations which apply to the restriction of the rights of absentee landlords apply also to the business and industrial sectors? Are the Planning Commission ready, for example, to offset the decline in employment caused in domestic services or other occupations which cater to the activities connected with "conspicuous consumption", whatever this may mean? Does the virtual liquidation of private savings involved in income ceilings of Rs. 30,000 mean that there will be no need for capital formation in the private sector at all and that the State will take over the entire responsibility? If so, it would mean that the public sector will not be merely "large enough to set the tone for the rest" as British socialists have urged, but an all-pervasive one, which has little use for private savings. Even so, the crux of the problem of attacking disparities in this way, is that of incentives. Between

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Official Papers

World Outlook in Fats and Oils

WORLD production of fats, oils and oil-seeds which has been rising at an average rate of 2 per cent per annum since 1950 was about 25 per cent above pre-war level in 1954. As world population has increased only by 20 per cent in these years, output per capita has also risen compared to what it was before the war. Consumption, however, has not been evenly distributed. In 1954, it fell below the pre-war average in the US and Western Europe. In Asia, on the other hand, excluding China, where, according to FAO, production has not yet to come up to the pre-war level, per capita consumption has risen by 30 per cent above pre-war*.

The level of production of fats and oils in 1954, the Study points out, reflected the continuing upward trend of output in these commodities, and world production (excluding USSR) rose to 23.8 million tons—5 per cent above 1953 and 25 per cent higher than the pre-war output. This improvement was mainly accounted for by bumper output of West African and Indian groundnuts, Mediterranean olive oil and US soybeans and cottonseed.

Though consumption per capita has risen, it has not risen in all regions: thus consumption in 1954 was slightly below the 1934-38 average in the US and Western Europe, and was substantially lower in China. But in Asia, excluding China, it was about 30 per cent above pre-war.

World exports also showed a remarkable improvement, but the rise viz. 10 per cent over the pre-war level has not kept pace with the rise in output. The main factors which contributed to the expansion of exports in 1954 were:

(a) An aggressive sales policy pursued by the US and Argentina to dispose of Government stocks of oil and oil-seeds on the world market, at prices which were materially below those in the domestic market;

(b) Strong import demand from Western Europe; and

(c) The entry of East European countries and the USSR into the market for oils and oilseeds as importers.

* Commodity Reports, No. 6, Fats and Oils, FAO. Rome. pp. 67. Price US 25-1|3 cents.

The large supplies of fats, oils and oilseeds in 1954 should normally have led to an appreciable fall in prices. But this did not happen. There was only a moderate drop of 3 per cent in average prices of oils and oilseeds and the price level was relatively stable. In the first place, the improvement in their economic position enabled the countries of Western Europe to make larger purchases of fats, oils and oilseeds in 1954; secondly, there was an appreciable increase in the demand for these commodities from Eastern Europe and the USSR. Both these practically offset the effect of enlarged supplies.

The FAO report did not anticipate any substantial change in the world production of fats, oils and oilseeds in 1955, nor in the world trade in them. This is because although US expects a sizable increase in output in 1955, its effect is likely to be offset by the liquidation of surplus stocks disposed of in 1954.

Edible and Non-edible

The largest increase in production since pre-war has been in liquid edible vegetable oils, especially in soybean and cottonseed oils in the United States. Edible oil production has risen by 35 per cent since pre-war, against a 25 per cent increase in edible and non-edible put together. The production of coconut, palm and palm kernel and whale oils, which are used partly in food, has not only kept pace with the increase in world population, but as a larger percentage of the production is now used for food than before the war, there has been a slight increase in per capita consumption of fats and oils for food.

The production of inedible tallow and greases has also increased sharply since pre-war, and most of the increase has occurred in US. And large exports of tallow and greases from US are being absorbed in soap production in Europe and Japan, thereby freeing a substantial quantity of whale, coconut and palm-oils for food uses. World production of linseed and other "drying oils", however, has not increased significantly, the rate of increase being less than 10 per cent since pre-war. This is mainly due to the development of new chemical products for the manufacture of paints and varnishes, which utilize a substantial quantity of drying oils.

Region-wise, a striking rise in production since pre-war has been in the United States; increases have also, however, occurred in Western Europe and Africa. On the other hand, production has fallen somewhat in China and Argentina.

World Trade

As a result of large-sized oilseeds crops and heavy export sales from the US and Argentina Government stocks, world trade in fats, oils and oilseeds in 1954 at 6.4 million tons was above the pre-war level and 10 per cent higher than in 1953. US has, since late 1953, been disposing of cottonseed and linseed oils at prices which are below domestic prices. This alone greatly increased export sales. The largest single exporter since the War, US sold overseas more than 17 lakh tons in 1954 (11 lakh tons in 1953) and thus accounted for over a quarter of total world exports of fats and oils. Other countries which recorded increase in sales include Argentina 2,57 lakh tons (1.77 lakh tons); British West Africa 7.27 lakh tons (6.24 lakh tons) India and Pakistan 0.85 lakh tons (0.69 lakh tons) and Philippines 5.52 lakh tons (4.4 lakh tons).

The improvement in the economic position of Western European countries enabled them to expand their purchases of "dollar" supplies of fats and oils. Thus, Western European imports (excluding those for re-exports) of fats, oils and oilseeds rose to 38.4 lakh tons from 36.4 lakh tons in 1953. The import demand from the Eastern European countries and USSR also rose from 2.19 lakh tons in 1953 to 3.61 lakh tons in 1954. Among the Asian customers, there was sizable absorption by Japan, India and Pakistan and China.

Commoditywise, international trade in liquid edible oils in 1954 at 15.9 lakh tons was much below the pre-war level of 18 lakh tons, though it was 15 per cent larger than in 1953 (13.9 lakh tons). This was mainly due to the cessation of Argentine exports of edible oil and to the fact that exports from India in 1954—the major pre-war exporter—remained far below pre-war levels: 0.85 lakh tons against 6.76 lakhs in 1938 (undivided India).

World exports of cottonseed and oil in 1954 at 3.43 lakh tons was more than double the pre-war level as well as the level attained in any post-war year. This was largely due to the release on the world market of US Government stocks of cottonseed oil at reduced prices, and the exports went to continental Western Europe, especially to Netherlands. World trade in soybean and soybean oils at 3.2 lakh tons was also 20 per cent higher than 1953, though it was still much below the pre-war figure of 4.02 lakh tons. US and China were the main exporters and Canada, West Germany, East European countries and Japan, the main importers.

Groundnut and Oil

Exports of groundnuts and oils at 6.73 lakh tons established a post-war record in 1954, and registered an increase of 15 per cent over 1953, though the level was substantially below pre-war (9.51 lakh tons in 1938). The improvement in 1954 was due to the bumper 1953 crops in French and British West Africa. The customers for West Africa were the metropolitan countries, while Nigerian exports, considerably expanded by reduction of stocks, went mainly to continental Western Europe.

World trade in palm and whale oil and inedible tallow reached a record figure of 1.6 million tons. Exports of inedible tallow for use in soap manufacture came from the US (5.4 lakh tons), while the main suppliers of palm oil and whale oil respectively were West Africa, Indonesia and the Antarctic. Italy, Japan and West Germany remained the main customers.

Although India is a prominent groundnut grower and her exports of fats and oils amounted to 10 per cent of world exports before the war, she was a net importer both in 1953 and 1954. Following two short groundnut crops and a steep rise in domestic prices, exports from India of groundnut oil was prohibited early in 1953. After the bumper crops of 1953-54, however, domestic prices fell steadily, and larger exports were permitted in late 1954. Actual shipments in 1954 amounted to 0.42 lakh tons but increased to about a lakh tons in the first half of 1955.

Record Linseed Exports

The most striking and largest increase in exports in 1954 was recorded by linseed oil, the world total having reached 6.2 lakh tons—double that in 1953 and substantially higher than in 1938 (5.65 lakh tons). The bulk of the supplies came from US Government stocks of linseed and linseed oil and from Argentine carry-over of linseed oil. US exports in 1954 amounted to 2.87 lakh tons (0.41 lakh tons in 1953) while those of Argentina totalled 2.2 lakh tons, and sales were made at prices below those in the domestic market.

Exports from India, a major supplier in pre-war, was exceptionally low, due to domestic shortage of vegetable oils.

Despite increased production in India and Canada, exports in the first half of 1955 were about 25 per cent lower than in the corresponding period of 1954, owing to strong import demand, especially from Western Europe.

Price Movements

The international market prices of fats, oils and oilseeds in 1954 have not shown any significant changes over the previous year. Although there was heavy import demand, especially from Western Europe and USSR, world supply of these commodities, especially from the US and Argentine Government stocks seems to have more than taken care of the situation. In fact, there was even a moderate decline in the level of prives—the index for fats and oils (1952-54 = 100) having dropped from 102 in 1953 to 99 in 1954. However, all prices have not followed the same course, and there has been considerable diversity around the general trend and the three point fall in the general index is thus an average of various movements—ranging from a decline of 24 points in the index of drying oils (linseed, castor and tung) to the increase of 28 points in that of whale and palm oil and tallow.

There was a decline in the prices of 'soft' oils—soybean and cottonseed—throughout 1954, mainly due to heavy export sales of cottonseed oil from US, and the increased supplies of groundnuts and groundnut oil from Nigeria and India. Another contributory factor was the rise in olive oil output, which led to a reduction in demand for soft oils from Mediterranean countries.

The price of whale and palm oils and inedible tallow was relatively high in 1954, despite large export supplies and the accumulation of stocks in US. But what sustained prices was a strong import demand especially from continental Europe and Japan, for utilisation in the manufacture of soap.

The sharpest price decline occurred in linseed oil, mainly due to heavy export sales from US and Argentia and the lowest level was reached in August 1954. Subsequently, however, with a decline in stocks and increase in demand from Europe, specially the UK and fresh demand from USSR, by July 1955, linseed oil prices recovered to their highest level in two years. Similarly, world price of castor oil fell steeply in 1954 but recovered towards mid-1955.

Outlook for 1955

According to present indications, production of fats and oils is likely to be large in 1955. Though there was some decline in the French West African groundnut crop harvested in late 1954 and the Nigerian crop, West African and Asian groundnut crops are expected to be large, though a smaller groundnut crop for India is predicted. US output of cottonseed and soybean is, however, expected to reach a new record level of 6.2 million tons in oil equivalent. World exports of fats and oils are likely to remain the same as in 1954. Since import demand is also likely to be maintained, international prices of these commodities in 1955 and early 1956 are likely to average roughly the same as in 1954.

Estimated World Production (excluding USSR) of fats and oils

Country or area	Average 1934-38	1948	1950	1953	†1954	1955 (Forecast)
	thousand metric tons					
United States	3038	4607	5328	5678	5805	6050
Other N. and Central America	405	620	534	681	759	780
TOTAL	3443	5227	5862	6359	6564	6830
Argentina	725	784	680	617	539	530
Brazil	376	443	472	459	481	520
Other S. America	234	233	240	293	293	290
TOTAL	1335	1450	1392	1369	1313	1340
India	1931	1978	1987	1896	2061	2180
China	3319	3128	2964	3026	3068	3140
Philippines	373	567	503	532	618	650
Indonesia	671	472	602	676	702	685
Other Asia	1107	882	974	1207	1149	1190
TOTAL	7401	7027	7030	7337	7598	7845
Nigeria	560	628	709	787	868	780
French West Africa	337	282	327	314	322	290
Other Africa	847	975	1277	1203	1230	1240
TOTAL	1744	1885	2313	2304	2420	2310
Western Europe*	3229	2932	3414	3363	3888	3540
Eastern Europe	754	566	673	767	744	760
TOTAL	3983	3498	4087	4130	4632	4300
Antarctic (Whale oil)	436	334	564	648	623	650
Oceania	552	500	347	340	367	330
Undistributed above	250	250	250	250	250	250
Word (ex USSR) TOTAL	19144	20171	21845	22736	23767	23855

† Preliminary
*Western Europe includes all European countries except Albania, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland and Rumania

From the London End

The State of France

MR. HERBERT LUTHY, in his indispensable guide to French politics under the above title, considers that "for generations France has been searching for a workable system of government without finding it." He, however, believed there exists one stable factor in French Government which alone up to now has permitted survival and status: the civil servants—"a real state behind the facade of the democratic state". Maybe from this point of view, the current stalemate in the party structure is not so serious or so alarming as to make "the sick man of Europe" a more pronounced invalid in the present crucial period for France and all Europe.

The experience of the past five years does, however, suggest that even the highly efficient administrative machine of the Council of State, the Inspectorate of Taxes and the Judicature may not be able to control and master the forces making for change and requiring of France a strong and stable government. These forces are no longer of a purely internal character. The immobilisme of the Laniel regime was possibly the clearest expression of the limits to which the Grand Commis of France's higher Civil Service can hold the reins over the forces fashioning French and indeed European history. The status and survival of France depend to-day not so much on the crankish antics of the Poujadists (though their existence is not without significance) but on Algeria, Morocco, Madagascar, Vietnam and on the growing German counter-weight in Europe.

If the French elections mean anything, it is surely this: the one stable factor which in Western eyes reflects the unreliability of France is that over a quarter of the population, without regard to events, persistently vote for the Communists. For the Americans this persistence in French habit and custom will no doubt call for some heart searching. In spite of the millions of dollars which they "put into France", the Communists go on maintaining a firm hold on French development and on some 25 per cent. of the French people. Some commentators, including M Mendes-France, claim that the continued strength of the Communists is the result of the tactics of M Faure, the outgoing Prime Minister. Such arguments can, however, hold little water when this stable factor in French politics has been in evidence during the whole of the post-war period.

Since over-all stability is not to be had, the nearest alternative, that of feasible party alliances, is now being actively sought. Even here the bitterness with which the elections were conducted leaves little room for manoeuvre. M Faure is possibly the most outstanding parliamentary tactician in France, but even he did not foresee the consequences of his open conflict with the Mendesian Radicals. "Stale-mate" is probably the best description for the results of M. Faure's tactics. The centre parties, that "water-shed" of French politics, appear now to be less likely to produce the next Prime Minister and the next government. Eyes in France are thus being turned to an active "left" alliance to lead France.

It is true that M Faure has canvassed support for a "government of survival" on the negative programme that the Poujadist and Communist successes should be balanced by an alliance of all the parties from the Pinay Conservatives to the Mollet Socialists. Such a government is possibly the best that France would be able to offer in so far as the Americans are concerned.. But nobody in France believes that such an alternative is feasible. The rift between M Faure and M Mendes-France is too wide, too deep. Their differences have their origin not so much in the Mendesian belief that M Faure's dissolution of the National Assembly was inept and opportunist but in issues fundamental to France. It was a rift between a tendency for a decisive solution of problems and the paralysis into which France has been creeping ever since the piastre scandal. That scandal exposed the utter bankruptcy of the French centre groups and their conservative counterparts (including M Bidault's M R P) in finding workable, and above all, moral solutions to France's external and internal problems. The spectacle of the mass murders committed by French troops in Morocco at the behest of that reactionary group **Presence-Francaise** has certainly revolted the mass of the French electorate. And yet French colonial policy remained unchanged. In Algeria the demand for self-government was met by typical wooden-headedness—by despatch of French arms and troops. In France itself, the alcohol interests remained possibly the most influential of all the parliamentary lobby groups. It is these policies which are leading to

the "slow-death" of France and not, as that arch-colonialist M. Sostelle has claimed: "The end of France in North Africa means the end of France."

The fundamental character of the rift has, therefore, brought within the realms of possibility an alliance of the Mendesian Radicals and the Mollet Socialists. Together they are able to muster about 150 votes—somewhat insufficient in the new hostile and bitterly divided Assembly. Their programme of "decisive action"—of electoral reform and solution of the Algerian "problem"—is a relatively moderate one and unlikely to capture popular imagination. Unless M Mendes-France and M Guy Mollet are honest in declaring their differences and hostility to the centre and right-centre parties, such an alliance can only be accomplished with some Communist support. Are they prepared to court such support? This is the question which every commentator asks, but to which none dares an unequivocal answer.

M Mollet's hatred for the Communists is almost pathological. In contrast, M Mendes France has shown a remarkable elasticity—he even shared a platform with M Duclos during the elections. The Communists have in turn mooted the idea of a "popular front" on a programme which is certainly attractive and which can establish a basis for government-making. M. Thorez has declared that a popular front founded on the peaceful solution to the Algerian problem, measures to raise the standards of living of the people, a common front regarding the question of church and schools, and agreement on the need for an international detente, is what all socialists can support. He has pressed M Mollet for an answer —as yet the answer has not been given.

French politics is not a particularly honest expression of the workings of democracy. It is possible that the Thorez offer will be turned into blackmail—the Socialists and the Radicals blackmailing the rightist groups into supporting them, on the threat that Communists would be admitted into government-making. Equally possible is the blackmail on Americans to continue bridging the Permanent budget gaps by dollar aid. These possibilities, however, exist only to the extent that M Mendes-France and M Mollet are prepared to seal the rift between themselves and the centre and right groups, and so put up the sign "no change" in French politics.

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Non-economic Aspects of Economic Growth

Balraj Puri

THE socialist movement has a certain tradition in this country. In view of that, it can be assumed (the assumption is, however, on subjective and non-economic grounds) that the socialistic pattern of society refers to a society of economically prosperous, politically free and socially enlightened individuals. It has often been held, even in some responsible quarters, that social, political and economic objectives are mutually exclusive. Relative values of more production, better disribution, more freedom and more cultural development have often been debated. Should food and freedom be valued more than, say, defence equipment and capital base? Which is the end: individual wellbeing or national glory? How far is it politically expedient and ethically desirable to sacrifice the pleasures of a generation or two for the sake of those of the third?

Targets of Distribution

Coming to the first objective of socialism viz. prosperity of the individual, it should be realised that it is not synonymous with increased national income. Unless provision for better disribution of increased production exists, it is quite conceivable that the latter may be accompanied by increasing misery for the people. Some useful analyses have certainly been made regarding the inter-dependence of production and distribution. Let this relationship be made an integral part of planned economic efforts. Just as long range targets for production and national income are fixed by planned societies, distributional targets should also be fixed for that period. Inequality is a statistically measureable concept and the planners of a country should be able to calculate precise figures of coefficient of inequality that they may hope to attain over certain periods.

Though economic development is a necessary requisite for freedom yet in the process of development—in the initial stages—forces likely to regiment the set-up of a society might be generated. While political and constitutional adjustments, changes in the administrative set-up and level of political consciousness of the people might provide some safeguards against regimentation, adjustments might still be called for in the economic system and economic policies. Economists shall have to be continuously in touch with political scientists in working out the implications of economic development and analysing the adequacy or otherwise of political measures as also the need for adjustments in economic policies.

If we approach the problem of development from this angle, it will be noted that it is not the high tempo of development and enlargement of the public sector as such that lead to totalitarianism. It is the way resources are raised for development and its pattern as also the way nationalised industries are managed that cause political repercussions. The weakness of the system, in fact, lies with the administrators, political leaders, consciousness of the electorate etc. and administrative, social and political institutions. The economist can only make allowance for this weakness but cannot provide remedies. If the system is toned up, it should be able to launch and sustain a much higher rate of development without compromising its democratic values.

Decentralisation

A harmony between social and economic aims presupposes a similar harmony within economic policies. Integrated and planned policies should lead to a definite economic system—conceived as an organic part of the desired socio-politico-economic system. But what is an appropriate economic system? This question, again, cannot be answered by economic considerations alone. Let us keep the socialistic objectives in view. If economic and political power remains concentrated in few hands, prosperity and freedom of the individual cannot be ensured. The usual prescription suggested by the the text books of socialism is that the means of production be taken over by the State. But the transfer of concentrated economic power from the hands of a few capitalists to a similar number of bureaucrats and politicians—who would now require and assume more powers of political action—hardly makes much difference for the people. If sufficient safeguards are taken and the people running the political and economic system continue to do it in the interest of the people, democracy will still remain incomplete till the system is not only run for the people but also by them. People can share economic and political power only if the unts of economic and political activities are small or, in popular words, the politico-economic system is decentralised.

Importance of cottage industries is mainly recognised as a short-term economic expedient due to their employment potential. It is rarely realised that unemployment is not a short-term problem and that there are some other virtues also in organising the industrial system on small units as a permanent feature of national economy. If we accept this objective, let us direct all technological development to encourage industrial units becoming smaller and smaller while retaining their competitive and efficient character. Let us, at least, set a definite trend towards that.

New Technology Needed

All industries cannot be organised on small scale till sufficient technological development takes place. The attempt should be to make units of ownership of such other industries as small as possible. This would require drastic changes in the system of management and assignment of a vital role to the co-operative movement. If we consider a decentralised and co-operative system of economy as the basis of a new society—as an alternative to communism and capitalism—we shall have to revise our present outlook about economic planning and our sense of emphasis and priorities.

A large sector outside the co-operative and small industries where even big capital is unable to play an effective or useful role will remain a legitimate field of State activity. In order to avoid concentration of political and economic powers in the same hands and inefficiency and nepotism in the public sector, it is necessary to depoliticalize a vast field of planning activities and to run the State undertakings through autonomous corporations.

A clear sense of direction and purpose would help in establishing complementarity and co-ordination between present efforts and the ultimtae set-up as also between various economic sectors. The investment on capital goods should, for instance, be made keeping in view the requirements of the future decentralised set-up. Besides setting up a balance be-

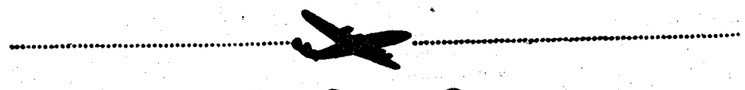
tween big and small, private and public enterprises, industry and agriculture should also be conceived as an organic whole. Let a definite relation—statistically measurable—exist between increase in agricultural productivity, marketable surplus and formation of capital for industrialisation.

Co-operation with other Underdeveloped Economies

National economies need also to be linked with the outside world. Economies of the underdeveloped countries are tending to develop on parallel lines so that they are becoming mutually rival and competitive. Under the influence of resurgent nationalist spirit, each country of the South East Asia region, for example, is becoming crazy about indiscriminate industrialisation and full self-sufficiency with little co-ordination with the economy of the neighbouring countries. Even the Colombo Plan has failed to diversify and co-ordinate the economies of the region it covers. Some of the countries are politically so touchy that they are suspicious about any type of external assistance. There is certainly a political aspect of foreign aid and it requires an amount of political maturity to accept it without complexes. There should, however, be less mistrust among the countries of the region and they should be able to seek co-operation and establish complementarity between their economies so that each country specialises in pro-



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ducing different things. They can, then, collectively seek adjustment with the economies of other regions. A long term view of the pattern of foreign rade should be closely integrated with the likely requirements of each national economy over a long period viz. of consumption, need for capital goods, industrial potentialities etc.

Margin of Current Saving

The problem of raising resources —the crucial problem of development—should also be tackled with a similar spirit of comprehensiveness. The aim of fiscal measures is not only to collect funds for development but also to promote social justice which is also the ultimate end of development. The way money is raised is thus no less important than the amount of it.

Funds for development have mainly to come from the margin of current production over consumption. There are two courses to raise the margin of savings. Firstly, to lower the level of consumption and secondly to restrict the growth of consumers. Of course both ways can be adopted. But a decision about the extent of each involves a question of values and non-economic considerations. Politically it is the question of making people forgo their consumption. Decision on the political level would depend on the popularity of the ruling party and the extent it is willing to stake it. Ethically, it is a question of the desirability or otherwise of sacrificing the interests of a generation or two for the sake of the third. Administratively, it poses the problem of squeezing and collecting more money from the people. There are social and cultural considerations also. The present generation constitutes the capital base for building a new social order. A new order based on physically starved and mentally undeveloped individuals would have a very weak basis. Psychologically, the sacrifices people are willing to make depend on their emotional response to the economic plans of their country.

Taking an overall view, it would be observed that there is limited scope for curtailing the consumption level in poor and democratic countries. Increasing production, too, would fail to raise the level of savings appreciably as a major portion of it would be consumed in raising living standards to a tolerable level and by increasing population. Fight against increase in population should, therefore, occupy central place in the plans of economic development of the underdeveloped regions—at least a more important place than is being given to it at present.

Wasteful Consumption—Defence

The scope for reduction in defence expenditure — another source of wasteful consumption—could also be considered. Allocations for defence are normally decided by political and emotional considerations. But let us be aware of its economic cost and ask political leaders to seek political remedies of reducing tensions and sparing more funds for development. If India and Pakistan settle their outstanding disputes viz. Kashmir etc., or if South Asian countries are assured against Chinese infiltration or internal sabotage and if they keep out of the conflicts of big powers a large amount of money would be available for speeding up the process of economic development in this area.

The volume of savings must have a link with the pattern of investment and process of development so that a definite proportion of additional income is diverted to capital formation. As there are immense and immediate possibilities of increase in agricultural production, a concerted drive is needed to attain a large marketable surplus. But savings of the people should be collected by putting the least strain on them. As a general rule we should have distinct preference for borrowing—big and small scale—over indirect taxation. For the lending capacity or the people is obviously more than their taxable capacity, while borrowing has distributional virtue also. Present institutional framework and administrative set up in most of the countries are totally inadequate for mopping up the savings of the people—particularly in rural areas. Economists should, instead, of treating them as given, state the changes they require in the existing institutions and press the administrators and politicians for carrying out those changes.

Drawing out Hoarded Gold

Lack of banking habit and suitable facilities for investing savings are mainly responsible for the preference for gold among the people of the under-developed area. Money saved in the form of gold is saving from the individual point of view only. Socially that is a waste. Incalculable amount of gold lies sterilised in the treasures of the princes, underground hoards of landlords and merchants, bodies of brides, domes of temples, safe deposit vaults and at other odd places. Even if a fraction of it were available for economic development, its rate could be multiplied with much less burden on the people. Hardly any attempt has been made in any country to mobilise its hoarded gold by educating the people about the futility of locking up their savings in this unproductive manner.

Besides providing facilities for saving and inculcating the habit of saving among the people, 'gold certificates' can also be issued to collect gold. Just as rupee notes gradually replaced rupee coins and have come to be preferred to them, 'gold certificates' could also be expected to replace the use of gold. A man wishing to give 10 tolas of gold to his daughter in dowry may, for instance, give certificates for that amount just as cheques or notes are now given instead of coins. This would be preferable to keeping gold in deposit vaults inasmuch as the owner can get the function of the gold performed without getting it out of the bank—though it would be available to him on demand any time he likes.

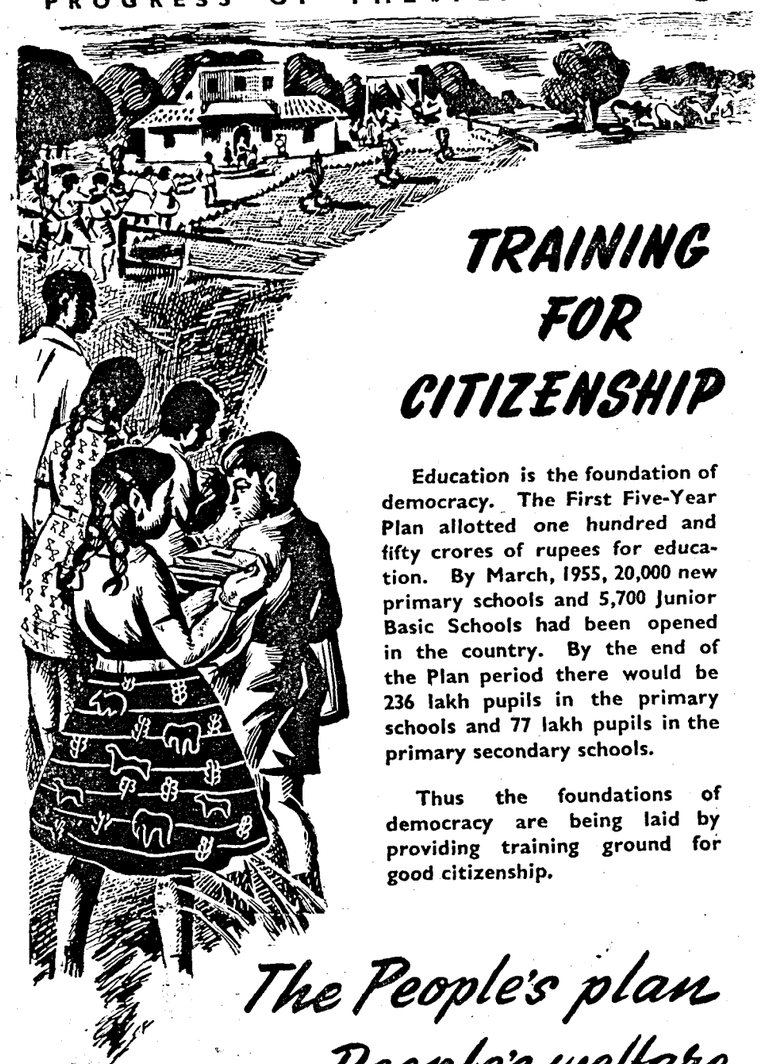
Liability to Posterity

A developing economy is always in need of a large amount of foreign exchange. If sufficient foreign exchange is not available, some of the internal resources may also remain idle. Its contribution to economic development is many times more than its actual amount. Export earnings and foreign aid or loan are the usual source of foreign exchange. While foreign exchange is scarce for most of the under-developed countries, yet due to lack of planning and of integration between foreign trade policy and economic development, some of these countries fail to utilise available foreign exchange. India has not only not pressed for a larger release of sterling balances, but has also not fully availed of released sterling and has often added to her balances with the U. K. She has occasionally earned dollar surplus also. In other words we have on some occasions been lending to Britain and America. It is rather paradoxical that an economy aiming at fast development and short of consumption goods should be lending abroad. A developing economy should rather have a planned trade deficit calculated on the basis of its requirements of capital and consumption goods over a certain period. Fuller utilisation of sterling balances, in-

curring dollar deficit, getting loans from advanced countries as also from IMF, IBRD etc. might make us heavily indebted but it would enable us to earn much larger trade surpluses in later years and speed up the present pace of development. When we are making huge investments for future generations, it is but fair to bequeath some liabilities also to posterity.

This is not meant to be an exhaustive study of how to finance economic development or allocate the resources. What has been attempted here is to present the case for studying economic development from a social perspective. The study of economic growth without a theory of social change has severe limitations. A general theory of changes in society however has hardly been evolved. Besides inadequacies in the tools of economics, other social sciences—so intimately connected with changes in society—are in a far greater state of inadequacy. And difficulty arises from the fact that a proper system of collaboration has still not been evolved between various disciplines. There is no intention to belittle these limitations particularly as they are beyond the role of economists. But economists should be conscious of and make adequate allowance for them and in no case these limitations justify the short cut method of the study of economic growth out of its proper context.

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Wage Earners During The War & Post-war Boom

(Continued from last week)

Ayodhia Singh

WE may now compare the movement of the cost of living with that of money wages in order to see how the real income of the wage earners was affected during 1946-50. An attempt has been made in Table III to determine the magnitude of the wage lag* in different regions.

Table III shows that in Bombay the rate of increase in wages lagged behind that of cost of living in 1946, the wage lag being 15.7 points. However, from 1946 onwards, the pace of wage instead of lagging behind that of cost of living actually exceeded the latter. In other words, unlike the year 1946, during the period 1947-50, an increase, instead of a decline, in real income is noticed. This is indicated by wage advance which was 12.5 points in 1947, 37.8 points in 1948, 56.2 points in 1949 and 32.1 points in 1950. Thus we notice a continuous and progressive increase in real income of the Bombay wage-earners until 1949 and a relative decline in 1950. In Madras also, the highest relative increase in real income was attained in 1949, the wage advance being 130.5 points.

Unlike Madras and Bombay, U P shows a continuous wage lag during the post-war period. The wage lag continued rising until 1947, after which there was a decline.

These figures reveal that due to a failure of proportionate adjustment of wages to rising cost of living, U P wage earners, unlike those of Bombay and Madras, suffered a curtailment in their real income which was most severe during 1946-48 though in 1949-50 it was moderate.

Wage earners of West Bengal like those of U P faced the problem of the wage lag up to 1948, after which they had some relief in the form of relative wage advance in 1949 and 1950. Even during 1946-49, however, the wage lag was not so significant as in U P.

*'Wage lag' measures the extent to which the wage index remains behind the corresponding cost of living index (bases of both being the same). Similarly, 'wage advance' denotes the extent to which wage index exceeds the corresponding cost of living index.

In 1949 and 1950 the magnitude of the wage advance was 11.3 points and 21.6 respectively. These figures show that the relative deterioration in the real income of wage earners in West Bengal continued up to 1947, after which the trend was reversed so sharply that during 1949 and 1950 real income rose both as compared to the preceding years and the pre-war level.

Employment and Cost of Living

Table IV shows that factory employment in 1946 totalled 23,14,587 as against 24,82,663 in 1945 which meant a fall of about 6.8% below the 1945 level. During 1947, however, there was a slight increase of about 1% over 1946.

The increase in employment in Bombay and Madras during 1947 was of the order of 3.2% and 5.4% respectively while U P recorded a significant decline of 6.5%.

Employment in factories recorded an increase of 3.8% in 1948 over 1947, though it remained much below the peak reached in 1945. There was an apparent increase of about 3.1% in employment in 1949 also as compared to 1948, but the wider coverage of employment statistics and the extended scope of the new Factories Act make strict comparison difficult. While Bombay and Madras showed increases in employment in this year, U P and West Bengal showed a decline.

Though the number of factories reporting employment increased by about 4% during 1950 as compared to 1949, the increase in total employment was only of the order of 3%. This was because the newly registered factories were generally small and many of them did not submit their returns. The largest percentage increase was recorded in Madras, U P and West Bengal and Bombay actually registered a fall in employment, in spite of an increase in the number of factories. In Bombay, employment in the cotton textile industry declined by about 27,000; in West Bengal there was a reduction of 15,000 workers in the jute industry, and 3000 in the cotton textile industry; and in U P also, there was a slight drop in employment in the cotton textile industry.

We may now measure the extent of the 'employment offset' as defined in the earlier article (**Economic Weekly**, December 24, 1955). Em-Employment offset, EO= (Ec—Eb)| (Cc—Cb) x100, where Ec and Cc stand for employment and cost of living indices for the current year, and Eb and Cb represent these indices for the base year. The values for EO have been given in Table V.

It will be seen that employment offset substantially declined in 1946. This was due both to increased cost of living and reduced employment in 1946 as compared to 1945. EO remained almost stable during the next two years, and rose moderately in 1949 but declined again in 1950. Thus, throughout the period, how-

TABLE III
Wage Lag During 1946-50
(Base 1939=100)

	1946	1947	1948	1949	1950
Bombay					
Cost of living index	236.5	254.8	276.9	280.7	286.5
Index of earnings	220.8	267.3	314.7	336.9	318.6
Wage lag	+ 15.7	— 12.5	— 37.8	— 56.2	— 32.1
Madras					
Cost of living index	223.3	258.8	294.3	308.4	310.2
Index of earnings	243	337.6	371.8	438.9	341.5
Wage lag	— 19.7	— 79.8	— 77.5	—130.5	— 41.3
Kanpur					
Cost of living index	306.5	353.2	440.2	446.7	405.6
Index of earnings	242.2	284.0	380.9	427.2	401.9
Wage lag	+ 64.3	+ 69.2	+ 59.3	+ 19.5	— 3.7
Calcutta					
Cost of living index	254.6	286.1	313.7	322.2	323.1
Index of earnings	193.6	222.8	282.3	333.5	344.7
Wage lag	+ 61.0	+ 63.3	+ 31.4	— 11.3	= 21.6

Source : **Indian Labour Year Book 1949-52**

ever, EO in Bombay remained substantially below that of 1945.

In Madras, the situation was not so bad. Though EO declined moderately both in 1946 and 1947, in subsequent years, it improved. However, the improvement was not so much due to increase in employment as to a sizable fall in the Madras cost of living index during 1948. In 1949, EO came down but this fall compared to 1948 was more than offset by the subsequent rise in 1950. In UP the situation was rather bad. EO which stood at 38.3 in 1945 continued declining from 1946 onwards and even the slight reversal by 1.2 per cent in 1950 was not due to any increase in employment but rather to a substantial decline in the cost of living. EO was 28.8 in 1946, 14.6 in 1948 and 14.1 in 1950.

In West Bengal, as in UP and Bombay, the economic position of wage-earners deteriorated, as indicated by a continuous decline in EO from 19.1 in 1945 to 16.1 in 1946, 12.1 in 1948 and 10.9 in 1950.

On a comparison of the four regions, it is clear that only the Madras wage-earners could succeed in almost maintaining their standard, while the position of labour deteriorated in Bombay, UP and West Bengal.

Wage Lag and Employment Offset

We may now combine the wage effect and the employment effect and then examine how far the progressive increase in the cost of living during the period was neutralised and what the net position of the wage earners turned out to be.

Madras wage-earners had a wage advance during 1946-50, the largest rise being in 1949 when the wage advance was 130.5 points. In two other years, namely 1947 and 1948 the wage advances were 79.8 points and 77.5 points respectively. They were relatively in the best position from the view point of EO in 1948 (44.7) and 1950 (46.5). The wage lag and the employment offset, taken together, Madras wage-earners definitely enjoyed an improved standard, particularly after 1947 as compared to 1945 or the pre-war period. Compared to the wage-earners of the other states also, Madras labour seems to have fared the best during the post-war period.

TABLE V
Employment Offset 1945-1950
(Base 1939=100)

	1945	1946	1947	1948	1949	1950
Bombay						
Employment	158	146	151	158	169	166
Cost of living	217	242	257	280	284	289
EO	49.6	32.4	32.6	32.2	37.5	34.9
Madras						
Employment	142	133	140	146	164	199
Cost of living	215	226	261	203	311	313
EO	36.5	26.2	24.8	44.7	30.3	46.5
UP						
Employment	174	161	151	151	146	144
Cost of living	293	312	360	449	455	413
EO	38.0	38.6	19.6	14.6	12.9	14.1
W. Bengal						
Employment	131	125	125	126	125	124
Cost of living	263	255	286	314	322	323
EO	19.1	16.1	13.4	12.1	11.3	10.9

The wage-lag in Bombay was rather serious in 1946, but in the succeeding years, there were wage advances. The condition of Bombay wage-earners was best in 1949 when there was a wage advance of 56.2 points. EO, in spite of a moderate decline compared to 1945, maintained a fairly high level during 1946-50. On the whole, Bombay wage-earners enjoyed a slightly better economic position during 1948-50, in comparison with their position at the end of the war.

Unlike Madras and Bombay, labour in UP suffered on both counts, viz., wage lag and employment offset. The wage lag worsened in 1946 and 1947, improving only in 1948-50. Similarly EO also declined to 12.8 in 1949 and 14.1 in 1950. The two effects combined, UP wage-earners found it extremely difficult to maintain during the post-war years even the depressed condition of the war period, on account of falling employment, coupled with almost continuously rising cost of living. From all indications, so far as industrial labour is concerned, UP was conspicuously behind Madras and Bombay on the economic ladder.

West Bengal wage-earners were affected adversely during 1946-48 by the lack of adjustment of wages to increased cost of living, though their sufferings were less than those of UP wage earners. During 1949-50, they made net improvement in their position, as compared to the pre-war level, though this was not so significant as that noticed in the case of Madras and Bombay wage earners.

The conclusions can now be summarised. On the economic ladder, during 1946-50, the wage-earners of UP were at the bottom; those of West Bengal were slightly above them. Wage-earners of Bombay could barely manage to maintain their pre-war standard and Madras labour was on the top and definitely improved its position from the pre-war level.

TABLE IV
Variations in Factory Employment 1945-50

	Employment	Index numbers (Base: 1939=100)					
	in 1939	1945	1946	1947	1948	1949	1950
Bombay	466040	157.9	146.1	150.8	169.4	157.8	165.8
Madras	197266	141.5	132.9	140.3	164.3	146.3	198.5
UP	159738	174.4	161.3	150.5	145.5	157.3	144.4
W. Bengal	532830	131.0	124.5	125.3	124.8	125.5	123.8
All India	626942	149.7	138.6	144.2	148.7	144.2	153.1

Source: Indian Labour Gazette, 1949-52

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Around Calcutta Markets

Market Trends

Wednesday, Evening

MANY factors have combined to halt the spurt in equities at the time of this writing. Prolonged disruption of cheque clearing facilities have caused an automatic curtailment of activity in cash scrips. Request to brokers by the stock exchange authorities not to add to their commitments before the resumption of cheque clearings has had its intended effect. Some days ago when the Calcutta police took action against some dealers in jute goods for unlicensed possession and use of telephone equipment and facilities, the volume of business started to shrink. Activity remains subdued.

Disturbed cheque clearings may have caused a reduction in the volume of stock market activity. But "longs" of Indian Iron and of other clearing shares will welcome one of the incidental consequences of the recent bank troubles. There has been a temporary suspension of fortnightly settlement of accounts. It was not without significance that, despite this breathing space to "Bulls", Indian Iron developed an easier trend on Wednesday. It is clear that the technical position in Indian Iron and in some other clearing shares remains vulnerable.

Apart from these technical market factors, some of the recent developments are not discouraging. Revived activity in Coal shares has been a feature of recent stock market activity. In recent months, there have been alternate bouts of optimism and pessimism about Coal shares. Some months ago, Coal shares started moving up as it became known that coal output would be raised substantially during the second Plan period. But the spurt proved short-lived due to certain subsequent developments.

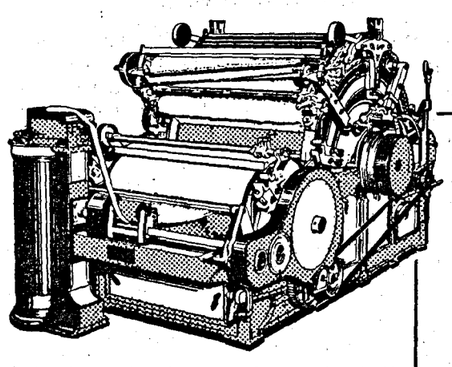
New Delhi's coal policy had a disturbing effect on Coal shares. New Delhi let it be known that its policy was to expand the public sector in the coal industry at the expense of the private sector. This had a chilling effect on Coal shares. Even the assurance that private colliery-owners would be paid full compensation in the event of nationalisation failed to lift Coal shares up. There was renewed depression in Coal shares as TTK informed the Associated Chambers that nationalisation of the coal industry was justified as State-owned railways and the projected steel projects were the main consumers of coal.

As the New Year started, Coal shares were abandoned by investors. Developments in New Delhi in the first week of January caused a sudden revival of activity in Coal shares. As a result of talks between the Government and trade interests, it was decided that the private sector of the coal industry should be allowed more expansion than originally estimated. This was interpreted by the market to mean that private collieries will be encouraged to expand output. In consequence, Coal shares moved up appreciably in the first half of the week.

After the recent spurt, Coal shares are now marking time. This is mainly due to technical market factors. An easier trend in clearing shares, the resultant hesitancy in Miscellaneous and Engineering shares and similar other market factors have had a disturbing effect on Coal shares. In the absence of strength in the other counters, investors are unwilling to add to their commitments in Coal shares at recent higher levels.

Recent market movements have certain redeeming features. It is clear that, in the absence of a fur-

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ther sharp set-back in Indian Iron, Miscellaneous and Engineering shares will continue to have a sustaining influence on the market. But fears have been expressed whether these groups alone can help the market as a whole to remain steady. In this context, the steadiness in Paper shares has been widely welcomed. Even so, there have been doubts whether Clive Street can move up with hesitancy in market leaders like Coal and Jute shares.

That was why the revived spurt in Coal shares was doubly welcomed. As Coal shares improved, the market sentiment brightened up on the argument that steadiness in Coal, Paper, Miscellaneous and Engineering shares should help Indian Iron and other speculative counters to steady down at the lower levels.

Jute shares have remained dull for about a year now. But recent events encouraged the hope that shares might begin to move up gradually. IJMA's decision to unseal 2½ per cent of the sealed looms was an event which was not without significance. But it was clear that the investor lacked the industry's faith in the future of the Indian jute industry. Jute shares still remain friendless. But the outlook is not unpromising.

Much has been heard about the growing Pakistani competition. This is a factor which cannot be ignored. But it is equally unwise to ignore the highly satisfactory volume of exports of Indian Jute goods in 1955. Increased, and increasing, consumption of raw jute indicates the gradual improvement in the output of jute goods. Data about exports and despatches continue to be satisfactory. Moderate optimism about Jute shares is, therefore, not unjustified.

French Politics

IN recent history, French elections have always been inconclusive. No single party has yet won such a majority in the elections held under the Fourth Republic as to succeed in forming a Government by itself, although the Communists have always emerged out of the elections as the single largest party. It was to deprive the Communists of their right to try to form a government that coalition governments came into vogue. To-day, after many years of legalised electoral alliances and coalition governments, the Socialists must repent that they initiated a form of parliamentary alliance, with the negative aim of keeping the Communists out of office, which has led to their own political discomfiture.

Much has happened in French politics since the first Socialist move to form a coalition Cabinet, allegedly under the American threat of withdrawal of Marshall Aid, to deny the Communists the right to form a government. Gradually, the coalescing elements elbowed the Socialists out of the coalition Cabinet. Right-Centre coalition Cabinets came to be formed. What happened to the Socialists befell the Right-Centre and Left-Centre parties. Both these latter groups moved further to the Right, away from the Centre. As the Conservative and Catholic elements gained control over the coalition Cabinet, the Radicals, an important element in the various coalition governments, became conscious of their losing hold over French politics.

Some years ago, the Socialists had the wisdom to reorientate their policy and tactics. They decided to keep away from coalition governments. This year, under the dynamic leadership of M Mendes-France, the progressive wing of the Radicals came to a similar decision. M Mendes-France's aim was to restore the status of the Radicals as a Centre-Left party. It soon became evident that M M Faure and Pinay, the Right-wing leaders of the Radicals, opposed this move. To sabotage M Mendes-France and his aims, they manouevred a sudden early election without reforms of the electoral law. They have not achieved their aim. But the elections remain as indecisive as ever.

Despite the inconclusive verdict of the elections, M Mendes-France has achieved his basic objective: Conservatives and Right-Centre parties have lost many seats in the latest elections. Neither the Mendes-France Radicals nor the Socialists can, by themselves, form a government. Whether even the Republican Front, composed of these two groups, can form a coalition Cabinet without participation of some other groups, is not beyond doubt. But it would be a mistake if the Republican Front, on the assumption that it succeeds in forming a coalition Cabinet, decides to function as a normal Cabinet. Wisdom demands that the Front should function as a provisional government to solve the problems of electoral reforms and of Algeria. A proper solution of these problems should enhance the prospects of the Republican Front to win a clear and decisive majority in the next elections.

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Around Bombay Markets

All Eyes on Tata New Issue

Thursday, Morning

THERE was not much activity in Dalal Street during the week under review. The market, which had hitherto been divided on the subject, now heavily inclines to the view that the new issue to be floated by Tata Iron and Steel Co. will not be at par; on the contrary, a premium of about Rs 50 per share is now regarded as the more likely possibility. Despite the protest lodged by the Bombay Share-holders' Association against the advisability of such a course, Dalal Street failed to persuade itself that the principle held sacrosanct so far that corporate savings rightly belonged to shareholders will necessarily prevail in the changed climate of opinion. And that in the case of Tata Iron, "the wide disparity between its paid-up capital and the actual block", to which the Association had drawn pointed attention, and which gives a rough measure of such savings, will be necessarily passed on to shareholders through the issue to them of right shares at par. Hence Tata Steel ruled quiet and occasional attempts at whipping up enthusiasm by playing up rumours of new issue at par failed dismally. The sea-saw movements witnessed during the week reflected the doubts and hopes in regard to this particular issue.

In the Textile section, the undertone was better at the beginning of the week and the leading counters remained steady but towards the close, in sympathy with Tata Steel, quotations tended to ease.

In the miscellaneous section, ACC, Premier Construction, Scindia, Bombay Burma and National Rayon moved more or less in sympathy with steels and closed lower.

Cotton

More Confusion

THE resumption of forward trading in cotton was an anti-climax to the preceding excitement. Although trading was formally resumed on Saturday (7th January), the ceiling of Rs 700 proved to be a stumbling block in the way of any activity in the hedge contract. Consequently, transactions were only nominal. There were occasions, however, when the contract was dealt with at a premium of Rs 10 to Rs 15, non-officially of course, which go to show that the stalemate was not really ended by the fixation of an arbitrary ceiling.

Towards the close of the week, the confusion prevailing in the ranks of jobbers and operations became even worse when two leading members of the EICA brought out a notice of motion against the Board of the East India Cotton Association. The purpose was to restrain the Board from enforcing the resolution passed by them on January 6, declaring an emergency and fixing the ceiling at Rs 700. The action by the EICA earlier, it was alleged, was the result of coercion and did not reflect its considered opinion on the state of the market. As a result of this new development, the clearing rate for outstanding contracts, which was scheduled to have been fixed on Monday, had to be postponed by the Board for a week, pending the hearing of the case by the Bombay High Court on the 13th.

Meanwhile, the East India Cotton Association has appointed a sub-committee to examine the possibilities of squaring up transactions both in the February and the May contracts at an agreed level, in order to help an early commencement of the August contract. To avoid the automatic transfer of current contracts to August, the sub-committee will also suggest adjustments in the hedge contract, in view of the changes in the new crop which has suffered both quantitatively and qualitatively.

Unlike in the previous fortnight, the spot market at Sewri was active, if not buoyant, and benefited from sustained enquiries by mills for popular styles like Jarilla, 320 F, 216 F, Vijay, Amravati and Khamgaon.

In the export section shippers were reluctant early in the week to enter into fresh commitments and were awaiting the results of the first sale of American surplus cotton. Later in the week, they gained confidence when it came to be known that the first bids of the US surplus cotton fetched 28.50 cents to 31.50 cents c.i.f. UK and Japan. At these rates, comparable qualities of Indian cotton will continue to be cheaper. Exporters are reassured that America will not, at any rate for the time being, unload her cotton at throw away prices. The care with which the surplus cotton is being released indicates that America is well aware of the threat that this holds for the world markets and that she should proceed cautiously.

Oilseeds

Cold Wind from Cotton

THE oilseeds market which had witnessed some speculative 'rigging up' of prices in the previous week, turned unaccountably easy. It is possible that the Government's strict measures to check speculative rise in prices in commodities market elsewhere, as for instance, in the case of cotton and jute, had a sobering effect on operators in oilseeds, who had neglected this warning so long. For, in view of the paucity of floating stocks and keen overseas enquiries, buyers need not have been reserved. Whatever the reason, throughout the week, there was a steady decline in values all round.

Groundnut, ready quality, which was quoting Rs. 29-8 last week closed at Rs. 28-12 while February-March suffered a loss of 11 as. at Rs. 28-15.

Castor May which had been talked up to Rs. 122-14 last Wednesday, steadily lost ground and closed at Rs. 117-8.

Linseed oil, however, continued to attract overseas enquiries and ruled steady at Rs. 18-2.

* * *

Bullion

Silver Continues Strong

THE continued influx of smuggled gold caused a setback in gold in the beginning of the week. With spot houses selling, and buyers holding back, the market was naturally a little bit shaky.

Silver, however, experienced no such trouble; it never seems to get any smuggled supplies and sustained speculative demand kept prices fairly firm. Cotton market operators are reported to have lent active support in silver which is rather puzzling, considering that stalemate in cotton continues. Perhaps the interest of cotton operators in silver is to be accounted for by the profit made during the period of sensational rise in cotton futures before the Forward Markets Commission stepped in. Anyway, silver closed pretty firm.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	A Week Ago	A Month Ago	A Year Ago
1. Note circulation	1385.70	1361.97	1350.86	1219.28
2. Rupee Coin	106.82	108.44	108.14	104.23
3. Deposits				
a) Central Government's	54.10	54.00	54.18	52.96
b) Banks'	51.78	57.86	57.93	63.82
c) Other Governments'	9.72	10.62	5.99	11.10
d) Others'	15.61	15.81	15.67	84.39
4. Foreign Securities	691.90	686.87	647.06	663.15
5. Balances held abroad	48.39	48.30	69.55	66.90
6. Rupee Securities	558.54	538.67	563.51	427.65
7. Investments	50.51	50.54	50.52	74.49
8. Loans and advances to Governments	4.11	3.66	3.79	2.75
Scheduled Banks				
1. Demand liabilities (net)	609.26	599.85	604.23	567.17
2. Time Liabilities	418.40	420.88	423.35	468.71
3. Cash on hand	34.06	33.95	34.11	35.90
4. Borrowings from Reserve Bank	30.02	17.72	10.62	9.68
of which against Usance Bills	15.66	10.66	6.70	2.90
5. Advances and Bills discounted	582.98	575.32	554.47	510.50
of which State Bank's	103.31	100.48	96.88	(100.88
6. Investments	385.05	387.93	394.45	346.04
of which State Bank's	109.11	109.23	109.02	97.36
Cheque Clearance	—	105.19	152.30	142.73

†For Reserve Bank and Cheque Clearance week ended 6-1-56. Scheduled Banks week ended 30-12-55.

Bombay Money Rates	6-1-56	30-12-55	9-12-55	7-1-55
Inter-Bank Call Rate	2¼	3	2¼	2¼
3 months deposits	3 1/16	3	3	3
6 months deposits	3 1/16	3	3	3

Bombay Bullion — In Rupees and Annas

	12-1-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	95-11	95-2	94-15	89-10
Forward	94-5	95-14	95-5	89-2
Silver (per 100 tolas)				
Spot	174-11	175-11	173-0	157-1
Forward	175-9	176-5	173-9	157-4

COTTON STATISTICS

MILL CONSUMPTION

(in '000 bales of 400 lbs each)

Description:	Sept '55	Aug '55	July '55	June '55	May '55	Sept '54 to Aug '55
Indian	382.97	362.46	376.10	345.1	335.8	4138.4
Foreign	45.17	41.98	49.50	47.7	48.1	630.4
of which American*	4.40	5.1	7.45	8.39	9.6	156.0
Egyptian	15.04	13.2	15.04	14.75	15.0	196.3
E. African	17.05	15.3	18.82	18.19	18.4	217.4
Sudan†	8.44	8.1	8.16	5.87	4.7	50.5
Pakistan	xx	xx	xx	xx	xx	4.9
TOTAL	428.14	404.44	425.60	392.8	383.9	4768.8
Consumption in corresponding periods a year ago:						
Indian	328.02	329.4	338.1	312.94	321.01	3868.7
Foreign	60.78	61 9	66.1	65.10	64.80	719.0
TOTAL	388.80	391.3	404.2	378.04	385.81	4607.7

* Includes both United States and Peruvian cotton.
† Includes both Sudan Egyptian and Sudan American
xx Negligible

MILL STOCKS OF COTTON

(in '000 bales of 400 lbs each)

	Sept '55	Aug '55	July '55	June '55	May '55
Indian:					
1955-56	1278.13	1443.4	1551.9	1637.4	1587.4
1954-55	916.00	1010.8	1117.7	1242.9	1280.2
Foreign:					
1955-56	172.30	179.2	180.7	161.1	145.9
1954-55	169.21	200.4	212.8	213.0	209.0

Source : East India Cotton Association

COTTON IMPORTS

(in '000 bales of 392 lbs each)

Source	Sept '55	Aug '55	July '55	June '55	Sept '54 to Aug '55
USA	1	—	1	1	93
East Africa*	6	32	38	53	286
Egypt & Sudan	21	20	39	21	220
Other countries	2	1	1	3	14
TOTAL	30	53	79	78	615
Total imports in corresponding months of the previous year	28	38	78	69	693

*Includes Kenya, Tanganyika and Uganda.
Source : Indian Trade Journal

COTTON EXPORTS

(in bales)

Destination	Exports from 1st Sept. to 5th Jan. 1955-56	1954-55	1953-54
United Kingdom	27,459	4,593	2,974
Continent	50,010	12,387	10,384
China	34,451	1,128	251
Hongkong	28,637	475	—
Japan	110,880	29,614	26,505
USA	2,255	6,010	6,894
Other foreign countries	2,035	440	800
Total all foreign countries	250,927	54,122	47,808
Coast Ports	46,213	30,226	29,143
TOTAL	297,190	84,347	76,951

Source : East India Cotton Association

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group	Week ending 17-12-55	Week Ago	Month Ago	Year Ago
I Food Articles:	320.4	328.2	321.8	317.4
Cereals	380	388	390	365
Pulses	348	338	328	280
Others	235	232	228	267
II Industrial Raw Materials:	440.7	428.1	419.5	432.6
Fibres	447	433	425	463
Oilseeds	430	413	403	390
Minerals	426	425	421	403
Others	463	463	452	444
III Semi-Manufactures:	345.9	343.4	338.8	346.6
Leather	398	393	382	382
Mineral Oils	202	202	202	221
Vegetable Oils	417	406	395	410
Cotton Yarn	422	418	410	448
Metals	279	279	277	240
Oilcakes	349	359	365	373
Others	330	330	330	330
IV Manufactures:	372.8	372.7	373.6	374.3
Textiles	405	404	406	417
Jute	415	414	425	441
Cotton	399	399	399	412
Rayon & Silk	486	486	479	452
Woollen	278	278	278	310
Metal Products	371	371	371	340
Others	284	284	284	284
V Miscellaneous:	541.9	542.5	542.4	576.1
All Commodities:	367.4	366.0	363.6	366.6

INDEX NUMBERS OF SECURITY PRICES

(Base : 1949-50 = 100)

	24-12-55	Week Ago	Month Ago	Year Ago
Industrial Debentures	101.0	101.0	101.0	100.7
Electricity	102.5	102.5	102.5	102.0
Jute	98.0	98.0	98.0	98.8
Plantations	99.1	99.1	99.3	99.6
Sugar	99.0	99.0	99.0	99.3
Coal	90.6	90.6	90.6	90.6
General Engineering	100.9	100.9	100.9	101.0
Shipping	102.3	102.3	102.1	100.2
Others	101.0	101.0	101.0	100.8
Preference Shares	87.8	87.8	87.9	88.5
Electricity	95.4	95.4	95.7	96.8
Cotton	80.5	80.5	79.9	79.5
Jute	86.6	86.7	86.7	88.8
Coal	90.9	91.4	82.2	89.4
Iron and Steel	89.5	89.6	89.9	90.1
Sugar	85.5	85.5	86.2	84.0
Paper	86.4	86.9	87.2	91.2
Plantations	102.8	102.4	101.9	97
Miscellaneous	85.2	85.4	85.3	87.2
Govt. & Semi-Govt.				
Bombay	90.5	90.5	90.5	89.9
Calcutta	91	91	90.9	90.4
Madras	91.3	91.3	91.3	90.5

Source : Reserve Bank

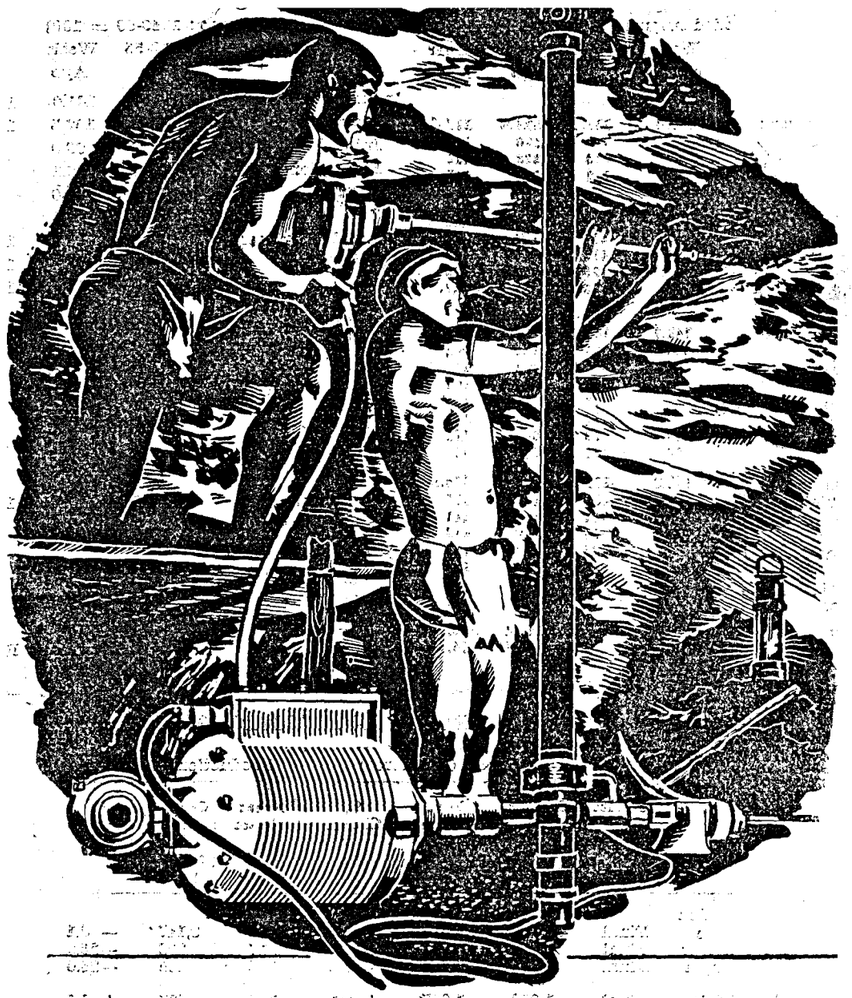
CROP ESTIMATES FOR ALL-PAKISTAN, 1954-55

	Forecast	Area (000 acres) Current Estimate	Corr. Estimate of the previous year	% Change	Production (000 tons) Current Estimate	Corr. Estimate of the previous year	% Change
Cereals :							
Rice	Final	23,700	24,533	— 3.4	8,405	9,147	— 8.1
Jowar	Final	1,119	1,504	—25.6	217	293	—25.9
Bajra	Final	2,200	2,586	—14.9	346	455	—24.0
Maize	Final	1,068	1,067	+ 0.1	441	437	+ 0.9
Wheat	Fourth	10,560	10,400	+ 1.5	3,134	3,560	—12.0
Barley	Second	602	563	+ 6.9	—	—	—
Pulses :							
Gram	Final	3,102	2,767	+12.1	632	645	— 2.0
Sugar-cane*	Final	1,017	962	+ 5.7	12,275	12,629	— 2.8
Tobacco†	Final	193	174	+10.9	90	74	+21.6
Oilseeds :							
Sesamum	Final	212	216	— 1.9	36	36	—
Rape & Mustard	Final	1,803	1,631	+10.5	324	272	+19.1
Linseed	Final	76	74	+ 2.7	14	12	+16.7
Fibres :							
Cotton	Supple-mentary	3,185	2,928	+ 8.8	1,596‡	1,442‡	+10.7
Jute	First§	1,716	1,304	+31.6	—	—	—
Tea	Final	76	74	— 1.3	54¶	52¶	+ 3.8

* Production in terms of cane and not raw sugar or gur equivalent.
‡ In thousand bales of 392 lbs each of cotton lint
§ Estimate for 1955-56.
¶ In million lbs.
† Estimate for 1953-54.

Estimates issued by the Government of Pakistan

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Steel Prices Again

IN May last Government announced its decision to allow the steel companies a higher retention price "as would enable both the producers to obtain a portion of their capital requirements of their current and additional expansion programmes from internal resources and to raise the balance from outside". Government had resolved:

1. That the major producers of steel should be paid a uniform retention price;

2. That the uniform retention price to be paid to the Tata Iron & Steel Co. Ltd., and the Indian Iron & Steel Co. Ltd., should be fixed at Rs. 385 per ton, pending an enquiry by the Tariff Commission; and

3. That agreements should be obtained from the two producers that the extra profits made by them as a result of the present increase in the retention price would be earmarked specifically for development and expansion and not for any other purpose, except with the express permission of Government.

We had our doubts then how a uniform price, toned with an element that will pay even partially for development, would work in practice. Cost conditions may, in the absence of retarding factors like natural dis-advantages or existing contracts, become comparable in due course when plant capacity is balanced and production is organised properly. These may remove the special conditions which had made differential prices inevitable at an earlier stage. But when programmes of development are widely dissimilar, a uniform price does not at sight appear to meet the individual requirements of the major producers. Besides, there is the vexed question of averages, when the products of the two producers vary. The question of weights inevitably crops up, when an average price is sought to be fixed instead of prices for individual types of products. The Tariff Commission were expected to throw some light on these questions. But in an otherwise lucid report, the crucial issues have either been avoided or they have been dealt with in a very unsatisfactory manner. The Commission do not even pose the right questions, far from answering them.

That our doubts were not baseless, has been proved by events. Tatas put the problem of averaging clearly enough in their representation to the Commission:

"While the prices for the common categories should be fixed on par with those fixed for the Indian Iron, it would not be correct, in view of the differences in the product-mix of the two companies, to fix the prices for non-common categories so as to equate Tatas' over-all average price to that of Indian Iron".

The contention requires little elaboration. Indian Iron produce only eleven categories of mild steel. Tatas produce all these and besides, they produce sleeper bars, fish plates, wheel tyres and axles for railways, and plates, ordinary and acid. Therefore, when Tatas want a uniform price, what they mean is uniform price for the common categories only.

Officialdom however can think only in terms of the 'over-all picture'. The Tariff Commission may not have succumbed to the charm of this

blessed word 'over-all'. But what can they do? They are bound by the terms of reference; Government views uniform prices as an all inclusive average; so Tatas are virtually asked to subsidize the high cost non-common categories from the extra profits which, impliedly, are allowed to them through the uniform price fixed for the common categories. Tatas naturally failed to see the logic of it; hence their representation. The Commission, however, do not see anything much in their contention and have convinced themselves that the structure of prices they recommend satisfies the requirements of the Government resolution on the subject and is fully in consonance with the Tatas' agreement with the Government on the question of uniform prices.

To be quite frank, the logic by which the Commission have come to this conclusion is quite unintelligible to us. Have the legal advisers of Tatas been taken in by the Tariff Commission? The point that needs clarification is simple. Will the retention pirce be paid at the rate of Rs. 393 per ton, irrespective of the type of product, or is it to be paid at the rates given for individual products in the report? If it is the latter, with changes in the 'product mix', the company's realisation will tend to be either higher or lower than Rs. 393 per ton on an average. In other words, the average price of Rs. 393 per ton assumes that the 'product-mix' will remain the same throughout the period of price fixation. What happens, if the constituents of the 'product-mix' vary over time? Surely the Commission did not have in mind an weighted average which remains constant while the weights vary?

There is another aspect of retention price—the element of cost of development which has to be worked into it. The Government resolution had specifically stated that the price should be such as to enable both the producers "to obtain a portion of their capital requirements . . from internal resources and to raise the balance from outside" (emphasis ours). Will the price recommended by the Commission enable the company to raise the necessary funds from outside, by way of loans or equity capital, or both? It is not clear why the Commission avoided this question. Capital from outside sources could be obtained only under certain conditions. Both the market and the companies concerned have fairly clear ideas about what these conditions are. So when the Directors hesitate to issue new capital because they are not in a position to assure the existing share holders that this will not lead to watering down of capital, which they would be in a position to do only if they can maintain dividends at the same rate on the expanded capital, it does not follow that they are trying to drive a hard bargain or that they are just being difficult. The Tariff Commission, however, have interpreted their terms of reference narrowly, to the point of excluding from their purview the condition that the retention price should be fixed in such a manner as to enable the producers to obtain a portion of their capital requirements for their expansion programmes "from outside". The balance of their requirements only, it is true, are to be thus obtained. But prices have a relation as much to the internal resources of the producers as to the possibility of raising resources from outside. To view prices in isolation is therefore obviously wrong. Why did they do it? Perhaps the Commission had good reason to be cautious; they have had so many rebuffs in the past that they may not have cared to invite more. This is unfortunate for had the Commission laid down clearly the conditions under which outside resources would be forthcoming, the needless controversy over the premium issue, could have been avoided.

The text of the seven-year agreement with the producers has not been published. The Commission, however, have quoted from it whenever it suited their purpose without of course intending to be mischievous. It appears, however, from the Government resolution that the Indian Iron & Steel Co. Ltd., have not yet signed the agreement for further expansion of their production by one lakh tons of steel. Our Calcutta market correspondent has drawn pointed attention to the Chairman's address at the last Annual Meeting of this company, in which there was more than a hint that the Company may not proceed with this expansion, if they find the terms unacceptable. What happens, for example, if Indian Iron finally decide to keep out? In that not entirely unlikely eventuality is the retention price now fixed, which contain professedly an element to pay for this bit of expansion also, going to be revised? Will the wheel turn a half circle and bring back differential prices, a higher price for the Tatas this time? It is not impossible that Indian Iron may contend that by bringing Tata's price on a par with theirs, they have been denied a fair deal. Cost estimates, however, may be upset so easily—Indian Iron had upset them in the past by their performance which far exceeded all expectations—that one cannot be dogmatic. As producers, they may have a case and can the Government force the company to undertake expansion against their wish?

Whatever may be the outward form, there is little of private sector left in steel today. Prices are fixed, production programmes are approved and even resources for development are either provided for or elaborate directions are given for raising resources. If ever there has been trustee-ship in operation, it is in steel. But even after all these years of trustee-ship in operation, it is sad to find that disputes still arise on such fundamental points and that the method of solving the disputes continue to be the old one of Tariff Commission enquiry and 'dharna' at the doors of New Delhi. While price fixation runs its tortuous course, the public is kept guessing whether it is the producers who are at fault and have failed to win the confidence of the Government, or whether it is Government which has failed the producers. It is time that at least in the case of steel, a better working arrangement were evolved. For steel will continue to set the standard, even though the public sector may come to occupy a larger and larger part of the field, if only because it is the industry where collaboration with the Government has been of the longest standing.

There was no issue of the Economic Weekly on February 4. The Annual Number was a combined issue covering numbers 3, 4 and 5 of the current volume. As this change in schedule had to be made at the last moment on account of difficulties in the press which is situated in one of the localities worst affected by the Bombay disturbances, it was not possible to give advance notice.

Business Manager

Uneasy Alliance

SIR ANTHONY EDEN has emerged from the Washington talks with an enhanced reputation for political realism and integrity. Western Powers are agreed to deter aggression. They endorse America's foreign policy of building positions of strength. But it is common knowledge that there is a difference in emphasis between America and her allies. While America relies exclusively on military pacts and alliances to resist aggression or threats of aggression, her allies are willing to experiment with alternative measures to ensure world peace. This has been evident ever since the start of the "cold war". But, while even Sir Anthony's illustrious predecessor has lacked the courage to remind America of this crucial difference in approach to world problems, Sir Anthony deserves praise of all peace-loving countries for making it abundantly evident that Britain does not endorse all the means pursued by America in achieving the common aim.

By far the most significant aspect of the joint communique, issued by the British Prime Minister and the American President at the end of the Washington talks, is the disagreement between the two major Western Powers about the means to reconcile world disputes in order to attain and maintain world peace. "We are agreed that our policies must be directed to achieve these (deterring aggression and maintaining domestic stability and welfare of free nations) ends. After frank discussion, some differences remain in our judgments as to the most effective means to achieve these purposes". This passage in the communique has direct reference to the situation in far east Asia. But it embodies a basic principle which is of wider application. Much has happened since the "summit" talks at Geneva to encourage the British Prime Minister to inform the American President of this different approach to world problems. Considerations of strategy may have prevented Sir Anthony's predecessors to make an issue of this aspect of the relation between America and her NATO partners. Whatever be the reason or ultimate aim, Sir Anthony's open declaration that Britain does not accept all the means of America's foreign policy will be widely welcomed.

To stress this aspect of the communique is not to suggest that Washington talks have brought the end of the global tension or of local disputes nearer sight. Sir Anthony has been wise in informing the world that the means of British foreign policy are not always the same as those of America. But the British Prime Minister has not succeeded in inducing America to change her means to attain world peace. Three broad facts emerge from the joint communique. There is unanimity of views between Britain and America on European issues. Sir Anthony did not go to Washington primarily to discuss European problems. But the most positive outcome of the talks is the joint warning issued against any "attack on Berlin". This warning is sought to be justified by renewal of talks of reimposing the Berlin blockade and the formal integration of the East German Army with the Warsaw treaty. But it reflects basically the Western Powers' determination to solve the German problem only on their terms and conditions.

Sir Anthony went to Washington to discuss two main problems in which Britain and America were, and are, commonly interested. On



west Asia, Britain and America seem to be united in denying Russia any influence, authority or interest. It was the Arab-Israeli dispute which was the main topic of discussion between Sir Anthony and President Eisenhower. But in denying Russia's west Asian status or competence to ensure peace in this region, Britain and America are merely ignoring the realities of the situation. There are implied hints in the communique that Britain and America are contemplating action, along with France, to ensure peace in that region. France is no longer a major west Asian Power. Arab States are angry with the French attitude to North Africa. Realism, therefore, demands that America and Britain seek the co-operation of Russia to maintain peace in west Asia. Anglo-American offer of financial aid for the settlement of Arab refugees will be welcomed. But it is difficult to appreciate how, in the changed circumstances, Britain and America can undertake their obligation to guarantee the frontiers of Israel and Arab States or to maintain peace in the event of aggression.

If the joint communique lacks any constructive proposal to resolve the Arab-Israeli dispute, it discloses wide disagreement between Britain and America on the issues in far east Asia. It is clear that America does not accept Britain's formula of admission of Communist China to the United Nations as a solution to the problems in this region. It is equally evident that Britain does not endorse America's Formosa policy. America's adamant attitude to problems in this area is emphasised by her rejection of the British demand for lifting the trade embargo on China. All the interests involved, including Britain, are in favour of freer trade with Red China. America alone opposes this liberal policy. Restrictions on trade with China are more severe than those in force against other Communist countries. This policy does not seem to have affected Communist China as much as Britain, Malaya and Japan. Economic blockade is a means of warfare. In the interests of peace in this region, there will be hope that America will implement her reluctant concession to Britain that there will be an immediate review of the ban on exports to Communist China.

Washington talks have not removed world stalemate. No exception will be taken to the ten principles enunciated jointly by Britain and America to ensure world peace. But events immediately prior to and following the Washington talks reflect the Western Powers' disinclination to accept any Russian gesture to lessen the international tension. M Bulganin's offer of a treaty of friendship and co-operation between Russia and America has been rejected by President Eisenhower on the ground that such bilateral treaties do not serve the cause of peace. Moscow's latest offer for similar treaties with Britain and France, besides America, has had no response from Washington, London and Paris. Such treaties of friendship between the major world powers can, certainly, help in creating a calmer international atmosphere, even if these alone may not ensure world peace. But the outright rejection of peaceful gestures by Russia deepen the suspicion that the Western Powers are unwilling to reach any understanding with Russia unless she accepts their terms for world peace.

Weekly Notes

Algeria

FRENCH socialists may yet repent that, flushed with the victory at the elections, they decided to dominate the Coalition Cabinet. Both tactics and wider considerations demanded that M Mollet should have stepped down so that M Mendes-France could have been the Premier. M Mollet would seem to have been unduly dominated by MRP in his decision not to assign even the portfolio of Foreign Ministry to M Mendes-France. M Mollet has now become the victim of his party's tactical and political mistakes. Violent disturbances in Algeria are immediate threats to the new coalition Cabinet.

In his election speeches, M Mendes-France had offered a personal undertaking that, if his party were returned to power, he would risk his political reputation in a solution of the Algerian problem in six months. It was unwise of M Mollet and the Socialists not to give M Mendes-France the chance to settle one of the most urgent problems that confront France. M Mollet can still enhance his party's and his country's prestige by doing what M Mendes-France would probably have done had he been chosen Premier. M Mollet must make it clear to the militant colons in Algeria that Paris will refuse to be dictated by the French settlers. Algeria's nine million Muslims want complete independence. One million French settlers claim that Algeria is a part of France where they have the right to perpetuate their political and economic domination. Paris may feel embarrassed by the open rebellion of the colons in Algeria. But there is yet no indication that France accepts the demands of Algerian Muslims. As the situation worsens, doubts deepen whether any compromise solution to these extreme claims is any longer possible.

A Present to Pitambar Pant

THE India Railways are likely to be among the first in the country to make a beginning with the metric system of weights and measures, the introduction of which has in principle been accepted by the Government of India.

The Railways are understood to be planning for a 15-year period of "co-existence" between the present foot-pound system and the new metric system.

A measure of the colossal task which the Railways face in the change-over to the metric system may be had from the fact that for locomotives alone, there are about 12,00,000 drawings in use for various components. Similarly, there is a very large number of drawings for passenger coaches and wagons.

Among the numerous steps which the Railways will have to take will be the substitution of mile pillars along 35,000 miles of railway lines by kilometre poles, change of number-plates on telegraph posts from the mile to the kilometre unit, issue of revised time and fare tables based on the kilometre and the new decimalised currency, preparation of new tariffs for general goods and coaching traffic, printing of tickets according to the new systems of weights, measures, currency etc.

While it is difficult to indicate the total cost of the change-over on the Railways, a rough estimate places this in the neighbourhood of one crore of rupees.

—Central Railway News Letter, January 1956.

First Fruits

NEW DELHI has made its first move to cheapen life insurance with a deceptive promptitude. For, reduction of premium rates by a rupee below the Oriental rates really does not go very far, when a large number of insurance companies had been charging premia which were 2 to 3 per cent below those of the Oriental. Favourable mortality experience and higher yield from investments had initiated rate reduction two years ago. It may go a little farther, but until expenses can be reduced substantially, this nominal reduction of rates can only be a gesture and is to be interpreted at best as an earnest of more to come in the future.

Expenses cannot decline substantially until insurance is rationalised. There is undoubtedly some scope for minimising expenses by revising the salary scales and overall emoluments of top executives. But this will be offset, at least for a time, by the higher costs of field staff, if the latter are to be organised properly and the business of insurance is to be made reasonably remunerative for the mass of insurance workers who have not had a fair deal so far. Reduction in top levels is all the more necessary. In insurance, as in banking, the total emoluments of top executives, it is now conceded, are unduly high. Scaling down is all the more necessary as, in the absence of adequate diversion of employment in rural areas, nationalisation of life insurance may involve retrenchment in the existing agency force. With proper, planned integration between rural post offices and the proposed rural branches of the State Bank, it should not be difficult to maintain employment among the field as well as the office staff at, at least, the present level, although the process may involve individual unemployment and inconvenience.

These organisational details will take time to be worked out. Meanwhile, some of the incidental consequences of nationalisation of life insurance deserve emphasis. One of its effects, intended or not, would be that the Government would acquire interest in some of the organised private industries. This relates to that portion of life funds which are now invested in industrial debentures, preference and equity shares. By nationalising life insurance, the Government has automatically acquired interest and control, through voting rights, in some organised private industries. Here, two questions arise. One relates to bad debts. This raises the problem of malpractices prevalent in life insurance. There is the other problem of the existence of privileged sections in the private sector. To the extent that industrial investments of life insurers reflect the evils of interlocking directorate, the Government proposes to eliminate the harmful consequences through a purposive direction of such investments. In effect, such a policy will mean

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Condensed Statement of Condition December 31, 1955
(Figures of Overseas Branches are as of December 23, 1955)

RESOURCES		LIABILITIES	
Cash and Due from Banks	$1,609,581,021.51	Capital	$150,000,000.00
United States Government Securities and Securities Guaranteed by the Government	2,149,433,488.43	Surplus	200,000,000.00
Federal Agency Securities	147,209,756.53	Undivided Profits	130,080,550.05
State, County, and Municipal Securities	576,145,111.55	Reserves	5,767,846.25
Other Securities	101,279,432.42	TOTAL CAPITAL FUNDS	$ 485,848,396.30
Stock in Federal Reserve Bank	10,500,000.00	Reserve for Possible Loan Losses	71,133,473.10
Loans Guaranteed or Insured by the United States Government or its Agencies	1,273,977,300.06	Demand DEPOSITS	$4,577,799,240.25
Other Loans and Discounts	3,453,984,172.54	Savings and Time	4,224,706,887.96
Accrued Interest and Accounts Receivable	51,963,655.34	Liability for Letters of Credit and as Acceptor of and Endorser on Acceptances, Bills, and Notes	205,235,881.78
Bank Premises, Furniture, Fixtures, and Safe Deposit Vaults	87,145,920.50	Reserve for Interest Received in Advance	52,434,432.24
Other Real Estate Owned	2,545,571.65	Reserve for Interest, Taxes, etc.	51,987,660.50
Customers' Liability on Account of Letters of Credit and Acceptances, and on Endorsed Bills and Notes	203,963,115.65		
Other Resources	1,417,425.95		
TOTAL RESOURCES	$9,669,145,972.13	TOTAL LIABILITIES	$9,669,145,972.13

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Condensed Statement of Condition December 31, 1955

RESOURCES		LIABILITIES	
Cash and Due from Banks	$ 54,261,259.17	Capital $10,000,000.00 Surplus 4,000,000.00 Undivided Profits 708,686.09	
United States Government Obligations, direct and fully guaranteed	13,984,649.66	TOTAL CAPITAL FUNDS	$ 14,708,686.09
Other Securities	8,789,717.09	Reserve for Possible Loan Losses	1,117,093.13
Loans and Discounts	76,970,419.74	Deposits	137,309,776.27
Accrued Interest	391,184.45	Liability for Letters of Credit and as Acceptor of and Endorser on Acceptances, Bills, and Notes	79,697,301.81
Customers' Liability on Account of Letters of Credit and Acceptances, and on Endorsed Bills and Notes	78,746,526.53	Reserve for Interest Received in Advance	323,516.18
Other Resources	913,223.50	Reserve for Interest, Taxes, etc.	900,606.66
TOTAL RESOURCES	$234,056,980.14	TOTAL LIABILITIES	$234,056,980.14

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that such investments will hereafter be diverted *away from* the privileged section of the private sector, though not necessarily from the private sector. The report from our market correspondent about investments actually made by the newly appointed custodian, if correct, must be intriguing.

Grooming Successors

SHRI KRISHNA MENON has at last got his clearance. His appointment as a Cabinet Minister was overdue. He deserves this recognition. Since Independence, he has been the Prime Minister's principal adviser on foreign affairs. His intimate knowledge of international affairs is beyond dispute. Though no portfolio has yet been assigned to him, and he can be most effective as a Minister without portfolio, he may have to take charge of the Foreign Ministry. In this Ministry, he will be at home. And the Cabinet and the country will gain from his wider familiarity with foreign affairs. He, more than anyone else, is attuned to India's foreign policy which has been shaped and dominated so long by the Prime Minister. His elevation as Foreign Minister will, therefore, assure continuity of policy. There is no question about that, but will he agree to be burdened thus?

For too long, Pandit Nehru has combined functions and responsibilities which are too arduous for any one person to bear. In Shri U N Dhebar, he has now an able and active Congress President. It was characteristic of Pandit Nehru that he admitted recently that Shri Dhebar had qualities which made him a more suitable Congress President than the Prime Minister. Pandit Nehru had to assume additional responsibilities as Congress President under circumstances which were critical for the organisation. That particular emergency may no longer be acute. But Congress and the country now face a graver crisis.

Opinions will differ whether Pandit Nehru is temperamentally suited or capable of resolving the crisis that now plagues both Congress and the people. Neither New Delhi nor Con-Congress has succeeded in solving the problems arising out of the demand for linguistic States. Improvisations inspired by Pandit Nehru have made confusion worse confounded. It is more than time for Pandit Nehru to apply his mind and energy exclusively to this problem and its sinister implications. He will have to accept the realities of the situation. There will be hope that he will have the imagination and the leadership to evolve such a solution of the problem of linguistic States as to avert any future threat of disintegration of the country.

Shri Krishna Menon's inclusion in the Cabinet indicates that Pandit Nehru is not unaware of the grave crisis within the country, and of his responsibilities as Prime Minister to devote his undeflected thought and attention to solving the crisis. He can do so in the sure knowledge that he will have a Foreign Minister in Shri Krishna Menon who will faithfully and efficiently pursue a foreign policy of which the Prime Minister has been the main architect. Though the Prime Minister's decision to appoint Shri Krishna Menon is to be welcome on these grounds, there will be some grievance that the latter, a suave diplomat and an astute mediator, will no longer be so freely available to enhance India's world status as well as the cause of world peace through negotiation. His absence from the United Nations will be a distinct loss to India and to the cause of Asian-African unity. As Foreign Minister, Pandit Nehru can easily find his successor, provided he can find some one to replace Shri Krishna Menon as his personal envoy and emissary at the United Nations and at international conferences on world issues.

Applying the Brakes

THE Reserve Bank has raised the interest rate it charges to scheduled banks on loans to them against bills or promissory notes under the bill market scheme, from 3 per cent to 3¼ per cent. The new rates are to come into force from the first of the next month. Neither will the Reserve Bank any longer share the stamp duty on the usance bills or promissory notes also from that date.

There is no longer any question about the popularity of the bill market scheme. On the contrary, the scheme appears, in the light of the experience of the second half of last year, to have been more popular perhaps than the Reserve Bank wanted it to be. The amounts of borrowing under this scheme in the second half of the year was unusually large—large in any case for the slack season and very large, indeed, for the exchange banks which had come in in a big way only last year. For the whole of 1954, the exchange banks had virtually held aloof. But during the past six months, their borrowing under the scheme has far exceeded that of other scheduled banks, which of course, explains their relative luke-warmness for deposits. Now that this source is proving less attractive, the exchange banks are turning their attention to the call money market, where rates have already gone up by ⅛ per cent to 3⅛ per cent which, with the brokerage, comes to the same rate that is charged by the Reserve Bank viz. 3¼ per cent.

Now it is plausible to argue that concessional rates having served their purpose, the Reserve Bank is merely withdrawing concessions that are no longer necessary. Nor can an exception be taken to the time it has chosen for withdrawing the concessions. It is quite natural that it would not like to be all loaned up right at the beginning of the busy season. But is it not possible that the move may not be as innocuous as it looks and that the Reserve Bank may have been impelled by a desire to put the break on, ever so mildly?

Scramble for deposits is already on; it will gain in intensity as the season progresses. But will the higher rates that the banks have to pay now have an impact on their rates of advance? It will not be surprising if in view of the inability of the scheduled banks to act in concert in the matter of raising rates for advance, those banks who find the higher cost of borrowing a heavy charge on their profits were to revive the move for putting a ceiling on deposit rates with the blessings, if not the active help of the Reserve Bank.

Besides the Reserve Bank's decision to raise its lending rate, there is another important change in its operations which is of little moment at present but which will grow in importance in due course. It is the new entry in the Reserve Bank's returns for February 3, under Liabilities, an entry for Rs. 10 crores—i.e. equal to the total amounts of its paid up capital and reserve fund—under "National Agricultural Credit (Long-term Operations) Fund." The stage is being set for the State Bank to launch on its new venture of institutionalising agricultural credit. Though just a book entry at the moment, it should not be passed unnoticed.

From the London End

Forecasting Private Investment in Britain

THE belated realisation that excessive private investment rather than personal consumption was responsible for the "over-stretched" economy has now made it necessary for the Treasury to call for statistics about "investment intentions" on the part of industry on very much the same lines as in the United States. It is, however, still not certain whether the Treasury would have acted differently, had these statistics been available in February last. But to place the blame on the lack of adequate statistics is the last thing the British authorities should do. The trend of economic activity had long been indicated by the statistics published on "new factory starts" and on machine tool orders. Instead, the Government believed, with a powerful press machine sustaining that belief, that the cause of the over-stretch was personal consumption, and accordingly pursued policies (mainly through the purchase tax and the hire-purchase restrictions) to "restrain" it. The credit squeeze, as it is now so clearly evident, was designed to trim the activities of only the nationalized industries and the housing programmes of the local authorities.

The **Board of Trade Journal** now publishes, for the first time, statistics on industry's investment intentions. These statistics are derived from a sample survey of 600 companies whose issues are quoted on the Stock Exchange. These surveys are to be carried out quarterly. The first enquiry, through the form of a questionnaire, was made by dividing the 600 companies into 25 different industry groups. The choice of companies was based on fixed capital or fixed asset values.

According to the data now published, manufacturing industry in Britain intends to increase its capital expenditure by 17 per cent. in 1956. It has been estimated that investment in 1955 was 18 per cent. above that of the previous year, as compared with an increase of private capital expenditure of about 10 per cent in the five years up to 1954. The form which the heaviest capital expenditure is expected to take in 1956 is once again "new building". Between 1954 and 1955, "new building" investment rose by 34 per cent. Between 1955 and 1956, the increase is expected to be of the order of 27 per cent.

Changes in Private Capital Expenditure
1954 - 1956

Value of Capital Expenditure in 1954 (all manufacturing industry)	£592.4 million
Changes in Expenditure 1954-55	+ 18 per cent.
of which New Building	+ 34 „ „
Plant, Machinery etc.	+ 14 „ „
Changes in Expenditure 1955-56	+ 17 „ „
of which New Building	+ 27 „ „
Plant, Machinery etc.	+ 15 „ „
Expected Value of Capital Expenditure in 1956	£800 million.

The publication of the above information enables a contrast to be made by various claims on the national product with greater accuracy. More important, it is vital for framing policy. In view of this, the description given in the **Board of Trade Journal** to the compilation of the statistics is of particular interest.

The definitions of expenditure covered by the enquiry are similar to those used for the census of production and the national income estimates. Companies are asked to include all intended expenditure charged to capital account on assets for use or installation in the United Kingdom and for enquiries into past expenditure to show separately expenditure on plant and machinery, vehicles and vessels, and new building work.

For forecasts of future expenditure, a single figure is required for the first two categories. They are asked to exclude expenditure on land and purchase of existing buildings and to make no deduction for receipts from the sale of assets. Most companies make a single return of their expenditure but some of the larger companies are asked, as far as possible, to give particulars for their main industrial divisions.

The changes in capital expenditure have been calculated by grossing up the expenditure of companies to obtain estimates of the expenditure by companies in the population from which the sample was selected and comparing this with a similar estimate of the expenditure of the same companies in a previous period.

The first stage of estimating changes between 1954 and 1955 was to compare estimates made in this way from companies making returns of actual expenditure in 1954 and for forecasts of expenditure during 1955. At the present stage, of course, the inquiry gives very little guidance as to the nature of companies' forecasts of future expenditure and whether they tend to exceed or fall short of actual expenditure. By the end of the year, a considerable number of companies cooperating in the enquiry had made returns of actual expenditure in the first nine months of 1955, and a comparison of this expenditure with previous forecasts (now published for the first time) shows that actual expenditure was in fact only about three-quarters of what was originally intended.

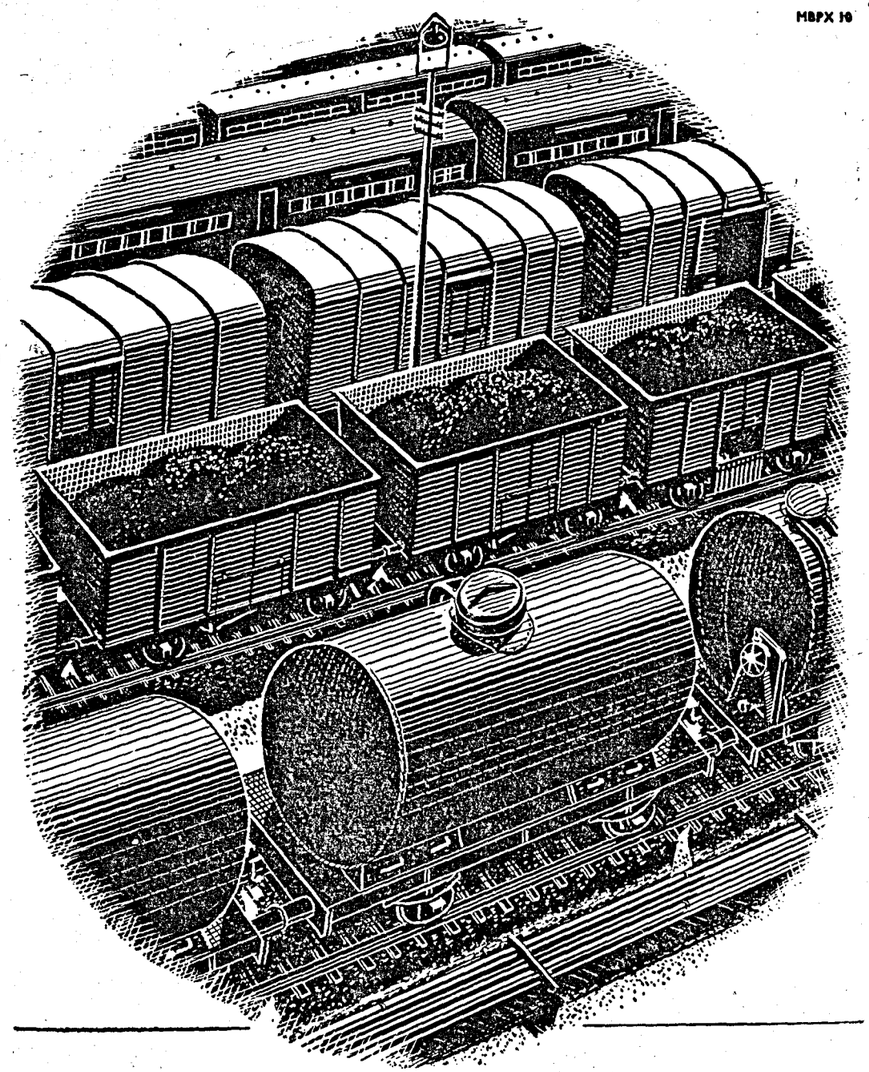
The nature of the statistics now compiled is, in your correspondent's view, worthy of study in view of its applicability to problems of economic planning and more than that, as an indication of cyclical trends where the free price mechanism is given fuller scope. Its compilation in Britain must, therefore, be regarded as a fundamental step in the progress towards provision of comprehensive economic statistics.

The lessons of the statistics now published, it is expected, would have reached the inner portals of the Treasury and the Chancellor's desk. It would also be expected that the April 1956 Budget is being formulated on proposals that record the investment trends in the country. But the statement of Mr. MacMillan to the National Production Advisory Council this week shows how long it takes for such lessons to be grasped or worked on:

> "I can see no sense in disputing about the right place to move and stop a vicious spiral; let us stop it anywhere and everywhere we can ....."

The Times, of course, came to the Chancellor's rescue by stating that his failure to account for the upsurge of industrial investment was due to his taking a "long-term view" of the economy. This appears to be the one occasion, remembering the end-product of inflation in other years and in other countries, when the view that "in the long-term we are all dead" can be particularly valid.

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Official Papers

Protecting the Tenant

Agricultural Legislation in India, Vol. VI—Land Reform (Reforms in Tenancy), issued by the Economic and Statistical Adviser, Government of India Press, Delhi, 1955.

Reviewed by W C Neale

THIS volume continues the series of collections of recent agricultural legislation and reproduces the major acts or portions of acts relating to tenancy which were passed over the past two decades, the principle being to give the text of the latest law governing tenancies in each State. The purpose of the series is not really clear to this reviewer, for it is difficult to believe that many people will want the legislation in this form. An administrator or a lawyer working in an area needs a definitive edition of the relevant law, which this is not, and very probably an annotated edition containing or referring to court decisions, which this volume does not do. The scholar's needs are similar, and in addition, the scholar would want to see earlier acts and complete texts; as he becomes involved in land legislation he will have to dig out the original acts in any case. This leaves the 'general reader' or 'layman', and 708 pages of tenancy legislation are more than any general reader can be expected to read, especially at a price of Rs. 15. However, now that the volume exists it is reasonable to expect libraries to carry it for occasional reference by interested but not serious scholars, administrators and lawyers.

The bulk of the volume consists of the texts of the acts governing landlord and tenant relations in all the States, and there is nothing to say but that they are there if you want them. There is, however, an "Introduction" of fifty-six pages providing a potted history of tenancy legislation in India, a comparison of the tenancy legislation in the different States, and a section on "Objectives of Land Reform Policy". The "Introduction" is a good piece of work, and standing alone, worth reading.

The historical section concentrates rather heavily on recent legislation, and covers each act or major provision in a sentence, or three or four, but the highlights are hit and the reviewer found nothing to which he wishes to take exception. There is, as is rather rare in the literatere on land reform, an absence of highly coloured or tendentious phrasing. The same may be said of the second section comparing the legislation in the different States. In a few moments one gets a picture of the various ceilings on rent or the minimum periods of tenancy. The last section, after citing all the reasons why a country might want to reform its tenurial system, provides a good, short summary of the problems of fixing fair rents and the pros and cons of fixing ceilings on the size of holdings. The "Introduction", alone, or perhaps somewhat expanded, would make a fine little book for anyone interested at Re. 1 or Rs. 2.

In going through the introduction, leafing through the acts and remembering other earlier acts, it is striking how often and in how many places similar provisions are made to alleviate the lot and increase the privileges of the tenant, and how unsatisfactory these efforts have proved—at least in comparison with the hopes the legislators had for them. While in some States limitations on rents are very recent—in Bombay and the Punjab for instance—limitations elsewhere have had a long history. Eighty years ago Settlement Officers in U P were fixing the rents of occupancy tenants, and since the nineteen twenties, rents throughout U P have been subject to the judgment of a Rent Officer. Either "because of" or "in spite of" this history, U P has enacted the most far reaching reform legislation of any State (so much so that most of its relevant act appears in Vol IV of this series on the abolition of intermediaries rather than in this volume on tenancy). One has the feeling that States which have tried to limit rents to a third or a quarter of gross produce or to three times the land revenue are going to find that they are not satisfied with the results, perhaps because the provisions of the acts will be evaded, as they have been in the past, but more probably because the legislation does not attack directly the basic difficulties of the rural areas—over-population, under-capitalization and social organisation. Whatever the other merits or demerits of abolishing intermediaries, abolition does eliminate one group from the countryside and ought to make a significant difference in the social institutions within which the cultivator operates.

Legal rights are enforceable under either of two conditions: first, that almost everyone favours the enforcement of the rights so that the few who oppose the rights are quickly brought to book; and second, that there are parties with opposite interests who are able and willing to stand up to each other, so that the full facts are brought out and it is easy to arrive at a just decision. (Roughly speaking, enforcement of criminal law depends on the first condition; enforcement of rights under civil law depends on the second). Land law before Independence provided plenty of rights for the tenants. If these rights were not actually enjoyed, it seems likely that it was not because of anything inherently wrong with the rights, but because the parties to relationships governed by the land law, for whatever reason, found it better to reach an agreement on principles other than those upon which the law was based. The trouble with trying to make a civil offence a criminal one in tenancy cases is that the offender does not arouse the necessary unanimous opposition of the population, for landholders constitute a self-respecting group of appreciable size. It seems unlikely that new laws designed to improve the status of tenants will work better than the old laws, or that old laws newly adopted in other States will work better, unless, of course, there has been a change in the attitudes of the parties to each other. If there has been this change in attitude, then there may not be the same need for strong legislation in the tenants' interest.

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Oversimplification

Economics and Action by Pierre Mendes-France and Gabriel Ardant. Heinemann — Unesco. Pages 222. Price 15 shillings.

THIS is the first publication of the Science and Society series started by *Unesco* with the object of demonstrating the practical results already achieved by *research in social* sciences and the guidance they can afford for rational action. Inspired s the series obviously is by the will o seek progress on rational lines, it s bound to attract a wide circle of eaders all over the world. The first olume deals with the contribution f economics and the aid that can e sought from it. This study will e of especial interest to people in on-Communist countries.

Written by a former Premier of France and a person of distinction both as a politician and an economist, this book combines a historical review of economic analysis with the evolution, as a result, of a technique for economic policy. It traces, to begin with, the evolution of the general theory of employment and its influence on actual policy in the post 1931 era. The problem of full employment which has been in the forefront in recent years as one of the objectives of economic policy, however, has been dealt with almost exclusively from the point of view of industrially advanced countries. Therefore, the analysis cannot afford any direct aid to the solution of the problem in under-developed countries, though certain comments on specific aspects of the problem of full employment are of general interest. For instance, in a valuable chapter on "Scientific Advances and the Fight against Inflation" it is pointed out, rather ominously for India, that "the fight against inflation is one of the conditions of the fight against under-employment". In other words, any schemes for large-scale development of the economy to provide for full or fuller employment must necessarily provide for measures designed to inhibit and restrain the *inflationary pressures*. It follows that it will be disastrous to plan for development through deficit financing on an extensive scale without providing for measures, however unpalatable, to keep the inflationary pressures under control.

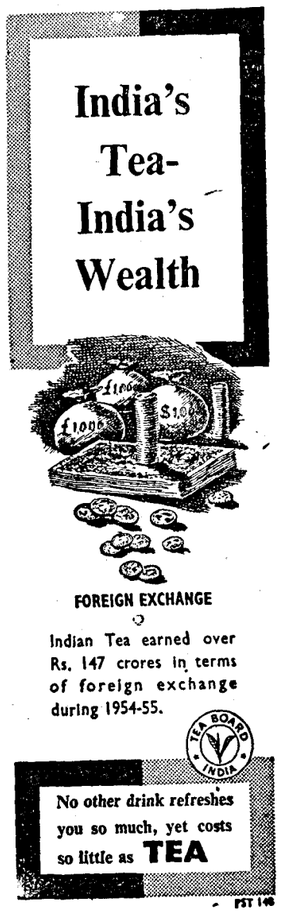
M Mendes France obviously does not believe in capital creation through controlled inflation which some economists, e.g., Prof Arthur Lewis, do.

The technique of economic policy, the authors take pains to point out at some *length, must* depend to a large extent on statistical data and its proper co-ordination. In this connection the advantages of an "economic budget" on the lines of the 'Economic Survey' submitted annually by the British Chancellor of Exchequer have been elaborated. One wonders whether any attempt has been made in India on similar lines or can be made, so as to assure that the overall plan for the country's development is well integrated and there is internal consistency between the different objectives, and the methods proposed. One does not know further whether the whole fiscal system has come under review to enable an appraisal of the extent to which the system is in conformity with the technique for economic development. For instance, it will be worthwhile to see whether the system of taxation in the country gives enough incentives and resources to the private sector to achieve the results that are expected of it.

In formulating an enlightened economic policy, the authors emphasize very rightly, what must be pretty obvious viz. an examination will have to be undertaken of the existence of bottlenecks in the economic system, presumably with the help of the technique of economic accountancy associated with the American economist Leontieff. But surely, in-put out-put studies are not merely for spotting such bottlenecks?

The book deals in the second part with the progress of economic analysis in relation to what is termed as "the problem of choice" signifying the optimum use of economic resources. A brief survey is made of the classical theory of "natural mechanism", its limitations due to imperfect competition and the non-neutral fiscal system as well as the inherent shortcomings of the classical analysis. As a conclusion it is stated that there is a case for State intervention particularly in the field of planning for capital investment. This part also indicates the need for further research work on such aspects as the functioning of the public sector in a non-collectivist country and the best conditions for selection of public expenditure. On the subject of public enterprise, the conclusion of the writers is that in order to make the management of State *enterprises more* efficient we have to re-establish an equivalent, a transposition or an imitation of the "natural mechanism". In other words, even where it is considered advisable to interfere with the natural functioning of the economy, the interference should be planned with the help of the concept of optimum choice guided by the "invisible hand" of the classical economist.

On the whole the authors derive inspiration from the conviction that the science of economics can point out the way to achieve full employment as well as a rising standard of living. But "human progress does not depend on rational conceptions alone, it depends also on the enthusiasm evoked by the search for progress".



The Future of Europe's Centre Parties

(From our London Correspondent)

THE outcome of the French general elections highlights what appears to your correspondent to be a particularly critical moment for West Europe's centre political parties. If a parallel is sought for the current dilemmas of the centre groupings in continental European politics, then the happenings of the years 1932-1933 are probably most apt. In the late pre-Nazi era, the centre groups in almost all cases were hemmed in by giant parties at either extreme: the Fascists and the Communists. Today the situation in France, Italy and West Germany—the three crucial centres of political activity in Europe—is not unlike that in 1932-33. This is not to suggest that Europe's historical experience is *going to be repeated. There are possi*bilities, however, of such a repetition and it is in this sense that the centre parties of Europe are facing a crisis today.

Personality Bias

By tradition and even more by temperament, the continental European people prefer a galaxy of political parties. These parties—particularly those between the extremes—are usually divided by issues and interests which the average non-European finds most difficult to understand. Even the best of European political commentators have yet to distinguish between the policies of the French Pinay Independents and Bidault's M R P or between the Italian Liberals and Republicans. This very remarkable situation possibly reflects the high personality bias of the continental electorate.

Government in France, Germany and Italy have up to now taken the classical European form: combination of the centre parties. In France, the Prime Minister has always been sought from the centre parties ranging from the Pinay Conservatives to the Radicals (the Socialists being always regarded as an uncertain element of co-operation). So, too, in West Germany and Italy.

This choice is now no longer open. In West Germany, for example, the force of Dr. Konrad Adenauer's personality—his ability to express the general will of European conservatism of implacable hatred for Communism and yet maintain a respectability that distinguishes him from the Nazi and neo-Nazi groupings—all these qualities make him the inevitable choice to lead the coalition of the Christian Democrats, the Refugee Party, the German Party and the Free Democratic Party. But Dr. Adenauer is now 80—an age when his party should find a successor. No successor has been found and there appears no-one else in West German politics with the capacity of Dr. Adenauer to lead the present centre coalition.

In Italy the crisis was reached when that adroit tactician, Signor de Gasperi, died. Since then the galaxy of parties which compose the Government coalition has been split and divided by the Christian Democratic personalities, Signor Pella and Signor Segni. In the 1953 elections, the Government coalition lost 68 seats in the Chamber of Deputies. It nevertheless maintained a sizable majority to continue. But soon the absence of Signor de Gasperi was felt. The retirement of President Einandi and his replacement presented the first test for the centre parties. They came out of this a very much weaker and a more divided combination. The ultimate choice of Signor Gronchi was made possible only by the support received from Signor Nenni's P. S. I. and the Communists, and the fact that this support was necessary led to recriminations and resignations. The second test—that of ratification of the London and Paris Agreements—resulted in centre party expulsions and in particular the expulsion of influential Signor Meilani from the Christian Democratic Party.

Demand for End of Coalition

These developments were serious but did not shake the essential coalition of the four centre parties. It was the differences over (a) protection of leasehold tenancies of peasants in the south; and (b) confining to the State the exploitation of the country's oil and gas resources, that brought cohesion to an end. Indeed, there developed in the Christian Democratic Party (the largest of the coalition) a powerful faction, the concentrazione, led by right-wing Signor Pella, which demanded that the "quadripartite" coalition should be ended and that a government should be formed by the Christian Democrats alone.

These rifts brought down the Scelba Government and gave birth to the Segni Government composed of members of the same centre parties as before. But it could be kept alive only by the support that was being currently received from the PSI and the Communists. This remarkable position was most clearly demonstrated during the Chambers' debate on the Civil Service Report Bill. The passage of this bill and hence, the continuation of the Government was possible only because of this support.

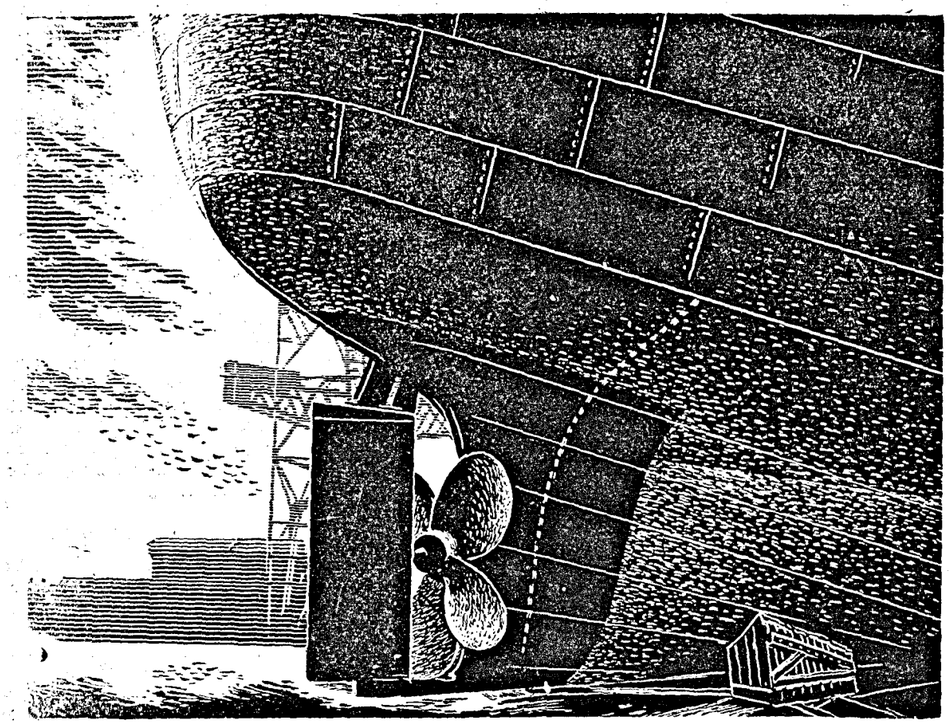
The position in France is of considerable moment for Europe's political centre. The recognition of this critical phase has forced the M R P and M Faure's expelled Radicals to give unwanted support to M. Mollet and M. Mendes-France. But this recognition and this change of face appear to have had little effect. The election of the Socialist speakers of the Chamber of Deputies was made possible only with the support of the left extreme.

In Other Fields Too

It is not in the political field alone that the crisis of the centre has emerged. In all cultural activities also, Communists and their fellow-travellers have the initiative. So, too, among the youth, the attraction of the left has never been greater since the reaction in the 1930's against fascism. In economic policy, the centre groups have proved their bankruptcy by their dependence on American aid and goodwill.

The well-known West German paper De Welt recently referred to the right-wing conservative criticism against Sir Anthony Eden's leadership of Britain as another expression of the tendencies of our time. If then, there is a crisis in European "centralism", what is the outcome likely to be? The emergence of the Poujadists in France, the defiant attitude of the W. German Nazi and neo-Nazi groups, and the arrogance of the Italian Fascists and Monarchists indicate the dangers in the situation. The lessons of the 1930's should, it is hoped, force upon the European political situation a solution which will avoid a repetition of that era.

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The Poona Economic Seminar In Retrospect

Lim Tay Boh

ALTHOUGH the Poona economic seminar was held over six months ago, memories of the experience are still fresh in the minds of those who participated in it, and this together with the fact that a similar seminar will be held this summer at the University of Malaya, Singapore, provides good justification for a review of the purpose and achievement of the Poona experiment.

The Poona seminar was described officially as an Advanced Refresher Course in Economics and was jointly organised by the International Economic Association and the Indian Economic Association. The general aim was to enable the younger teachers of economics in universities of India and other countries of Southeast Asia to keep abreast of current developments in advanced economic theory by bringing them into contact with some of the top-ranking economists of Europe and the United States.

As a first experiment of its kind in Asia, the seminar is significant in that it may mark the beginning of a series of summer residential schools for university teachers of economics in the South and Southeast Asian region. There can be no doubt about the theoretical soundness of the experiment, but if it is to become a permanent feature of the cultural activities of Southeast Asia, the actual achievements of the first experiment need to be assessed in the light of its specific objectives and lessons drawn for future experiments of a similar kind.

These objectives appear to be as follows:

(i) To give university teachers of economics in the countries of Southeast Asia an opportunity of keeping abreast of current developments in the principal branches of economic theory.

(ii) To achieve this objective by using the seminar method; and

(iii) To provide a residential university atmosphere, in which the visiting professors and the scholars attending the seminar would have ample opportunities of social contact and free discussion through living together in the same campus and having their meals together.

These objectives may be conveniently taken in reverse order. First consider the choice of Poona and the Deccan College as the location for the seminar, in the light of the third objective.

As a venue for the seminar, Poona was a suitable choice, as it was easily accessible to the members of the staff of the Bombay School of Economics, who had the difficult task of running both the seminar on behalf of the Indian Economic Association and regular courses of studies in their own School. Moreover, it had the advantage of a salubrious climate at that time of the year when other university centres within easy access of Bombay were affected either by oppressive heat or heavy monsoon rains.

But the choice of Deccan College, where the scholars were accommodated and where the seminar meetings were held, was, however, far from satisfactory, the most serious of its limitations being the absence of an economics library with a suitable reading room, where the scholars could spend their time reading the relevant literature in preparation for the seminar discussions. It is true that some of the books required were either purchased or borrowed for the use of the scholars. This, however, could not replace the facilities provided by a good economics library with a suitable reading room. Without such facilities, no seminar similar to that organised at Poona could yield the maximum benefits.

The second serious disadvantage was the unsuitable accommodation from the point of view of a residential school. Although Deccan College had the advantage of a spacious campus, the hostel accommodation and bathroom facilities were not up to the standards of a modern university hostel. The result was that the visiting professors could not be suitably accommodated in the same campus as the scholars and had to be provided with accommodation in a hotel about four miles from the College. The third objective of free discussion and social contact between the professors and the scholars was, therefore, not fully achieved.

The idea of a residential summer school for the study of advanced economics is an excellent one. The advantages of such a school had never been enjoyed by many of the scholars, who had their education in non-residential universities. For residential universities are something of a luxury in countries of southeast Asia where the pressing need is the extension of higher education to the masses.

There is therefore a strong case for providing short-term residence for small groups of university scholars in summer schools, where active participation in free discussion and exchange of knowledge and experience by scholars from different countries could be encouraged. But a residential summer school can yield the maximum benefits, only if the essential conditions are fulfilled. One essential condition is suitable accommodation for both the visiting professors and the scholars, for it is only by living together in the same campus that professors and scholars can have opportunities of mixing freely and exchanging their experiences.

Fortunately for the success of the Poona experiment, the professorial tutors showed a clear appreciation of the need for personal contact with the scholars and made it a point to stay back at the College and have tea and meals together with the latter. They participated fully in the social activities organised for the members of the seminar. The most successful feature of these activities was undoubtedly the excursions organised during the weekends to places of interest. The first excursion was to Sinhgarh, in which all members of the seminar, whose ages ranged from about twenty-five to over fifty, participated in the exhilarating climb of 2,000 feet to the top of Sinhgarh. This was followed by the instructive tour of the villages south of Poona, where the members of the seminar gained a good insight into the work of the government rural extension services. Finally, there was the inspiring experience of a visit to the wonderful caves of Ellora and Ajanta.

So far as the second objective of using the technique of seminar discussion is concerned, it is necessary to reiterate the importance of good library and reading room facilities to the success of "the method of learning by discussion". Three other observations are perhaps worth recording for the benefit of organisers of future seminars. First, there is the need to co-ordinate lectures and discussions. A useful technique from the point of view of the scholars is the breaking of lectures at convenient stages in the development of the theme to give the scholars an

opportunity of raising points for discussion. Certainly, it is preferable to shorten some of the long lectures in order to allow more time for discussion.

Secondly, there is great advantage in encouraging scholars to prepare short papers for discussion. Many of the scholars were working in special fields and no doubt had interesting problems which they would probably have liked to present to the seminar for discussion. The opportunities of leading a discussion would have been a useful experience for them and would have made the seminar course a much more useful medium of training.

Thirdly, there was a general preference among the scholars for cyclostyled notes giving a synopsis of the lectures delivered at the seminar classes. The advantages of such notes is that they form a record of part of the proceedings of the seminar, but whether it is practical to issue them or not depends on whether the professorial tutors could be persuaded to undertake the preparation of the notes, which requires a more systematic organisation of the seminar lectures and discussions.

Finally, to what extent was the first objective of the seminar achieved? There is no doubt that there was much that was useful and stimulating in the content of the courses from the point of view of the scholars. It was an excellent idea to combine the discussion on theoretical developments by the oversea visiting professors with that on the practical problems of economic development by the local economic experts. It was this study of the theory and practical problems of economic development which gave the courses their basic unity.

It is unnecessary to go into the details of the various subjects covered in the courses. So far as the content of the seminar courses is concerned, the most important lesson of the Poona experiment relates to the need to develop tools of theoretical analysis which are applicable to the special conditions of Asian economics. It is natural that economists and politicians in Asia should be preoccupied with the practical aspects of economic policies rather than with the niceties of theoretical analysis, but it would be unfortunate if the difficulties of applying existing theoretical tools to the practical problems of economic policies cause economists in Asian countries to abandon research in economic theory in favour of descriptive economics. The function of economic theory is to provide the necessary tools for economic analysis, without which it is impossible to determine the proper criteria for economic policy. What is needed is the further development of analytical tools which are suitable for analysing the special conditions of Asian economies, and this requires the continuation of research in the field of economic theory.

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Measurement of Deficit Finance in India

THE realised deficit or surplus in the balance sheet of the Governmental sector needs to be viewed not from the narrow accounting angle but from the point of view of their effect on the money supply through which budgetary policies influence the national economy. Other things remaining the same, Governmental deficit or surplus should find reflection in a rise or fall in the domestic money supply and through the latter, affect investment and consumption of the community. It would, therefore, appear necessary to exclude from the accounting deficit or surplus of the government the impact of those transactions which do not affect money supply with the public, in order to get a proper economic measure of the extent of real budget surplus or deficit financing.

In the implementation of the First Five Year Plan, it is widely known, recourse has been had to deficit budgeting on an increasing scale; but what is not known is the exact extent of that deficit or the proper method by which the size of the deficit can be measured. While the budget papers spotlight only the net changes in Cash Balances during the financial year, the Reserve Bank takes account (besides the movement in Cash Balances) of the net change in floating debt and net depletion or enlargement of holdings in the Cash Balance Investment Account in its assessment of the budgetary position. The Planning Commission's approach to the problem, as revealed in its estimates of deficit financing in 1954-55 and 1955-56, does not vary from that of the Reserve Bank.

The Reserve Bank's estimates of the quantum of deficit finance in the sense of use of Cash Balances, variation in floating debt and purchase or sale of securities held in Investment Account for 1951-55, are given in the table alongside.

Obviously, in this table the effects of non-money supply affecting transactions have not been segregated, the presumption being that the transactions referred to are necessarily between the State and Central Governments on the one hand and the Reserve Bank on the other. This is certainly not true with regard to items A2, A3 and B2 as also regarding some other transactions, such as foreign receipts and foreign payments, receipt of profits of Reserve Bank earned abroad and net absorption or redemption of Government loans held by the Reserve Bank. These will affect cash balances, though not money supply with the public and we must exclude these transactions for arriving at money supply. Transactions regarding floating debt also transpire between the public and the Government, and to the extent to which the public absorbs treasury bills, the deficit would appear exaggerated. It is thus necessary to exclude public holdings of floating debt as given in the table. It is true that in 1951-52 there was no sale of treasury bills to the public, but since 1952-53, sales to the public have amounted to about Rs. 12 crores each year.

Likewise, the sale of securities held in reserve are made to (a) State Governments, (b) Reserve Bank and (c) the public or vice versa. Of all these transactions, only the one between the Reserve Bank and the Government is meaningful for estimating the deficit. Therefore, the impact of the other two transactions on Cash Balances should be eliminated. It may be pointed out here that the transactions between the Centre and the States may be ignored, as these are taken into account while calculating the deficit or surplus in the balance sheets of the State Governments. Their effect is removed automatically when the surplus or deficit of the Centre is added on to that of the State Governments. Thus, it will be seen that the adjustment will have to be made for only the net sale or purchase of securities by or to the Reserve Bank to get a correct magnitude of the deficit. Detailed Statistics relating to these transactions are not published by the Reserve Bank and, therefore, these adjustments cannot be easily made.

In the same manner, the impact on Cash Balances of external receipts and payments of the Government has to be removed, as these transactions do not affect the domestic money supply. Otherwise, the domestic impact of budgetary policy will appear to be very different from what it is in fact. For instance, the net foreign disbursement on Government account will exaggerate the money supply effect of deficit to the extent to which no allowance is made for the net payments abroad in Cash Balances and vice-vera. Similarly the surplus in the budget will be understated and the corresponding fall in the domestic money supply will appear to be less than what it actually would be. From 1951-52 there had been consistently net foreign outpayments on Government account, and therefore the overall surplus for 1951-52 has to be increased by the amount of over-payment and the overall deficit in the other three years reduced in like manner.

Overall Deficits of Government of India and States during 1951-55

(Crores of Rupees)
(Based on Budget Papers)

Central Government	1951-52	1952-53	1953-54	1954-55	Overall Deficit for 1951-55
A. (1) Additions to or Decline in Cash Balances	+ 0.9	— 63.5	— 61.3	+ 12.2	—111.7
(2) Increase or Decrease in floating debt	— 32.2	— 29.1	+ 19.5	+136.9	+ 95.1
(3) Purchase or Sale of Securities held in Reserve	— 22.2	— 15.6	+ 6.2	— 8.3	— 39.9
(4) Overall Surplus or Deficit (1) — (2) — (3)	+ 55.3	— 18.8	— 87.0	—116.4	—166.9
State Governments					
B. (1) Additions to or Decline in Cash Balances	— 10.5	+ 10.7	— 2.1	— 41.1	— 43.0
(2) Purchase or Sale of Securities held in Reserve	+ 28.6	+ 25.4	— 20.9	— 5.4	+ 27.7
(3) Overall Surplus or Deficit	— 39.1	— 14.7	+ 18.8	— 35.7	— 70.7
Overall Surplus or Deficit on Central and State Governments' Account (A + B)	+ 16.2	— 33.5	— 68.2	—152.1	—237.6

Here a difficulty will be encountered. The precise order of foreign expenditure cannot be obtained from the accounts for the past years, because a large number of items relating to charges made outside the country given in the Demand for Grants has to be added up to get this figure. However, this procedure being too clumsy and to some extent unrealiable, an alternative method may be suggested for arriving at the net foreign position of the Government. We get from the Reserve Bank's published statements the figures regarding net movement in India's Foreign Exchange Reserves which, however, include authorised dealers' credit balances. We also get separately information relating to the net purchase or sale of sterling by the Reserve Bank from and to the public and the authorised dealers. Thus, the difference between the net change in Foreign Exchange Reserves, after adjustment for the variations in authorised dealers' credit balances held abroad, and the net purchase or sale of sterlings from and to the public by the Reserve Bank, should furnish us with the statistics about the net foreign position of the Central as well as State Governments. Statistics about authorised dealers' credit balances held abroad are not published separately; but one may guess that the probable magnitude of the variation in authorised dealers' credit balances is not likely to exceed Rs. 15 crores on either side. It would thus appear that the net foreign payments position of all the Governments in India during 1952 to 1955 would be as follows:—

Period	Foreign position of Central and State Governments—(net outpayment) (In crores of Rs)
1951-52	217 — 247
1952-53	27.2 — 57.2
1953-54	61.4 — 91.4
1954-55	86 — 11.6

For calculating the net domestic deficit, therefore, we have to set the above magnitude against variations in Cash Balances of the Government. It should be noted in this context, however, that from the point of view of the entire economy, exclusion of foreign transactions does not make any significant difference as adjustment is automatically made for the net foreign position of the Government, where the effect of overall balance of payments position both on private and public accounts on money supply is taken into consideration. It is necessary, however, to indicate these transactions for purposes of analysis, particularly for studying the effect of governmental fiscal policy on money supply.

This is not all. There are certain other adjustments to be made. Profits of the Reserve Bank are included in Government receipts on revenue account. This exaggerates the net absorption from the public to the extent to which some of the profits of the Reserve Bank are earned abroad and therefore the impact of the foreign earnings of the R.B.I. that go as receipts to the Government on the cash balances should be segregated. Wherever a surplus in the cash balances is found, it should be reduced by the amount of the R. B. I. foreign profits and the deficit increased similarly.

It seems also necessary that allowances should be made for the proceeds of the debt absorbed by the Reserve Bank or the redemption of the debt held by it as the case may be. The deficit or surplus as currently taken does not take into account the net sale or purchase of the public debt to and from the Reserve Bank. The budget surplus therefore should be inflated by the extent to which there is a net redemption and the deficit accordingly deflated and vice versa.

If all these adjustments are properly made, it will be seen that contrary to the general belief, the budgetary policy was not one of deficit but of surplus except in 1954-55 and in consequence, it tended to contract money supply. Incidentally, this explains, to some extent, why there was a fall in the aggregate money supply during 1954-55 as compared with 1950-51, despite the declared deficit in the budgets of both the Centre and the States. This misunderstanding was largely the result of the general confusion prevailing in the country regarding the accounting deficit of the Governments and the net deficit, limited to the domestic transactions, which affect money supply.

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Some Aspects of Indian Minerals

R A Jahagirdar

IN the Process of mineral development, India has just passed from the first stage, when only the rich and surface deposits are exploited, to the second stage of setting up metallurgical, chemical and engineering industries. This was the keynote of Dr M S Krishnan's Presidential address at the last Indian Science Congress.

"We have only a few surpluses and quite considerable deficiencies in the list of useful minerals needed for industry." This was another of his observations. The present position of minerals in the Indian economy may be usefully studied from these two standpoints.

Coal is the key mineral of the second Plan. The much-debated basic strategy of the Plan, which aims at the development of heavy industries, in particular steel industry, hinges on the fulfilment of the target for coal—which is conditioned in turn by the adequacy of transport and implementation of proper policies. The enormous resources of high-grade iron ores in India make the high target for steel highly attractive.

The picture of coal reserves is also not dark. Reserves of coal down to 1000 feet below the surface, in seams not less than four feet in thickness and containing not more than 25 per cent of ash, have been estimated to be about 20,000 million tons. The question however is: Are there adequate quantities of appropriate quality?

The Indian Coalfields Committee of 1946 estimated the reserves of good coking coals at 700-750 million tons which when used for all kinds of purpose would not last long. With the projected expansion of the iron and steel industry, it will be easy to see how necessary it is to conserve coking coal. Shri K D Malaviya's remarks at the Golden Jubilee celebration of the Mining, Geological and Metallurgical Institute at Calcutta deprecating the policy of conservation, are therefore hardly appropriate, at least as far as coal is concerned. His advocacy of "merciless exploitation" of mineral resources is based upon the popular notion of India's "richness" in mineral resources and ignores the distinction between quality and quantity. A policy of conservation does not aim at preservation; it only insists upon each type or grade being put to the use for which it is best fitted by its properties

No Policy for Coal Yet

The present output of coal of 37 million tons is to be increased to 60 million tons in 1960-61 and the increase in output in the public sector is planned from 5 to 20 million tons while the output in the private sector will increase from 32 to 40 million tons. The controversy over the respective roles of the two sectors is now settled with the announcement by the spokesmen of the private sector that they will discharge their duty even in the absence of an assurance regarding nationalisation. The point, however, that still remains to be settled is whether increase in coal output is to be brought about by opening new mines rather than by exploiting existing ones. The latter, it is believed, is likely to be less costly.

The Government of India, however, has not yet finally decided its coal policy. Decisions are occasionally announced regarding a particular matter—for example that mechanisation will be allowed only in the new mines which perhaps will be mostly in the public sector. Nothing will be more appropriate than declaration by the Government of an integrated policy regarding all matters relating to coal such as labour, mining methods, transport, price etc.

An incidental, though interesting, question may be raised. In view of the development of atomic energy, will coal be outmoded? Is the successful development of atomic energy for industrial uses a potential threat to the future of coal industry? Mr J Bronowski, Director of the National Coal Board in Britain, recently answered this question in the negative by pointing out that in course of time coal will be utilised chiefly for the production of chemicals and also

TABLE I

Iron Ore Reserves

State	District	Tonnage (in millions) Estimated	Probable	Iron Content
Bihar	Singhbhum	1,047	8,000	Mostly 60 — 68% Fe
Orissa	Keonjhar, Sundargarh	2,131		
	Mayurbhanj, Cuttack	91		
	Sambalpur, Koraput	60		55 — 63% Fe
Madhya Pradesh	Drug, Chanda, Bastar	4,482		60 — 68% Fe
Madras	Salem—Tiruchirapalli	305	1,000	35 — 40% Fe
Mysore	Chikmagalur	30		50 — 60% Fe
	Bellary	138	300	45 — 65% Fe
Andhra	Anantapur, Kurnool Cuddapah and Krishna	6		45 — 65% Fe
	Total ..	8,290		

TABLE II

Reserves of Bauxite in India

(with 50% or more Al2 O2)

State	Districts	Reserves ('000 tons)
Bihar	Ranchi and Palamau ..	9,000†
Madhya Pradesh	Surguja — Jashpur — Bilaspur ..	6,347
	Balaghar — Mandla — Kawardha ..	2,135
	Bilaspur—Shahdol (Amarkantak area)	620
	Jabalpur ..	525
Bombay	Belgaum ..	670
	Kolhapur ..	2,142
Madras	Salem (Shevaroy Hills) ..	2,000
Mysore	Babadudan Hills ..	100
Orissa	Sambalpur — Kalahandi ..	200
Kashmir	Jammu and Poonch ..	2,000†
	TOTAL	25,766

† Approximate

in the manufacture of steel. He did not however mention the other factors involved viz. the cost and the dwindling deposits of coal. If in the UK, output of coal falls, the marginal cost, which is at present very high, may decline and then coal may be used as a basic source of chemicals. For us in India such a possibility appears fairly remote.

Electricity and Aluminium

We are still in the electrical age. Ambitious programmes of electrification have been taken on hand and the increased requirements of conductors, it has been decided, will be met by aluminium in view of the high price of imported copper and the inadequency of copper deposits in India. Hence the target in the second Plan of increasing aluminium production tenfold—to 40,000 tons in 1960-61.

Table II gives estimates of bauxite reserves in India.

A recent estimate puts the Salem reserves alone at 6 million tons. Thus though we have bauxite reserves enough to yield aluminium for as long as we can forsee, the prohibitive cost of extraction has made aluminium a scarce metal. It needs 25,000 kilowatt-hours of electrical energy to produce a ton of aluminium. The location of alumina reducing plants, therefore, is dictated by the availability of cheap power, which involves hauling of bauxite ores over long distances.

Problem of Location

A similar locational problem is inherent in the cement industry. For a cement factory of an annual capacity of one lakh tons, the daily requirements of water are 3 to 4 lakh gallons and therefore cement factories have to be located near some river. This, of course, necessitates carrying of limestones to the factories over distances which in the case of existing companies vary from half a mile to nearly 170 miles.

The freight that thus enters into the cost of cement must be one of the causes of the difference in the cost of manufacture of different companies. Similarly, gypsum has also to be transported to the factories, over long distances, though in much smaller quantities than limestone (for every ton of cement, 1.5 tons of limestone and 0.04 ton of gypsum are required).

As the present deposits of limestone are depleted, cement factories will either have to use raw materials of inferior quality or get their raw materials from longer distances; they may even have to switch over to other raw materials requiring costly processes for conversion into cement. Over a longer period, therefore, the cost of cement is likely to increase.

There is no such problem of location in the case of two of our important minerals which have however other problems. India possesses rich ores of manganese and for over half a century, she has contributed substantially to the world production of this mineral. The large-scale expansion of the iron and steel industry which we have taken in hand will absorb increasing proportions of domestic production of manganese—it is estimated that for every ton of steel, some 60 lbs of high grade manganese ores are necessary. Besides, there is considerable scope for exports of ferromanganese. But nature has put a handicap in the manufacture of this alloy as our ores and cokes contain too much phosphorous. It is, however, possible to overcome this difficulty by careful selection of ores and cokes and also by using electrical arc furnaces for the manufacture of the alloy.

No such natural difficulty exists in the case of mica which has of late found itself in the doldrums. India has been producing 80 per cent of the world's sheet mica but has been consuming a negligible portion of it. The fortunes of Indian mica have been tied, especially since the last war, to the demand from the US. US has now found an alternative source of supply in Brazil where it has invested heavily both in money and in technical knowledge for the exploitation of this mineral. As a result, India has suffered a slump in mica. Efforts are being made to promote and boost mica exports; there is little effort to expand the utilisation of mica within the country, which is, in fact, a more lasting solution.

An opposite case is that of sulphur which is in great demand but for which we have no domestic source of supply. In the absence of sulphur, the development of an important heavy chemical industry i.e. sulphuric acid, is arrested. Imports of sulphur are costly and irregular, making the cost of sulphuric acid in India high and production fitful. Consequences of an underdeveloped sulphuric acid industry radiate throughout the chemical industry. Superphosphates, for example, are costly in India because sulphuric acid is a raw material in their manufacture, and therefore the consumption of phosphatic fertilisers is hopelessly inadequate as compared to that of nitrogenous fertilisers.

The Planning Commission dwelt at length on this problem and said that "it is essential to reorient the industry for utilising other domestic materials". The waste gases from Ghatsila works of the Indian Copper Corporation were indicated as a source of 6000|7000 tons of sulphur. But the scheme to utilise these gases was given up "owing to difficulties in arranging an outlet for the acid that would be produced." (Third Progress Report p. 194).

Though of late supply of sulphur has become easier, it is not practicable to rely upon it in future. The exploitation of iron pyrites is, from all accounts, the best solution to the problem. With the utilisation of iron pyrites, the production cost of sulphuric acid, it is expected, would not be perceptibly higher than that when elemental sulphur is used. Even gypsum is not likely to be used as its price will substantially push up the cost of production of the acid.

The National Industrial Development Corporation has taken in hand a project for the utilisation of iron pyrites in the manufacture of sulphuric acid.

Then there are, in plenty, deposits of ilmenite which can yield titanium whose compounds are essential in the manufacture of enamels and paints. Lack of adequate demand for the latter robs these deposits of their value, at least at present. The story of the State-sponsored factory at Travancore for the manufacture of titanium dioxide makes sad reading.

The upshot of this short survey of Indian minerals is that though India has rich mineral resources, she does not thereby necessarily have mineral wealth. Resources have to be tapped, exploited and put to economic uses. As we have seen, there are various difficulties in their utilisation; we are also poor in many minerals such as copper and sulphur; further we possess minerals, like mica and titanium, for which we ourselves have not much use.

India, therefore, requires an integrated mineral policy embracing all aspects of mineral exploitation and dovetailing such exploitation with industrial development. Doubtless, we have to make up for our failure in the past to utilise the mineral resources, which however does not warrant "merciless exploitation." What is needed is economic and profitable exploitation.

Perhaps the present estimates of resources are not final. Increased knowledge as a result of new surveys and improved methods of extraction will bring more minerals within our reach; but increased exploitation may deplete them quicker than in the past. The net effect is difficult to calculate. In the meantime we must proceed on the basis of the knowledge we have*.

*India's Mineral Wealth. Third Edition J Coggin Brown & A K Dey. Oxford University Press, 1955. Pages 702, Bibliography & Index. Price Rs 30.

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Indian Agriculture In Brief

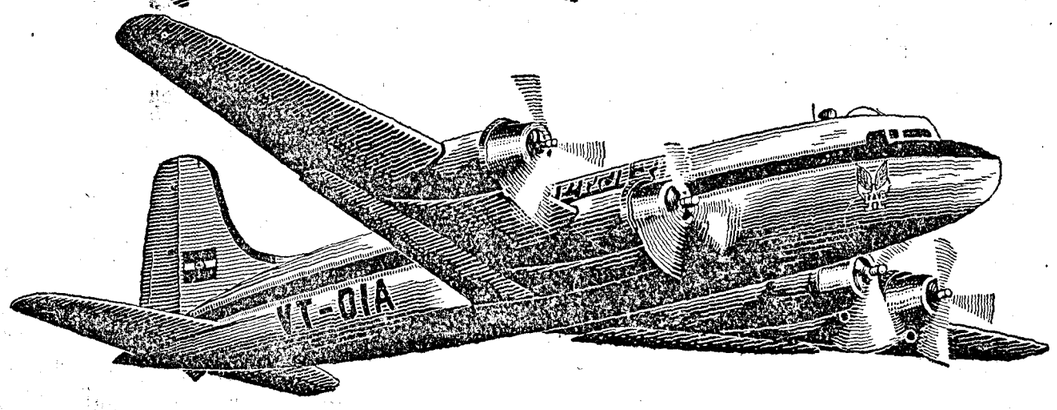
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Around Calcutta Markets

Payments Crisis

Wednesday, Evening

IT started with disrupted clearing facilities. Because of banking troubles, deliveries had to be suspended for a few weeks. So the payments crisis was delayed by a few weeks. As the payments crisis was prolonged, equity prices receded. In the last two or three days, the Calcutta Stock Exchange has somehow started to function. But forward trading has not yet been resumed. And the market stalemate still continues.

In the last month, three developments have occurred, which have aggravated the crisis on the stock market here. Nationalisation of life insurance was the first shock to stock markets. The possible repercussions of nationalisation of life insurance are not yet over. What has uptil now been witnessed is the psychological shock received by the private sector. This psychological factor can have only temporary effects.

Life Funds

The long-term effects of nationalisation have reference to the prevailing malpractices as well as to certain indicated changes in the Government's policy of investment of that portion of life funds which is now invested in organised private industries. This latter aspect can assume significance only if the Government pursues a policy of wholesale diversion of that portion of life funds now invested in the private sector to financing development projects under the Second Plan.

A wholesale canalisation of investment of life funds, however, is unlikely. But it is clear that the prevailing practice, whereby some insurance companies finance their sister concerns, will end. This has a stock market angle, but it is not significant. Only to that extent to which such investments now involve misuse of funds or create privileged sections in the private sector, nationalisation of life insurance will deprive private industry and stock markets of emergency finance.

New Issue Finance

In 1954, Indian Life Insurers' investment in industrial debentures, preference and equity shares amounted to about Rs 40 crores. But, in recent years, the relations between stock markets and insurance companies have been more extensive. A sizable percentage of new issues floated in recent years have been subscribed by insurance companies. After nationalisation, this support to new issue and stock markets may be less active.

Admittedly, the association of life insurance companies with stock markets has involved speculation in equities. But this connection has been of genuine help in some ways. As private institutional investors, insurance companies have occasionally helped the market to find its floor. This has been a legitimate function. Whether the Government's investment policy would be as flexible, remains to be seen. This raises the wider problem of associating investment experts with nationalised financial undertakings.

Speculation

There is another aspect of nationalisation of life insurance, which has reference to activities which are questionable, but which have occasionally caused fluctuations in equities. It is an open secret that, even as some cotton or jute mill owners swap their individual operations with those of the companies concerned in the event of loss, some insurance managers have indulged in gambling with life funds in the comforting knowledge that losses can be shifted to the companies' accounts. This may be misuse of life funds. But the end of such operations through nationalisation is likely to affect stock market activity for sometime to come.

The second major development during the last month has been the Government's decision to permit rights issue by Tata Steel Company only at a premium of Rs 30 per share. It is well known that the Company was in favour of issuing rights shares at par. Spurt in Tata Steel in the last three months was mainly due to the belief that the Company would be issuing new shares at par. Tata Steel have fallen since the announcement of the issue price of bonus shares.

Indian Iron

This has also affected the behaviour of ACC. To anticipate the third development, the possibility of a bonus issue by Indian Iron may be discussed here. Steel retention prices have been announced. That retention prices will be the same for Indian Iron and Tata Steel indicates the growing financial strength and productive efficiency of the former. The difference between the 1954-55 retention prices and the levels now fixed is, however, relatively small for Indian Iron.

This means that the "special element" involved in the fixation of retention prices is negligible for Indian Iron. It is highly favourable for Tata Steel. This Company will acquire resources through the issue of bonus shares at a premium. It will accumulate additional resources of its own out of the substantial difference between the new high retention prices and its own cost of production. These two sources of finance will be of immense help to the Company to implement expansion projects.

Special Element

The market feeling is that as the "special element" included in the recently fixed retention prices is less favourable to Indian Iron, this Company will not be able to accumulate enough resources out of its normal operations for executing the second expansion programme. There are passages in the Chairman's speech before the last annual meeting which are liable to the interpretation that the Company may decide not to undertake the second expansion plan, if the "special element" in the steel retention prices fixed by the Government does not warrant such extension of activity.

On the assumption, however, that the second expansion plan will be undertaken, it is clear that Indian Iron and Steel Company will have to issue bonus shares to raise finance. Such expectations should have had a "bullish" effect on their shares. But the Government's decision relating to the Tata Steel issue suggests that Indian Iron also may not be permitted to issue right shares except at a premium. This may have a temporary "bearish" effect on Indian Iron. But investors should be aware that any issue of rights shares at a premium will ease the problem of financing the Company's contemplated expansion projects.

Reasons why higher steel retention prices have not had a "bullish" effect on Steel shares have been discussed above. It was unfortunate that the Government's decision came at a time when the Calcutta Stock Exchange was passing through a payments crisis. But it would seem, in retrospect, that higher steel retention prices have had a sustaining influence on stock markets. In the last few days, both Tata Steel and Indian Iron have been crawling up.

On current indications, stock markets are likely to mark time for some weeks more. For one thing, Clive Street will take time to recover from the consequences of the payments crisis. This crisis has somehow been overcome. But trading remains sub-normal. Revival of confidence will, naturally, take time. At the moment, stock markets are anxiously watching the deliberations at Amritsar. Equities are not likely to take any decisive trend before the presentation of the budget at the end of this month.

How strong must the foundation be for 43 lakh houses?

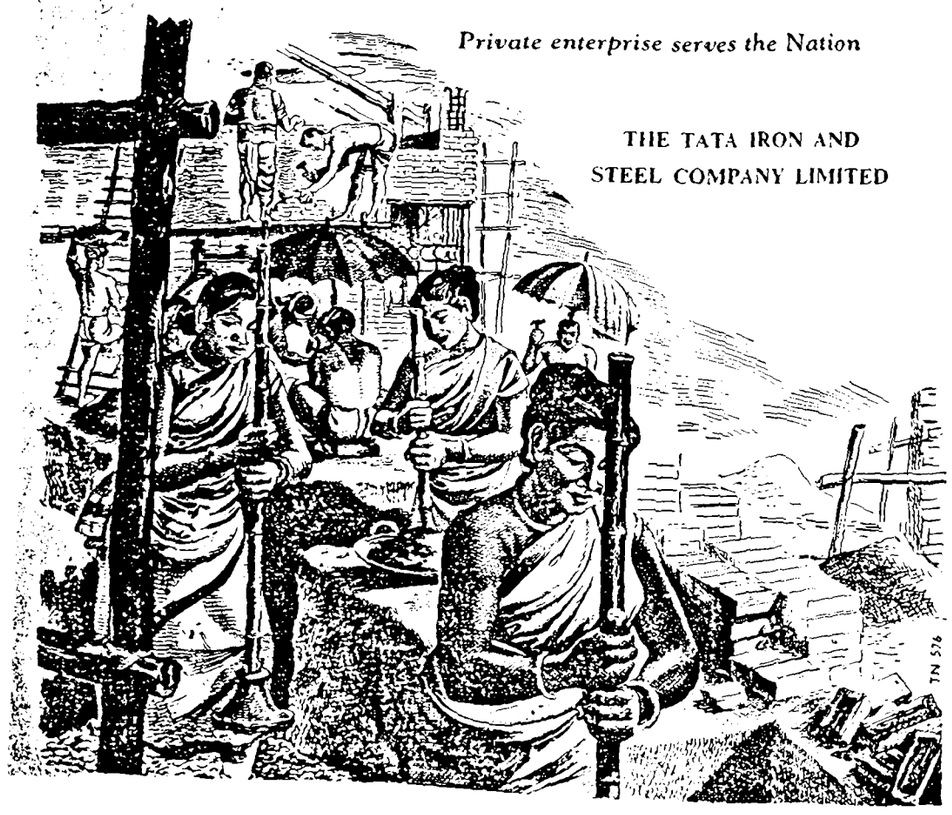
In the last few years, large segments of our population have moved into the cities. Here they live in unbelievably congested tenement houses, adding to the cities' already acute housing shortage. We need 43 lakh houses to ease the strain on our cities.

In 1947 our cement production was 1.45 million tons. Today, it is 4.34 million tons—almost three times the 1947 figure. 40,000 people are employed in 26 modern, efficiently run factories.

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Ingot Production	
1955	1,050,000 tons
1959	2,000,000 tons

Private enterprise serves the Nation



THE TATA IRON AND STEEL COMPANY LIMITED

Around Bombay Markets

Successive Shocks

Thursday, Morning

THE Stock Exchange had to endure many shocks since the opening of the year. There is little left of the confidence and the bullish fervour which marked the close of the year. In the past few weeks, it had to contend with a number of adverse developments. There was, to begin with, nationalisation of life insurance which, apart from psychological repurcussions, deprived it of an important source of investment support. Then came the settlement crisis in Calcutta. Delhi's refusal to new capital issues at par by established companies, as indicated by its insistence on issue of right shares by Tata Iron and Steel Company only at a premium of Rs 30, instead of at par, as the market had expected, was another blow. Finally, there were the signs in the air of a revision of the Industrial Policy Resolution of 1948 and gathering clouds overshadowing the new financial year, ominous possibilities of new taxes and higher rates for taxes now current. These can no longer be dismissed in view of the general trend of things. The one single factor which helped the market to maintain its morale in an extremely trying situation was the announcement of a uniform retention price for steel at the reasonably high rate of Rs 393 per ton for the five years from 1955-56 to 1959-60.

The recession in share prices was more or less orderly in the beginning; it became a rout, after the settlement crisis in Calcutta. With the crash in Indian Iron at Calcutta, Tata Steel touched a new low of Rs 222 in Bombay. Towards the close of the week, however, share values steadied a little.

The market has drawn some comfort from the report that the second Plan may be extended over a period of six years instead of five. This is interpreted as a reasonable assurance that there will not be the same pressing necessity of raising taxes just yet. Moreover, reports of some sizable investment buying on insurance account by the newly appointed Custodians also helped to restore sentiment.

Both Indian Iron and Tata Steel attracted moderate support and closed firm at Rs 33-13-6 and Rs 228-12 respectively. Textiles and miscellaneous issues also moved up at the close, with the popular scrips registering fair gains. Bombay Dyeing, Kohinoor, Century and Swadeshi closed firm at Rs 515-10, Rs 332, Rs 458-8 and Rs 212 respectively.

Cotton

Blocked Trading

THERE has been hardly any trading in cotton futures since the suspension of forward business on December 23. Though the ban was lifted on January 7, no trading was possible as the ceiling of Rs 700 fixed by the Forward Markets Commission made it impracticable for jobbers and operators to do any business. The unofficial rate has remained throughout much above the official ceiling. Following the High Court case, in which it was contended unsuccessfully that the declaration of emergency was invalid, a compromise had been effected between the two contesting parties and it was thought that futures trading could be resumed not only in theory but also in fact. But this was not to be. For, like a bolt from the blue came a directive from the Forward Markets Commission, on the very day on which the compromise was reached, to the effect that both the February and the May contracts should be deemed to be closed out at their respective closing rates as on 24th January, namely at Rs 700 and Rs 686-8 per candy.

The attention of the trade has, since the Forward Markets Commission's directive, turned to exploring the possibilities of an early commencement of futures trading in the August contract. A sub-committee of the East India Cotton Association, which had been appointed to go into this question, has since recommended that the grade should be lowered from "fine" to "fully good", in view of the deterioration in the quality of the new crop. Among other measures, it has also suggested that the staple length should be maintained unchanged at 13/16" and the system of fixing room rates on the basis of forward rather than spot prices should be re-introduced.

In the absence of trading in futures, it is natural that the spot market should be doubly active. Indeed, there was a time when spot rates threatened to approch their respective ceilings. But the lurking fear that Government might step in in the spot market also, restrained enthusiasm and prices gradually came down. Towards the end of the week, the spot market developed a distinctly bearish tendency and popular styles like Vijay lost heavily in a single day. It is as much a reflection on the Government as on the cotton trade that they should let matters come to such a pass.

Oilseeds

Firm Trend

IN sharp contrast to both the stock exchange and the cotton market, the oilseeds market displayed a firm trend for the greater part of the last fortnight. The main factors which influenced the market were sustained US enquiries for castor oil, and reduced arrivals at the terminal markets. Towards the close, however, on reports that the export policy might be tightened, there was considerable bull liquidation which brought down prices from high levels touched at the outset.

In the groundnut section, prices of ready seed and delivery appreciated at the outset, thanks to tight statistical position. In sympathy, oil, ready and delivery rates also moved up. The February-March delivery was supported up to Rs 31-12 but this upward trend proved short-lived as UK prices for groundnut oil suffered a fall of £4 per ton.

Castor May delivery touched a new high at Rs 125-6 on sustained enquiries for castor oil from America. Shippers were reported to have put through business for about 300 tons of castor oil at £106 per ton c.i.f for the commercial quality. Towards the close of the week, due to fears of an export duty, Castor May lost the earlier gains.

The pattern of trading in linseed and niger and kardiseed was in line with that of castor and groundnut, the early firmness being followed by a decline. At the close all sections were quietly steady, and the firm trend displayed in the beginning of the week was no longer in evidence.

Bullion

Heavy Reduction of Stocks

Erratic fluctuations characterised

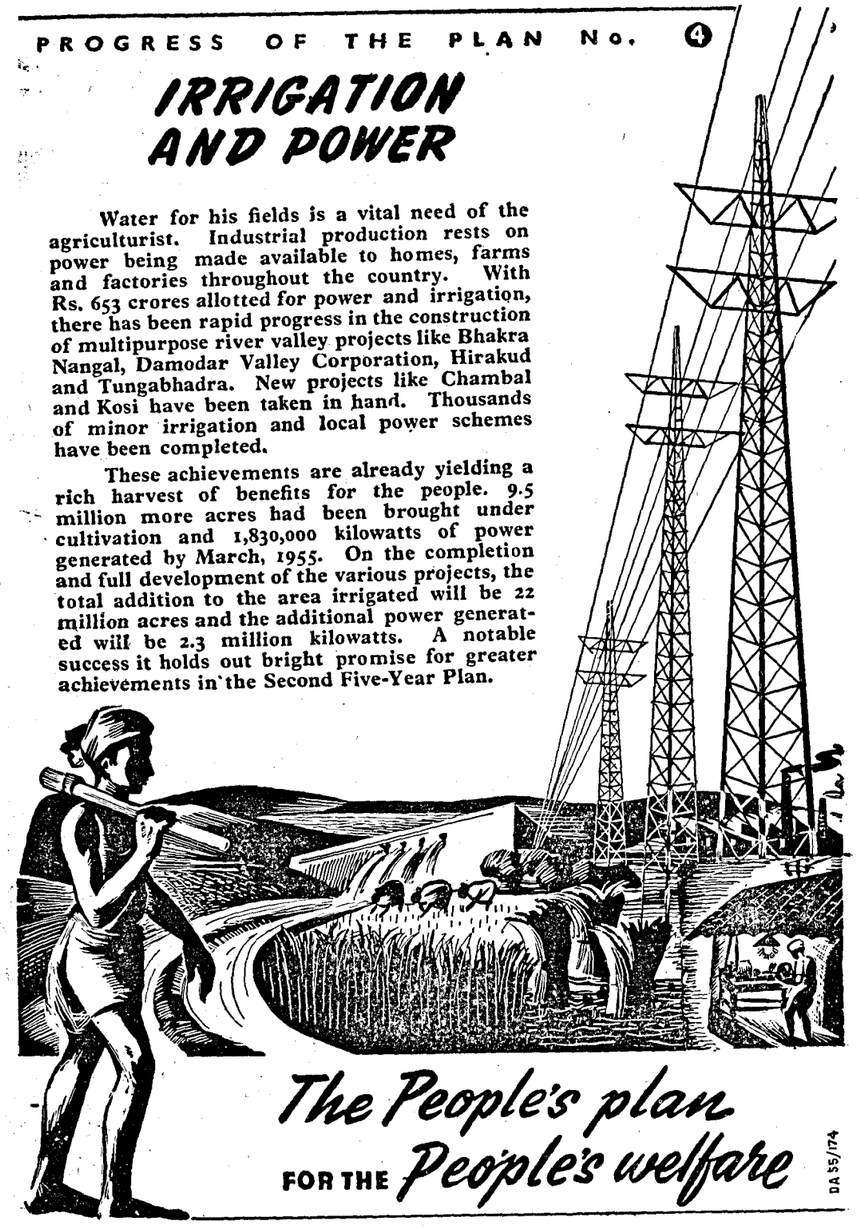
trading in bullion throughout the past fortnight. Each bout of selling was followed by marked signs of returning confidence which in turn induced profit-taking by bulls. This would push prices down once again. However, spot demand was maintained and it was on the strength of such demand that the bullion market managed to survive the bearish rumours about sales of confiscated smuggled gold. These rumours were responsible for a drop of three points in gold futures at one time to Rs 96-4. This gave rise to fears of a major decline. But thanks to the brisk demand for spot, there has been such a heavy fall in stocks of gold in Bombay that no decline need be feared for the time being. Stocks came down from 1.25 lakh tolas to about 50,000 tolas, as a result of the daily offtake, during the last ten days, of 10 to 12,000 tolas on an average. The early gains were, however, wiped out towards the close, when a leading bull started booking profits. The undertone nevertheless remained steady, with gold forward closing at Rs 95-11 and Silver forward at Rs 174-14.

PROGRESS OF THE PLAN No. 4

IRRIGATION AND POWER

Water for his fields is a vital need of the agriculturist. Industrial production rests on power being made available to homes, farms and factories throughout the country. With Rs. 653 crores allotted for power and irrigation, there has been rapid progress in the construction of multipurpose river valley projects like Bhakra Nangal, Damodar Valley Corporation, Hirakud and Tungabhadra. New projects like Chambal and Kosi have been taken in hand. Thousands of minor irrigation and local power schemes have been completed.

These achievements are already yielding a rich harvest of benefits for the people. 9.5 million more acres had been brought under cultivation and 1,830,000 kilowatts of power generated by March, 1955. On the completion and full development of the various projects, the total addition to the area irrigated will be 22 million acres and the additional power generated will be 2.3 million kilowatts. A notable success it holds out bright promise for greater achievements in the Second Five-Year Plan.



The People's plan FOR THE People's welfare

DA 55/174

The Tin Pots that Initiate Change

IT is difficult to think of an Indian village without tin canisters which came in as containers for kerosene and stayed on. The number of uses to which the kerosene tin is put is amazing. Before it starts springing leaks and getting rusted, the canister is used for storing liquids of all sorts, water, oil, gur, hooka tobacco in fermentation and so on—two canisters balanced at the ends of a piece of polished, well oiled and split bamboo constitute the commonest equipment used by carriers of all sorts for carrying water, oil, sweets and what not. By the time their shine begins to wear off and holes appear, the kerosene tins are converted into improvised miniature silos for storing grain and all dry goods in general. But in the villages it is rare to see a tin canister used as a pot for growing plants. That is, however, a familiar sight in Bombay chawls and in working class localities in other industrial towns where the hunger for green and growing things finds its outlet in the humblest of working class homes through these improvised flower pots.

While approaching a Bengal village, however, or villages elsewhere, wherever rainfall is high, one sees the canister tins, long before one gets a peep into the huts or grocers' shops. Beaten into sheets and painted with tar, they replace thatch on the roofs of the poorer huts, thatching material being so difficult to get these days. They have to do for corrugated zinc sheets which are beyond the means of the poorer villagers.

From beaten tin sheets nailed together and painted with tar to collapsible tubes, offset printing and enamelled perfection, is a far cry. But modern technology makes its way slowly but steadily even into the most unsuspected places. The Bengal village scene, with its ubiquitous canisters, has been changing too, however imperceptibly and tin cans which are smaller but brighter have been slowly making their way on to the bamboo racks inside the huts and replacing steadily the canister of the old days. The process of penetration, however, is less perceptible, because cigarette tins, containers of tinned foods or even the larger Dalda tins cannot be beaten into sheets and nailed together so conveniently for outer covering for village huts either on the walls or the roofs. Along with this penetration of tin cans goes a process of change and transition.

Metal Box are the instrument and the agency for this change and transition and have been doing the job almost single handed, the change from twigs to toothpaste, from fresh fish and fruits to canned foods, and from earthen pots and plates, hand painted or plain, to the finest products of modern technology, all carried out on a thin plate of tin or rather some metal composition, with a plating of tin. They run their major factories in Calcutta, Bombay, Madras, Delhi and Bangalore, but a factory exclusively for printing plates in the latest design is exclusive to Calcutta only, for the present. Here printing is done by the photo offset process with pinpoint accuracy for advertising show cards, instrument dials, and tins for foodstuffs, pharmaceuticals, baby foods, paints and toilet goods. The final products are frequently fine examples of commercial art and manufacturing technique that will stand exposure and storage under the most difficult conditions.

They hardly sell anything however directly to the final consumer except perhaps tin trays and a few odds and ends. Their clientele are other industries, chemical, pharmaceutical and food processing industries. Between manufacturing and selling, between the producer and the final consumer, comes the packager and Metal Box come in everywhere, with their specialised tin printing, plain and lithographed general line tins; composites; collapsible and rigid tubes from lead, tin and aluminium polyethylene bags; advertising showcards and novelties; insecticide sprayers; toys and other hardware; crown corks; screw caps, pilferproof and other closures and industrial components. They supply the leading manufacturers and as such, the company's activities embrace only the urbanities directly, but through the latter, if in the humble form of discarded tins, they embrace the villagers too.

Metal Box celebrated the opening of their new printing factory at Calcutta the other day with a pleasant social function. The guests were shown round the ultra modern factory which occupies 10 acres on Hyde Road extension. Designed with an eye to giving unusually fine working conditions, the building itself had much to interest the visitors and engage their attention. But the hosts were not content with that. They had arranged a course to initiate the guests, by easy stages, into the technique of sheet metal printing by offset lithography. The first lesson the visitors had to learn was that water and grease do not mix. That is what makes lithography possible. The course ended up with actual printing. Automatic feeding leads on to it and the printing is followed by stoving, taking off the oven itself being a delicate process but it is only a preparation for putting on the next colour or varnishing; the latter gives the final finishing, after which the sheets go to the stores to be cut into pieces and made into required shapes and forms.

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INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-group	Week Ending 28-1-56	Week Ago	Month Ago	Year Ago
I. Food Articles:	333.7	333.6	327.4	302.5
Cereals	398	397	389	336
Pulses	356	370	356	246
Others	240	238	236	264
II. Industrial Raw Materials:	457.3	452.0	454.7	427.8
Fibres	454	450	456	473
Oilseeds	474	457	453	360
Minerals	433	447	448	389
Others	449	453	461	481
III. Semi-Manufactures:	347.6	354.4	351.4	342.0
Leather	335	424	411	387
Mineral Oils	202	202	202	221
Vegetable Oils	426	424	424	402
Cotton Yarn	436	434	434	445
Metals	280	280	279	240
Oilcakes	372	394	351	301
Others	330	330	330	334
IV. Manufactures:	374.9	374.4	373.6	376.5
Textiles	408	407	406	421
Jute	417	412	421	464
Cotton	403	403	399	411
Rayon & Silk	486	486	486	464
Woollen	278	278	278	310
Metal Products	371	371	371	340
Others	285	285	285	284
V. Miscellaneous:	536.2	536.0	547.5	571.8
All Commodities:	375.3	375.6	373.4	360.0

COAL PRODUCTION AND DISTRIBUTION

(Monthly Averages or Calendar Months)

('000 tons)

	Raisings	Despatches	Stock at Pit-heads
1948	2,485	2,155	2,262
1949	2,621	2,339	1,417
1950	2,666	2,401	2,008
1951	2,859	2,426	2,646
1952	3,019	2,566	3,519
1953	2,987	2,588	3,411
1954	3,064	2,662	3,771
1954:			
April	3,037	2,599	4,051
May	2,977	2,621	4,093
June	2,885	2,576	3,950
July	2,966	2,810	3,693
Aug.	2,958	2,926	3,380
Sept.	3,171	2,888	3,210
Oct.	2,921	2,787	2,914
Nov.	3,323	2,728	3,161
Dec.	3,503	2,747	3,468
1955:			
April	3,230	2,692	4,062
May	3,175	2,743	4,094
June	3,075	2,658	4,122
July	2,956	2,755	3,885
August	3,118	2,879	3,697
Sept.	3,378	2,802	—
Oct.	3,085	2,883	—
Nov	3,097	2,771	—
Dec	3,388	2,782	3,606

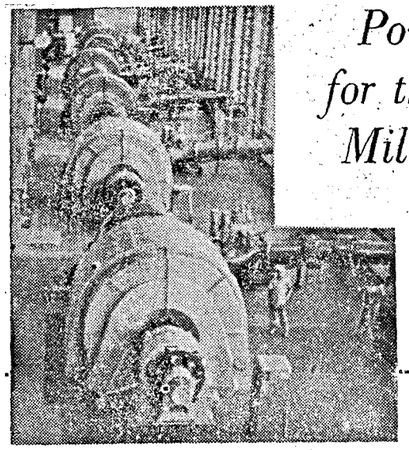
Sources: (i) Directorate of Statistics
(ii) Indian Trade Journal

WORKING CLASS COST OF LIVING INDEX

(Monthly averages or calendar months)

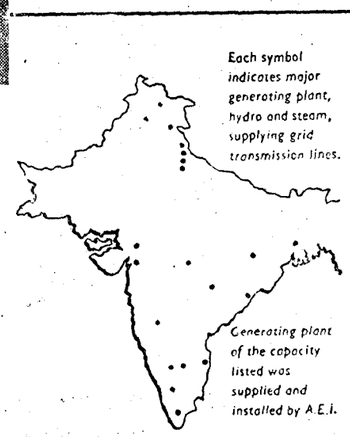
Bombay	Calcutta	Madras	Kanpur	Delhi	Jabalpur	Kharagpur	Ludhiana	Cuttack	Jharia
(Base: August 1939 = 100)					(Base Shifted to 1949 = 100)				
298	349	332	434	344	101	100	101	111	114
314	370	341	451	370	111	99	102	123	116
321	351	337	441	373	99	97	92	109	110
346	349	358	453	366	100	101	90	107	104
342	327	348	408	360	93	93	90	100	82
350	332	349	396	352	93	93	91	101	81
349	331	346	400	349	93	93	88	100	81
345	330	343	408	352	93	93	88	99	79
347	332	342	406	357	91	94	90	101	80
346	336	345	404	368	89	94	88	101	80
344	325	344	387	363	89	94	89	100	79
341	321	344	369	352	87	91	88	97	73
320	315	313	335	318	85	87	80	100	75
317	317	317	347	318	87	93	80	101	76
324	325	322	371	336	90	96	82	101	77
325	329	325	375	347	88	95	83	103	79
317	327	337	373	347	88	94	84	106	80
315	334	330	385	347	89	95	85	100	—
314	339	334	392	354	—	—	—	—	—

Sources: (i) Weekly Bulletin of Statistics C S O
(ii) Indian Labour Gazette



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● Greater Calcutta	1,61,000 KW
● Madras (Basin Bridge) ● Pykara, Mettur. ● Papanasam and Moyar	2,15,450 KW
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Lost Opportunity

AMRITSAR was a challenge as well as an opportunity to Congress. It has missed the opportunity but has accepted the challenge. The manner of its acceptance, however, the arrogance with which it has taken up the challenge, will be deplored by all democratic elements within the country. Before independence, Congress equated itself with the country. It was justified in this claim. Congress was the only national organisation which represented the true instincts and aspirations of the people. On all major issues, Congress and the people spoke with one voice. Much has happened since independence. Congress is no longer the only political organisation. There are issues on which Congress and the country no longer think alike. Amritsar is an agonising reminder that Congress is determined to impose its iron will on the people against the wishes of the people. Congress, the party in power, opposes the people's demand for linguistic States. At Amritsar, Congress bluntly told the people that it will not accept the country's demand for linguistic States.

Congress is the only political organisation which rejects the demand for linguistic States. Competent political commentators are agreed that Congress will lose the elections if it decides to seek a mandate on this issue. Congress has no intention to accept this challenge. Pandit Nehru talks about the need for Congress, the major political party, to co-operate with those who hold different views. But Congress shows no desire to hold an all-party conference to discuss the issue which divides it and the country. Instead, it relies on its overwhelming majority in Parliament and in State assemblies to impose its decision on the people. It seeks to justify such a policy on the accepted conventions of Parliamentary democracy.

Here, one of the most revealing aspects of Amritsar deliberations may be emphasised. Congress leaders are familiar with the technique and organisation of political parties. On the issue of linguistic States, there is widespread dissension within Congress. It is common knowledge that, in Parliament as well as in the State assemblies concerned, Congress members will themselves, if allowed free choice, vote against the Congress decision on the SRC recommendations. Developments in Bombay and Orissa and the reaction in Bengal against the proposed merger of Bengal and Bihar are rude reminders to Congress that it is a house divided against itself. But the Congress reaction to developing events is symbolic of the authoritarian element within this organisation. In the name of discipline, it has formulated measures to streamline the organisation which will leave Congress members with no alternative to bowing down to the diktat of the "High Command". Organisational aspects of the Amritsar session emphasise that Congress has, for the first time, admitted, by implication, that it is only one of the many political parties in this country.

Congress does not lack ingenuity to spread confusion of thought and of purpose. Shri U N Dhebar, the Congress President, echoes his master's voice in disparaging popular aspirations for linguistic States as "tribal, feudal and bourgeois values". All thinking persons will feel bewildered at the deliberate distortion by Congress of the demand for

linguistic States as parochialism. It is surprising that Congress should misinterpret or misjudge the people's claim for linguistic States in order to develop their languages, culture and tradition. It is much more surprising that Congress should deliberately tinge it with a political complexion which responsible advocates of linguistic States disown. Congress has, by inventing threats, complicated a problem which is as simple as its solution should be.

To accept linguistic States, is not to condone violence. But even as violence is to be condemned, Congress will be accused not only of provoking passions, but also of political dishonesty in exploiting the violence of its own creation as sinister evidence of irredentism. If the Congress response to the people's demand discloses its lack of contact with the people, the alternative solution formulated by it reveals its political bankruptcy. Congress has accorded "warm welcome" to the proposed merger of Bengal and Bihar. Equally "warm" is the Congress welcome to Pandit Nehru's proposal for four or five regional States. This formula has been rejected by the people on the ground that it ignores the people's claim for linguistic States. There are weightier reasons for rejecting such proposals. Formation of four or five large regional States will not prevent but is more likely to provoke, civil war in the future. Creation of such large regional States has sinister implications. Demand for linguistic States has no, or should not have any, political content. But large regional States have associations which may easily explode into threats to the political stability of the Republic.

Congress is as confused in imagining a threat to territorial integrity from the demand for linguistic States as in hoping that a bold second Plan will satisfy the people's emotional urge for linguistic States. Poverty is an ever-present menace to political stability. Advocates of linguistic States claim, and not without logic, that the fulfilment of the demand will lead not only to social and political stability, but also to a more spontaneous response to the second Plan. Congress is wise in framing a bold second Plan to evoke hope and enthusiasm among the people. In spelling out Avadi, Congress has been successful in discrediting both Communists and Socialists. But it insults the intelligence of the common man in rejecting the demand for linguistic States on the plea that its acceptance will create chaos. Congress has ceased to equate itself with the country. It now claims that it alone can ensure stable and ordered development. It invents threats to coerce people to lend blind support to it so that it can become politically strong to impose its diktat on the people. India must be economically strong to ensure political stability. Congress has the support of the people for implementing the second Plan so that the nation can gain economic strength. But the people resent the undemocratic assertion by Congress that it has any right to force its decision and policies on them.

Away from Planning—To the Forests

THE Draft Outline has now been circulated for eliciting public opinion. This is the time for the Planners to take a holiday from Planning. The same privilege may be claimed for humbler folks also whose business it is to dabble in *Planning*. What a pleasure it is to be able to get away from Delhi, for example, just at this time of the year, after the bustle and noise of the Republic Day celebrations and betake onself to nearby hills, preferably to Almora which, not being a fashionable hill resort, welcomes visitors all round the year. What a magnificient invitation is extended by the mimosas which are now in bloom and by the apricots, which have just begun to put out their buds. This is the time of the year to go to the forests. Those who are denied that pleasure, can have the next best and work off the fatigue of heavy days in office, and crowded programme of celebrations in Delhi, sampling the attractions of the roads that take you into the sorrounding wooded hills. At least in Kumaon, Vasanta Panchami is still observed punctiliously and lemon yellow is the colour on everyone, man, woman and child, be it only in a kerchief dyed in vasanti.

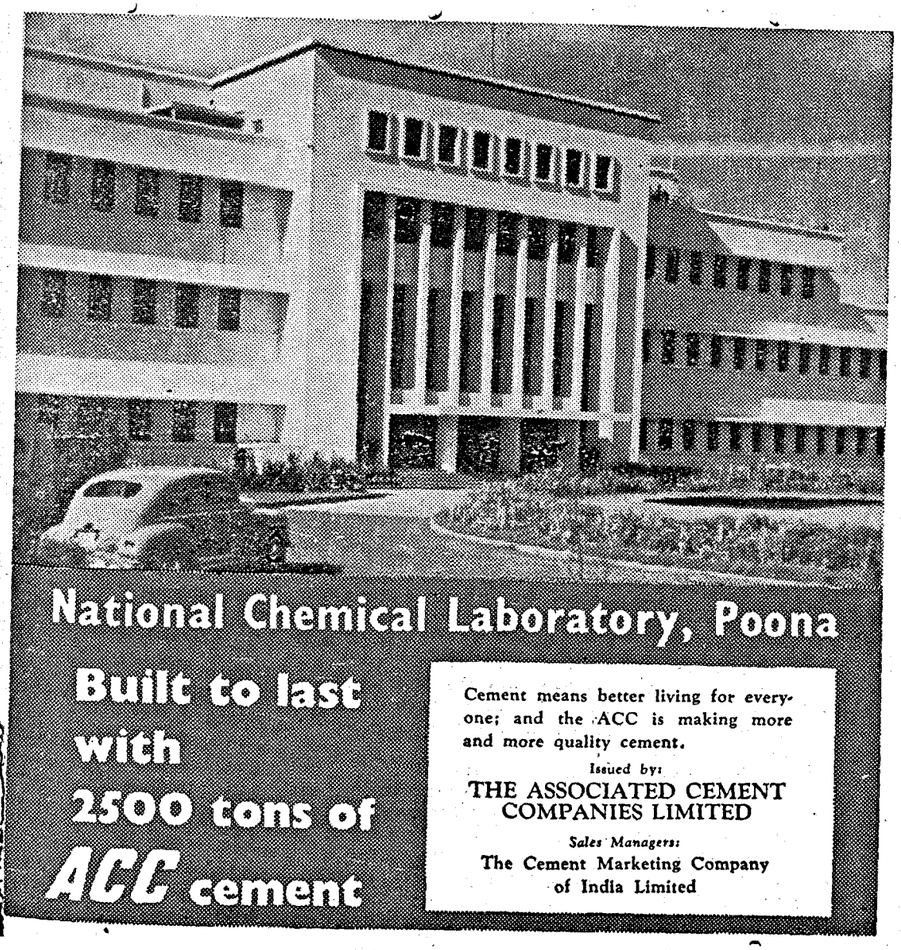
To those who are denied the pleasure of travelling—in a planned economy in the making such pelasure should be strictly verboten, being anti-social—there is the substitute satisfaction of turning over the pages of a railway time-table or studying bus routes and road maps. The Directorate of Economics and Statistics of the Ministry of Food & Agriculture have thoughtfully placed Indian Forest Statistics in our hands just at this time. What could be better for those unfortunate ones who want to take their minds away from Planning for a while and yet cannot betake themselves to the forests than to turn over its pages and wallow in forest statistics? We will not quarrel why the statistics for 1950-51 and 1951-52 issued in one volume in 1955 should reach us in 1956, nor why the subsequent issue Volume I (*Summary* Tables) for 1952-53 should have reached us weeks earlier.

What a wealth of statistics, all classified neatly under so many heads and what a number of tables under each head, numbered serially in decimals in the approved style of scientific publications! The Introductory Note however is laconic, and does no more than set out the headings of the tables and the tot figures against each head. A depar ture from the severely statistical in respect of the new forest polic formulated in May 1952, replacin the old one of 1894 which finds place in the publication though brings the story only up to Marc 31, 1952. Another departure is in r spect of the Rajasthan desert. T otherwise dry Introductory Note relieved by a piece of colourful wri ing on the march of the desert whic we are told, "has spread through th ages and threatens to engulf th fertile alluvium of the Indo-Ganget plain". *This sounds ominous* indee For all one knows, the threat ma be imminent. But there is no inte tion to raise a scare. *The measur* recommended for the immobilizatio of the desert are set out in deta too.

In the tables there are many gap e.g., in those purporting to gi e t estimates of the volume of s ands timber and firewood. Little i tion on the subject is availabl for forests under the Forest ment. *Only* a few of the St ported anything on the subje forests under civil authorities still reported *on forests* und porate bodies. One cannot v

hold the compilers responsible for the remissness of the reporting authorities; one can only admire their courage and boldness in pressing ahead with the totals, undeterred by gaps or thoughts of comparability. But just as there are gaps in some places where information is most to be desired, there is too much information in others where gaps would have been more discreet. The tables of employment are a case in point. The total employment in forests is given as 135 million in 1951-52, of which 44 million are supposed to have been mainly and 91 million partially dependent on Forest and Forest Industries. This is startling indeed, and should give added impetus to Vana Mahotsava. Whoever can say after this that 'tapovanas' have disappeared from the face of India, when 135 million out of her total population of 357 million continue to derive their livelihood, directly or indirectly, from her forests? The Introductory Note solemnly reproduces these figures, disdaining to take any note of a humbler series in another table in which the daily average of persons employed in forest and forest industries is given as 370 thousand, of which 120 thousand are mainly and 251 thousand partially so employed. The Directorate have been so busy centralizing these statistics and taking over from the Forest Department that they probably did not have the time or the energy left to look into such minor details. Or is it that they, too, have become employment-minded and fallen a victim to the Government propoganda? That is not unoften the case. Propoganda recoils on those who propogate; how else could it be effective? One must first convince oneself.

Alas! even the delight of browsing through the forest statistics is not for everybody. It is only for those who are prepared to pay Rs. 20 for 192 pages of tables. If such statistical delights are only for the Government departments, why price the publications at all? The theory of costing that Government publications follow may not be democratic in that it prices out prying eyes, but it is sound accountancy. The method is somewhat like this—First find out the copies needed by the departments for distribution, next decide the total number of copies to be printed and then put the entire cost on the balance of the copies, that is, those not needed for free distribution. It is just as simple as that. What if, as a result, the publication does not sell at all? You cannot blame it on Government accountants. They take no risk with public money and cover the cost in advance and in full, on paper.



Weekly Notes

ECAFE Conference Concludes

A CORRESPONDENT who attended the Bangalore Conference writes :

To a casual observer, the principal feature of the ECAFE meetings was the introduction of the 'luke-warm' as distinguished from the 'cold' war in the discussion of the economic problems of the region. Apart from the normal introduction of the China question, the discussion was enlivened by the USSR's offer of economic aid and technical assistance. This was prefaced with the usual criticism of economic aid previously given on the grounds of political strings, and was buttressed by the statement that Russian aid would be free of such strings. The United States delegation answered this thinly veiled attack and in turn summarized its past and future aid programme. If the countries of the region are in fact able to take advantage of these offers, they should gain by the competition to give them assistance. The Russian criticism and the general reaction to the present aid programme also raised questions with respect to the superiority of a programme of aid or one of loans on a straight business basis in terms of creating less antagonism on the part of the recipient.

One would have wished greater discussion of the economic problems of the region, and of the integration of their respective plans of development. Perhaps, however, this is too much to expect from an organisation which consists of a wide variety of independent countries, each very sensitive of its position and of criticism from other bodies.

The conference concluded with generous appreciation of Dr Lokanathan's work for the Commission on his proposed retirement from ECAFE to head a programme devoted to the study of problems of industrial development in India.

The Future of Indian Tobacco

IS the favour that Indian tobacco enjoyed in West European Markets, particularly in Britain, proving to be temporary? Was it fortuitous and is it now disappearing with the passing away of Europe's dollar shortage? In British markets, of course, India enjoys the benefits of preferential duties and for tobacco, on which import duties are very high in every country, the preference does mean a lot. But it has to be shared with Rhodesia, another Commonwealth producer. Cultivation of tobacco in Rhodesia, however, is an organised affair and on a plantation scale, in which British settlers and British capital have been trying their best to improve quality. That American grown virginia tobacco should still hold the field, despite dollar shortage and high duties, proves how difficult it is to work against consumer preference. Not that consumer preference is everywhere for one standard product—bidi tobacco has its own clientele and so have others. Hence Shri Randhawa's exhortation for "competitive improvement in quality" at the last meeting of the Indian Central Tobacco Committee has to be interpreted accordingly, keeping in view the special markets for various grades.

Such qualifications are particularly called for when the meeting was held in Anand, in the heart of Gujarat the principal grower of bidi tobacco which has its own difficult problems of grading and differential excise duties which baffled the Taxation Commission. On the recommendation of this Commission, the Government has appointed an Expert Committee to review the present complicated structure of tobacco excise duties. The main point for examination is however the procedure to be adopted and the criteria to be applied for various grades according to their useability or intended use for the different purposes for which tobacco is used.

The tobacco trade has been slowly pulling itself up from the severe slump which overtook it in 1953-54. Reduction of duties offered as a special concession for clearing old stocks helped. So did the export drive resulting, among other things, in an off-take of nearly 9 mn lbs by China. What it means for the trade may be judged from the fact that exports to Britain, the largest customer for Indian tobacco, were of the order of 33.5 mn lbs in 1952-53, 30 mn lbs in 1953-54 and 31 mn lbs in 1954-55.

As a result of all these special efforts, the stocks which had accumulated over several years have now been liquidated, according to Shri Randhawa. But this is a statement which Gujarat will find hard to accept.

About the measures proposed for the improvement of the tobacco crop there are some special features. One is the suggestion for co-ordination the work of the various commodity Committees, the idea being that the commodity stations should be multi-purpose instead of devoting themselves to only one crop like sugar, cotton or oil-seeds. Another is the creation of a statutory monopoly for handling all tobacco exports. It would have been helpful had the Chairman given his reasons why he considers tobacco to be specially suited for State Trading. Is it because export drives in the future have to be directed to countries behind the iron curtain for which State trading would be the most suitable method of trading? Or is it also because Indian tobacco will have to look increasingly to South East Asia, for which existing trade agencies are hopelessly inadequate?



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Self-Government for Malaya

BY the end of August 1957, Malaya will emerge as an independent country within the Commonwealth. By then, the Government of the Federation of Malaya will assume complete control over external defence and foreign affairs. It will immediately assume responsibilities for finance and internal defence. Tengku Abdul Rahman, Malaya's Chief Minister, is satisfied with the outcome of the London negotiations. But some of Malaya's nationalist elements may have doubts on two major issues. One of the conditions seems to be that Malaya will be granted independence within the Commonwealth. With the exception of Burma, all the former Asian territories of Britain have willingly decided to remain within the Commonwealth. In the absence of details, it is not quite clear whether the Malayan Federation will be denied this free choice.

To stress this aspect of the Malayan-British negotiations would be as unwise as to emphasise the interim arrangement whereby the armed forces fighting the Communists would be under a British commander. A Malayan Minister for Internal Defence will be responsible for the policy relating to the Federation's campaign against the insurrectionists. More debatable is the provision under which the Tengku Government has agreed to the stationing of British and Commonwealth troops in Malaya both before and after independence, though the garrisoning of such troops after independence is to be governed by a treaty. Malaya's strategic position in South-east Asia will not be denied. It will be equally unrealistic to ignore that Malaya is a valuable dollar arsenal. Available details indicate that Malaya will have reasonable economic freedom enjoyed by all sterling area countries. But the continued existence of foreign troops in Malaya even after independence is an issue which the Communists are most likely to exploit. It will be recalled that Chin Peng, the Communist leader, gave an undertaking to lay down arms on the condition that the Federation Government would have full authority over internal security and that foreign troops would be withdrawn from the peninsula.

This is not the only problem that the Tengku Government will face in the process of transfer of power by Britain. There is the problem of association between Malayan mainland and the island of Singapore. Mr Marshall, Singapore's Chief Minister, will pay his second visit to London in April next. He will go to London to continue earlier talks about the grant of full self-government to Singapore. This island's strategic position is more important than that of the mainland. This may be one of the reasons why the Tengku has found it politic not to discuss any joint plan for linking the island with the mainland. But some association between the island and the mainland will have to be established in the ultimate interest of the peninsula as a whole. Developments so far indicate, however, that both Britain and the Tengku Government favour separate political arrangements between Britain and the two parts of the Malayan Peninsula.

Reasons which make Tengku Abdul Rahman unwilling to enter into any close association with Singapore are significant. There is a considerable Chinese element in Singapore's population. That is why the Federation Government is reluctant to establish any close political link between the island and the mainland. This underlines the racial complications in the Malayan Federation. In the mainland, there are, besides the Malays, considerable numbers of Chinese and Indians. Since the war, there have been some attempts at racial fusion and amity in the Federation. By insisting on a declaration of loyalty, the Tengku Government implies that the Chinese Communists have extra-territorial sympathies. Though the Alliance Party's attitude to the Indian population in Malaya has yet to be clarified, this racial aspect of the Malayan problem is of direct concern to New Delhi. Malaya's rapid emergence as a free nation will be welcomed by India. But there will be hope that the emergence of Malaya as a free nation will not repeat problems which now affect the relations between New Delhi and Colombo.

Military Pacts

THERE can be no smoke without fire. Sir Anthony Eden denies that there is any disagreement between Britain and America on the Baghdad Pact, though he confesses that the two countries differ on many aspects of the situation in far east Asia. Circumstances preceding the Baghdad Pact as well as subsequent events lend weight to suspicions about differences between Britain and America on this issue. It was at the initiative of Mr Dulles, the American Secretary of State, that the Baghdad Pact was mooted. America has a team of observers, but she is not a member of the Baghdad Pact. It is this fact which has fostered rumours about disagreement between London and Washington on this issue.

Oil dominates politics in west Asia. There are suspicions that conflicting oil interests of Britain and America have created certain differences in emphasis in these countries' policies to west Asia. There have been insinuations that America is unwilling to become a full member of the Baghdad Pact in order to assuage Saudi Arabia, an oil-rich country which is united with Egypt in resenting the Baghdad Pact. There is an issue in dispute between Britain and Saudi Arabia. It is, therefore, not difficult to appreciate why the British Press is suspicious of America's attitude to the Baghdad Pact.

America pursues an active policy of creating regional military alliances to contain Communism. Therefore, America should have lent energetic support to the Baghdad Pact. Subsequent events have shown the unwisdom of this alliance. It has provided Russia with the opportunity to extend her sphere of influence in west Asia. Anglo-American support to the northern tier has provoked Russian encouragement to the formation of a southern tier. This has complicated the already disturbed situation in west Asia. Increasingly it becomes obvious that the Arab-Israeli dispute is a threatening menace. Through the Czechoslovakian arms deal with Egypt, Russia has gained friends in west Asia. But neither Britain nor America is willing to help Israel with arms, as any such policy will further estrange relations with Arab States.

These diplomatic cross-currents in west Asia justify New Delhi's opposition to regional military alliances. It is undeniable that the Baghdad Pact has not only been exploited by Russia to extend its sphere of influence in west Asia. It has also worsened the situation in the border areas between Israel and Arab States. Similarly, SEATO has complicated the position in Laos, Cambodia and, in particular, in Indo-China. It is not without significance that Sir Anthony has recently taken elaborate pains to explain that the

Baghdad Pact has also the economic aim of aiding the undeveloped countries concerned. SEATO, incidentally, has not even this indirect advantage in its favour. That Congress, at its Amritsar session, will endorse Pandit Nehru's opposition to SEATO and the Baghdad Pact, was a foregone conclusion. But even those who do not accept all the aspects of India's foreign policy will concede New Delhi's stand that such regional military pacts are threats to peace in the areas involved.

Bhakra in News

THOUGH rightly regarded and called a joint project, the power part of the Bhakra project is separate from that of Nangal. The Nangal part of the project, both irrigation and power generation, has had a flying start; it went according to schedule and Nangal power stations have been feeding the Punjab transmission system for some time. In fact, the system won its spurs when the Nangal Ludhiana transmission withstood successfully the ravages of the flood which swept across the Punjab last year. Two power stations of 24,000 KVA each of the Nangal project have been in commission for more than a year; two other generators of the same capacity will go into commission next summer.

Bhakra dam, however, had been for quite some time somewhat under a shadow. Operations were delayed by difficulties which could not have been entirely unexpected but which had not been played up in the publicity literature issued at the time when the Nangal barrage was opened with such fanfare by the Prime Minister himself. There were landslides which held up work—last year's floods must have played their part also and above all, this being a project reserved for departmental execution, the team of foreign experts and State engineers naturally took some time to evolve a system of working together efficiently. Luckily, Bhakra just managed to keep out of the headlines which is saying a lot, considering the problems that were bound to arise in the departmental execution of such a colossal project. The administrative set-up, trained to a different system of working, had to be adjusted and made ship-shape to bear responsibilities which do not come to them as part of the day's work. Working with a large team of foreign experts itself inevitably raised problems of co-ordination and of sharing of responsibility. Knowledgeable persons are sharply divided in their opinion about the feasibility of departmental execution and therefore the reports that came out were highly coloured by the predilections of the individuals who were in the best position to enlighten the public. To cut a long story short, Bhakra did not hit the headlines for the wrong reasons, which is saying a lot.

Now that differences have been smoothed over and the machinery for execution has been set going, Bhakra should soon make headline news by making rapid progress. Until last November, not an ounce of concrete had been poured into the dam site; now activity is going on in full swing. A couple of months after concrete had started pouring into the dam, the Punjab Government has placed an order for 5 water-turbine driven A C generators for the first stage of the Bhakra dam. The generators, which will be supplied by Metropolitan-Vickers Electrical Co. Ltd., England, through its associates, Associated Electrical Industries (India) Ltd., Calcutta, will be of the vertical shaft type with a thrust bearing above the rotor and two guide bearings, one above and one below. Each generator will have an output of 100,000 KVA at 166.7 rpm. the voltage being 11 KV three-phase 50-cycles and the power factor 0.9. They are for driving by Francis type turbines of 125,000 hp each.

This order is one of the largest ever received by a British firm for this type of equipment and is valued at over £1 million. Among the ancillary equipment included in the order are five Metropolitan-Vickers type VYSR automatic voltage regulators, which are of the quick-response magnetic amplifier type. Delivery of the equipment is expected to commence in about two and a half year's time.

Though provision had been made originally for eight 90,000 KW units for the Bhakra part of the project, a technical committee which had gone into the question had recommended that after installing two of these, in addition to the power already available from the Nangal installations, the installed capacity would be adequate for the present and therefore decision regarding further increase in generating capacity should be postponed till the beginning of 1957. It had not been certain, however, whether one or two of these units would be installed in the first stage.

The present order removes this uncertainty. But it fulfils only the first stage of the programme and it does not, by itself, suggest anything about further expansion, which the technical committee had recommended should be considered only later. A point to be noted, however, is that these generators have a capacity viz 100,000 KVA each. This is somewhat greater than had been proposed earlier. What technical or other consideration led to this modification has not, however, been told to the public yet.

This is indeed another feather in the cap of Metropolitan-Vickers and their associates in India, AEI. The question naturally arises how Westing House who bagged the bulk of the orders for Nangal, or for the matter of that, other American manufacturers who have very largely led in this particular field of turbines, failed where AEI succeeded. Part of the explanation could be higher dollar costs of American equipment. American manufacturers score even in cost, where mass production methods can be utilised to the maximum advantage. In equipment like these which are more or less tailored jobs, and have to be specially designed, labour costs come in in a big way. American manufacturers may not therefore enjoy the same superiority and have often to lose to British and Continental manufacturers. This, to repeat, is only part of the explanation, for American manufacturers do not agree that this is the whole story. They contend that American specifications are higher than British or Continental. When British manufacturers compete for American orders, and have to quote for equipment of standard American specifications, in all such cases the price differences have been known to have narrowed down considerably.

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From the London End

Economic Aspects of the Malayan Agreement

THE agreement resulting from the Conference in London between the Colonial Office and delegates from Malaya is certainly a document of considerable significance. Apart from its constitutional provisions under which full self-government and independence is to be aimed at by August 1957, the concord on the financial relations between the two Governments and hence between Malaya and the sterling area as a whole suggests the degree of success, though not complete, achieved by the Malayans.

The agreement contains three important provisions relating to economic matters. In the first place, all financial matters of the Malayan Federation will be transferred to a Malayan Minister of Finance. Next, Malaya will remain a member of the sterling area. Finally, both parties to the agreement recognise the "importance" of overseas capital in the "social and economic development of Malaya".

The transfer to a Malayan Minister of Finance of all financial matters is, of course, the most important of the economic provisions. Monetary control is at present in the hands of the Malayan Currency Union (which covers the additional territories of Singapore, Brunei, British North Borneo and Sarawak). The functions of the Currency Union, like those of the West and East African Currency Boards, are strictly defined by the Secretary of State for the Colonies in London, who also appoints its members. The regulations provide that the Union should ensure adequate stocks of local currency but more important, to employ the Union funds in London in sterling investments of the British Government and in other securities approved by the Colonial Office. The Secretary of State for the Colonies does not permit investment of these funds in local Malayan securities.

The manner in which the Currency Union's activities are regulated, it should be observed, has important consequences on the supply in London of short and long-term capital. There is also the question of the sources of the accumulated funds of the Malayan Union which remain invested in London. The sources are principally two: the past surpluses on the balance of trade, and inflows of overseas capital for which a credit balance accrues to the Currency Board in London against the payment locally of Malayan dollars. At the end of 1954, the Malayan Currency Union held £303 million in sterling in London, which were distributed over various sterling securities, and were managed by the Crown Agents for the Colonies.

Against this current practice, the constitutional changes agreed to can imply that the Malayan Currency Union will be converted into a Malayan Central Bank under Malayan direction with power to liquidate some of the sterling balances against the issue of local securities and so employ these resources for internal economic development on some planned basis. It can mean that such a Central Bank will consider the Currency Union practice of a 100 per cent cover (in sterling securities) for its local paper issue as unnecessary and wasteful and so employ this large sterling resource for the import of capital equipment for the development of Malaya.

If these are the possible implications of the change, then the Malayans have certainly secured major concessions from the British. The type of self-government in West Africa is different. In the constitutions of the Gold Coast and Nigeria, finance, like defence, foreign affairs and internal law and order remain prerogatives of the Crown. The West African Currency Board remains intact, unaffected by the constitutional changes.

These possibilities for Malaya are, however, tempered somewhat by the second of the economic questions mentioned in the Agreement. Malaya is to remain in the sterling area and further "so long as a sterling area Balance of Payments Problem remained, the Federation would have to exercise restraint in its dollar expenditure". For 1955 it is estimated that Malaya had a balance of payments surplus of £ 15 million.

This balance was secured almost completely by Malaya's active dollar balance (in spite of interest payments on dollar account of about £17½ million). The clear advantage to Britain and possibly the Commonwealth countries of continued Malayan membership of the sterling area is thus self-evident. How far sterling area membership will really impinge upon Malayan financial independence is not clear. The present restraint over dollar expenditure does not allow Malaya to go to the cheapest and best market for its requirements. On the other hand, it is difficult to see how the small Federation could maintain a completely detached currency in a world of currency blocs.

The recognition of the "importance" of overseas capital (the third economic provision) is surely designed to give safety to existing British investment in the Malayan Federation. It is estimated that British owned investments in the rubber estates and tin mines are in the region of £150 million. The British controlled rubber-producing industries are represented by some 300 companies, 98% of which are registered in London. Britain's income from these investments amount to about £10 million annually. Probably the activities of these companies in the period of Malayan independence will be left uncontrolled and unrestricted and the British concession for this understanding is that the U K Government "will at all times be ready to examine sympathetically the Federation's borrowing needs on the London market in connection with its development plans."

The agreement reached has, by and large, been received with good grace in the British financial and economic Press. There has, however, been some anxiety also. The **Financial Times** devoted a column and a half to the implications of the agreement and tendencies likely to follow: Pressure to Malayanisation of the civil service and of British-controlled companies; Pressure of foreign companies to retain profits locally; Pressure to diminish the repatriation of British overseas earnings and the curb on the growth of the colonial sterling balances. It concludes:

> "The only question is whether British business and British official interests, like the Treasury, adapt themselves to it with good or bad grace".

This, indeed, is the 64-dollar quiz.

Mighty But Tripeish

Kurukshetra A Symposium on Community Development in India 1952-55. Publications Division, Government of India, on behalf of the Community Projects Administration. November 1955. pp. 525 Royal 8vo. Price Rs 7-8, 15sh, $2.50.

Reviewed by **Evelyn Wood**

THE variety of subjects treated in this large book unwarrantably stretches the term "symposium". For that matter, the so-called seminars which are such a useful device in Extension work take many shapes, but none of these so far recorded much resembles the original academic practice of a seminar. One of the strangest omissions in this book is an excellent article on Village Seminars which appeared in "Kurukshetra" for May 1955. This was a simple account of one way in which Extension works practically to change the attitudes of village folk by and towards community action. A much inferior article by the same author is included in the volume under review.

There is too much in the volume anyway. Much of the matter would have been better left out. Some of the pieces, notably those by a pseudonymous author, are so badly written and present such loose, turgid thinking that I suspect they have been included as comic relief. Perhaps the prize goes to this one:

> ". . this cataclysmic movement which will engulf all, levelling down the barriers between man and man, which today cloud the vision and paralyse the muscle."

This is an intriguing assembly of images, which far outdoes the horrors of the Bihar earthquake!

Each contributor must have knowledge—and must be identifiable. It is overstretching a "symposium" to have so many articles without bylines. A printed symposium requires that each author contributing be identified by at least a paragraph of potted biography. Considering the Hellenic original of the Symposium as a conversation tied to one subject as the wine flowed at the intellectual dinner-tables of Athens, this identification of the contributors is a very real need in a symposium. One must be able to see the background of the contributors to a symposium so that one can place values on their judgment in the subject treated.

Perhaps it is thought that the VIPs who supply the bulk of the text in this book are well enough known anyway. Most of the contributions of the really well-known names to this book are completely useless towards defining either Community Development or Extension work. They also fail to indicate any useful practice of rural development through such means.

Unblushing Confessors of Ignorance

It is not flattering that the foreign contributors make such a distinguished showing in this book. This shame could so easily have been avoided by omissions of so many of our superior persons who in fact don't know a thing about rural development, whatever may be their responsibilities. For example the following conflict of facts is allowed to appear, the first extract being from a putative Indian VIP and second from the head of the American TCM.

> (a) "The Community Projects, as they exist today in America . ." (Paragraph 1, page 12)
>
> (b) "America does not have "community projects" as such . . ." (opening of article on page 15).

There is a distressing facility among our VIP's for loosing off about things of which they have no knowledge. Writer after writer, holding a high position in the official world, has repeated the usual error for which the Programme Evaluation Organisation has rightly slated the superior Extension staff in the field. Here is a handful of such errors:

> p. 43 "The economic development of . . the Blocks is necessarily the most immediate and fundamental objective of our efforts . . " (Pandit K Santhanam)
>
> p. 165 "Logically, the prime objective is the revival of the economy . . " (Sri Sushil Dey)
>
> p. 177 ". . The programme . . aims at creating in the people an ambition for higher standards of living" (Sri Govind Sahai)
>
> p. 333 "Community Development is a people's movement by which village people advance their standard of living. The basic objectives are increased production and employment . ." (S C Roy)

The last authority here was the chief of Extension workers' training! His article is therefore the most remarkable of all the contradictions of the actual four objectives which were laid down by the Planning Commission and which have been expressed again and again by the Prime Minister. In this volume, there is plenty of stress on these real objectives. For comparison, they may here be quoted from the Report of the PEO on Second Year's Working of Community Projects, page 1, paragraph 2.

1. . . . a transformation in the outlook of the people, so as to make them desire progress and welcome new knowledge by which to achieve it.
2. . . inculcation of a spirit of self-reliance . . strong enough to face every situation as it arose with confidence and vigour.
3. Habits of co-operation through appropriate popular bodies.
4. Life and living of all . . a new enlightenment, strength and hope.

The distortion of these magnificently high-principled objectives by the unconscious play of dialectical materialism in the minds of many of the authors represented in this volume is quite shocking.

A Poor Show for Indian vs Foreign Authors

What hurts me most, however, is the fact that it is our own people who have wandered away from the real aims of the National Extension Service and its Community Development aspect. Not a single one of the foreigners represented in this volume makes this sort of error. The collection therefore makes it look as if only the lowly or the foreigners can maintain unanimity on the principle of humanities being the primes in rural development? This is certainly the impression which any person reading this volume would receive, if he had just previously studied the four major objectives quoted above.

Neither the Prime Minister nor the veteran Planning Commission chief, Shri V T Krishnamachari, ever slip in this way. But far too many of the other non-professional authors do so.

Plums and Lemons

Now for some good stuff, buried amidst all the verbiage. Shri G Ramachandran of Gandhigram near Madura, on p. 234, states the Gandhian principles of rural work with great clarity and a most refreshing realism. Further, on p. 57, Shri R N Bose most conveniently lists the 18 succinct items of village-work according to Gandhiji. The very next article by the distinguished American Sociologist, Dr Carl Taylor, is as clumsy as Shri Ramachandran's is clear; Dr Taylor says plenty about what Community Development is not, but he is disturbingly vague about what it is. This is disappointing from so eminent a social scientist. The effect is all the odder since the negative approach comes from one who does not belong to the 'Neti, neti' line of philosophy.

When Dr Taylor next appears in the volume, on pp 75 ff in co-authorship with Dr Douglas Ensminger, of the Ford Foundation, their summary of the situation is quite masterly. To be sure, there are far too many baseless statements to make the paper acceptable as a scientific contribution. But these romantic glimpses into India's Golden Past are perhaps something about which foreign friends feel that they have to be unscientifically generous in accepting myth, with open minds.

Shri M S Randhawa's article on Consolidation of (land) Holdings in the Punjab was absolutely first-class material, factual, concise—in fact that rare thing: a scientific paper which is also exciting—when it appeared complete with all its diagrams in "Kurukshetra" of June 1954. The matter loses all its punch when it is printed cold, in this volume, without a single one of its lucid illustrations.

As a completely outside and general view—but of a UP area—the Canadian High Commissioner, Mr Escott Reid, has a very fine article indeed on pp 150 ff. Mr Chester Bowles' "Fundamental Questions" on pp. 205 ff. should be enforced reading (and perhaps memorizing) for all Extension Administrators. Not merely Extension administrators, but all in that thankless profession of the desk should read Mr Ernest Neal (TCM Extension specialist) on pp 221|3. He is short, sweet; and, to my mind, final on the subject of who must do what in rural India.

A profound and well-written contribution is Shri P M Mathew's statement of the problems of Kerala development, pp. 243 ff. As a foreign contrast, it is astonishing how Mr Ramy Alexander, of the Ford Foundation's International Small Industries Team, entirely misses the point, on pp 292 ff. Mr Jack Gray, TCM Extension specialist in Bengal, is beautifully lucid on methods of demonstration pp 315 ff.

The contributions on Health in general and on Women and Children in particular are remarkable for their feebleness and obtuse, urban, apparently westernized superiority. Only Dr Barkat Narain's minor contribution on p 429 ff shows any realism towards this field of rural development; but he says far too little to be constructive. Perhaps he is wise in this reticence.

Dr Ensminger hits several loose nails in the present structure of Extension squarely on their heads, on pp 493 ff. But there are more wobbly nail-heads which he is perhaps too polite to hit—at any rate in public. This is a really fine analysis, especially as Dr Ensminger's smacks are firmly reasonable. Dr Carl Taylor redeems his reputation for precision on pp 479 ff, because he uses here the Socratic approach which always seems to make sociology more usable.

Empty Places in the Assembly

Gaps in the volume are remarkable for their prominence. A very serious one, in view of the high rate of illiteracy in rural India, is the complete absence of any useful reference to audio-visual or other teaching materials. There is not even a word about provisions for Adult Literacy. One article on films for villagers by Khwaja Ahmed Abbas is an exquisite specimen of the cardboard czar school of thought, which is so popular in Russia and Hollywood. Janab Abbas shows an amazingly limited knowledge of films for village proper, considering his actual experience.

There is not a word in the whole volume on the many experiments which were made in Extension by rulers of the Indian States. Mysore, Bikaner and Baroda are examples of the large States which definitely did something to keep village folk in the swim of progress, despite the rural freeze in British India of those days. Above all, the little Deccan State of Aundh was the root and stem of many of the improved practices of today's Extension. Yet no author seems to have heard of these efforts, doubtless because they are politically best forgotten.

Similarly, the thinking which opposes Christian missions must be active among writers on Community Development. Everyone in this book has ignored several of the Extension pioneers who worked under missionary auspices. The Rev. Denys Saunders of Hyderabad is a recent example. Verrier Elwin and Shamrao Hivale in the Maikal Hills are another. India Village Service of Dr. Wiser in Etah District is a very senior omission. The pioneer health work of, for example, the Madanapalle Hospital for women, and the Basel Mission's cultivation of handlooms in Malabar . . .all these might never have been, if this volume were to be taken as a guide to history, which it probably is not.

This book **should** have been a most important addition to the literature of Extension in India—which is a very new professional field, and, to my mind, of global importance to the future of human society. Hence my acute criticism of this really unfortunate publication. To readers abroad, this mighty but tripeish tome can only give the false impression that we are not serious, at any rate at high administrative levels, about rural development through Extension in India.

Production of the Book

The second half of the book, which is printed by a Government press, is very badly done; in sharp contrast with the nice clean job of the commercial printer who did the first half. There is no index, which is an unpardonable omission in a supposed reference book of this bulk. The binding is flimsy, pages are not properly stitched in. The preliminary pages are poorly designed, and the binding case itself is unbelievably shoddy in fact as well as in appearance, especially for a fifteen Shilling book.

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Regional Differences in Customs and Village Institutions

M N Srinivas

Enough work has not been done in the field of Indian ethnology—enough, i.e., to enable anthropologists to mark out clearly the various culture-areas of this sub-continent. True, a certain amount of work has been done in this field—the major linguistic divisions have been sorted out, the racial composition of the population has been analysed and the kinship terms used in different parts of the country have been discussed. Even so, we are only at the very beginning of our researches. Prof. Srinivas is, therefore, afraid that the title of this paper assumes a level of advancement in our anthropological studies which simply is not there.

There was another reason for his diffidence in publishing this talk delivered on June 14, 1955 to non-Indian members of the Orientation Course conducted by the Delhi School of Economics. It was prepared in a hurry and without adequate library facilities. The subjest matter of the paper, however is so important and interesting that the author has been prevailed upon to agree to its publication though he would like to make it absolutely clear that it is elementary and does not claim to incorporate any new material whatever.—Ed.

THE first important regional difference deserving of mention is the different types of village settlements obtaining in different parts of the country. In a great part of India villages are nucleated while in a few restricted areas they are dispersed. By a nucleated village I mean the restriction of the inhabited area to a comparatively small space while the fields which the villagers cultivate lie round about. A nucleated village is easy to mark off from other villages, because it has a certain physical distinctness, and is separated from other similar villages. Nucleation usually means a certain amount of separateness of social life—each village is a unit of communal life, the members of the village being bound together by the ties of neighbourhood and by common social experience of misfortune as well as joy over a long period. Each such village constitutes what the Americans call a "face-to-face" community—by this is meant that relations between persons are usually direct, and each man knows a good deal about everybody else. It will probably be not inappropriate to call such a community a "back-to-back" community, because of the great interest which each person shows in other members of the village, which naturally leads to gossip and unpleasantness.

Dispersed Villages

A dispersed village on the other hand has not got such a distinct physical identity. In a dispersed settlement each farmer lives on his own farm, and what is called a village is very often nothing more than a number of such isolated farms brought together for purposes of administration. The administrative village may not have any correspondence in social life. For instance, a barber in an administrative village might be serving two or three adjoining administrative villages while the washerman living next door to him might be serving six or seven villages, and a musician eight or nine villages and so on. In such a case the administrative village is nothing more than the gathering together in one area of a number of people each with his own distinct sphere of activity. Such a situation could be diagramatically represented by a series of intersecting circles.

Dispersed villages obtain on the west coast of India, south of Mangalore, in Coorg, Wynad, and in the north-western parts of Mysore State. Modified dispersion obtains in Ratanmahal and Panchamahal areas of Bombay State. By modified dispersal I mean that the type of dispersal which obtains in Malabar or Coorg—each man ideally living on his own farm—is not there, but instead we have a situation in which the members of a lineage are collected in three or four houses or huts in the midst of their fields, and a village is made up of a series of such small collections. It is not unlikely that dispersed villages also obtain in other areas of India, especially in the mountainous and forested parts. We have not heard of them. (I am not here suggesting that dispersed villages necessarily occur in mountainous areas. It is interesting that while the whole of Coorg is covered with mountains, dispersed villages occur only in the southern and western parts, while in the northern and eastern parts nucleated villages occur.) It is interesting to know that a distinguished economist surveying Indian villages commented that there are no villages in Western India. What he meant was that there were no nucleated villages.

Form of the Local Community

A question which the sociologist cannot help asking is, "What forms does the local community take in dispersed villages?" There are some who maintain that in such areas it is the caste which is the local community and that there is no village unity as we know it to exist in nucleated villages. And another question that we have to ask is, "What other things accompany dispersal?" "Do caste relations become really far more important in a dispersed village than in a nucleated village?" In the case of nucleated villages, the defence of the village community from robbers and wild animals—this was a very important consideration before the establishment of **Pax Britanica**—falls on all the inhabitants living in the settlement. An epidemic or a drought or flood affects practically everyone and, during famine and epidemic it was common for the entire village to be shifted. This assumes that there is a body of elders who can take decisions and who see to it that everybody obeys these decisions. In a dispersed community all the members of the village do not live together, and the problems of defence etc. have to be faced by a small group living in the same house or in adjoining huts. Does this then mean that dispersal gives rise to greater kinship solidarity expressed in the occurrence of large lineages? This is a situation that obtains in Coorg as well as in the Panchamahals and Ratanmahals.

Types of Tenure

Villages differ from each other in the type of tenure under which rights in land are held. Earlier writers on the village community like Maine distinguish between two types of villages in India—the 'joint' and 'severalty'. The 'joint' type prevails in N.W.F P., the Punjab and U. P., while the 'severalty' type prevails in Peninsular and Central India. The 'severalty' type existed in Bengal and Bihar before the introduction of Permanent Settlement in 1793. The 'joint' type may be further sub-divid-

ed into Pattidari and Zamindari sub-types, in both of which the village lords constitute a joint property of an organized proprietary body. But while in the Pattidari system the joint families constituting the proprietary body own separate shares in the cultivable land, and hold the waste and pasture lands in common, in the Zamindari system all land is held and managed in common, and not divided. In the latter (zamindari) sub-type, the tenants, if any, are tenants of the whole body of proprietors, their rents and other receipts are paid into a common fund from which common expenses are met; and the annual profits are divided among the co-sharers according to their respective shares. In a 'joint' village, there are two classes of men, one with proprietary rights, the other without them, power resting exclusively with the farmers.

The 'severalty' village is also called a 'ryotwari' village. The term 'ryot' means peasant. In a 'severalty' village—it must be remembered that this type is prevalent over the greater part of India—the unit of land revenue is not the entire village, but the holding of each individual owner. Each holding is separately assessed, and each owner is individually responsible for the payment of tax. A 'severalty' village has also some waste and pasture land in common, but unlike in a 'joint' village, the waste and pasture may never be—not even during an emergency—utilised for the purpose of cultivation All that the villagers have, are only certain rights in waste and pasture-land—the village cattle may graze on the pastureland, and villagers may collect fuel from the bushes growing on the wasteland. (If, for instance, there are any mango or tamarind or coconut trees growing on the waste land, the Government auctions the fruits to the highest bidder.)

It is necessary to mention here that in Bengal proper the landowners hold generally considerable plots, on a permanent settlement of the amount to be paid to Government, while in the north-western areas of the Indian sub-continent there are often a great many land-owners in a single village, holding land by a common settlement which is periodically renewable. Thus, in the latter areas, if one family decreases in size and another increases in size, the headman, in consultation with the elders, may redistribute existing arable land. (I am told that this type of tenure obtained formerly in the N.W.F.P. and that nowadays it does not exist even there.) This is not possible in the 'severalty' areas where, if a family dies out, land escheats to the State.

Wide Variety, Infinite Complications

I have given a very brief and superficial idea of the different types of tenure obtaining in India and I have derived this from standard writers like Maine and Baden-Powell. I am certain that the situation as it obtains to-day is far more complicated than is indicated in the above account. The only remedy to this deplorable situation is conducting intensive field studies in different parts of the country. The present situation is so bad that there is vagueness even in certain essential terms like zamindar—a zamindar might mean anyone having proprietary rights in land in contrast to the ryot who is only a tenant having only certain occupancy rights. It is the zamindar who pays the tax on land to the Government. In another and more restricted sense, zamindar refers to a person whose ancestor was given a gift of land by the local ruler for services rendered. The terms of the gift differed in each case—sometimes a man was given rent-free land while at other times he was required to pay full or partial rent. The zamindar may cultivate the land personally through servants or may hire it out to tenants. In course of time, numerous intermediaries established themselves between the zamindar and the actually cultivating tenant.

A treasure TO HAVE

Glass vase with human figure ornamentation, by Simon Gate.—Swedish.



A pleasure TO SMOKE



Wills's The "Three Castles"

TC/134

In some parts of the country such as Malabar, Andhra, Bengal and U. P., the land granted to a zamindar often ran to several hundred acres. Another term which is used for zamindar is Inamdar. In Mysore a Jodidar is one who has the rights of collection of tax over a group of villages included in the jodi gift. In Malabar, zamindars are called Jenmis. One of the features of agriculture in Malabar is the number of intermediaries who have interposed themselves between the Jenmi and the cultivator. There are several varieties of tenure in the small area of Malabar. In Coorg, the dominant tenure is Jamma—a Coorg holding land under Jamma tenure pays a trifling amount of cash as tax. Under the Lingayat Rajas of Coorg each able-bodied Coorg had to serve in the Raja's army, and this was a condition of Jamma tenure. There were, in addition to military service, other services and gifts to be paid. There was also another type of tenure in Coorg called Sagu, in which the landholder paid twice the tax which a Jamma-owner paid, but he was free from having to render military services to the State. Sagu tenure did not have the prestige of Jamma.

Origin of Zamindars

One can go on enumerating the various types of tenures existing in different parts of the country. But it is not necessary for our purpose. My only point is that we have been using terms like zamindar and inamdar very loosely. What is needed is a clear recognition of the various senses in which the term is used, and to specify in each case in which particular sense the term is used. We should also try to list the various services which were due from and to the zamindars. I am certain that we will find as a result of our investigations an extremely complicated system of rights and duties, some customary and others personal, binding together a number of individuals and groups. So far land tenure has been studied either by lawyers or economists and not by sociologists, and the result is an over-emphasis on legal rights and their economic consequences and a deplorable neglect of the facts and customs as they really are, and of the total social matrix in which the rights and duties exist and function.

In origin, these gifts of land were made to distinguished citizens such as soldiers, musicians and scholars, or to court favourites and courtesans. What is more important for our purpose, however, is that in each village community there are a few hereditary officials and servants whose services are guaranteed by gift of land. Chief among such officials are the village headman and accountant. Certain village servants such as the **chakra** in Mysore State, and the waterman were also given gifts of land. It is the duty of the **chakra** to help the accountant and headman in the collection of tax, and the **chakra** has also other duties such as running errands for visiting officials and to act as town-crier when necessary. The waterman is an important figure in areas where canal or tank-irrigation obtains—he regulates the supply of water from the water-source to the fields. Frequently he is given in addition to land, a head-load of grain-with-stalk by each cultivator during harvest. The temple-priest enjoys land with which the temple is endowed—either by the state, or privately by pious individuals. There is, in addition, a priest who functions at marriages, funerals and other ritual occasions—such a priest more often has only the right of acting as priest in a defined group of villages. This right is heritable, divisible, and disposable otherwise. The point is that the village community requires certain services, and the rulers of old tried to secure these services by gifts of land to the concerned functionaries. In certain parts these functionaries were given a share in the grain produced in the village, or a share of the money-tax collected, but a gift of land is more valued than other payments because land means not only greater security but also greater prestige.

Types of Cultivation—Tribal

From the point of view of the type of cultivation prevalent, villages may be classified into three types: tribal villages where shifting cultivation obtains, and in those areas where there is cultivation with the plough, land may not be irrigated. Shifting cultivation—the Americans call it slash-and-burn—occurs in the forests of the Central belt where it is common for tribes to set fire to a stretch of forest and sow the seeds broadcast in the ashes. Every few years the tribe moves off to a new stretch of forest. This type of cultivation is called **Bewar**. A similar type of cultivation prevails among some tribes of South Canara (**Kumri**), Travancore-Cochin and in parts of Assam (**Jhum**). Shifting cultivation has not developed in India, the complicated forms which it has developed in the various parts of Negro Africa. Some tribes of south India use a digging stick for cultivation instead of plough. In tribes such as the Baiga of Central India, there is a resistance to plough-cultivation. The Baiga believe that plough-cultivation means tearing the breasts of Mother Earth. It is hardly necessary to comment on the economic significance of shifting cultivation—it requires a large amount of land to support a single family, and in a country where population is increasing, and which is undergoing rapid industrialization, much valuable forest will be destroyed through these primitive methods. Not all primitive tribes practise shifting cultivation, however. Some Naga tribes are skilful cultivators and they terrace the steep hillsides of Assam to grow paddy.

In non-Tribal India

In non-tribal India plough cultivation is the rule, and such land is either irrigated or cultivated with rain-water. The greater part of agricultural land in India is unirrigated. The crops grown are wheat, sorghum, finger millet, pulses, chillies, and commercial crops such as cotton and groundnuts and castor seeds. Rice and sugarcane are the principal crops grown on irrigated land. I am leaving out of consideration commercial crops such as coffee, pepper, tea and rubber which grow only in areas receiving a very heavy fall of rain.

A successful crop is a chancy affair in an unirrigated area. Droughts are frequent, and in pre-British India, famines occurred every few years. It is only in the last hundred years that India has been able to obtain gradual control over recurrent famines. Famines are a potent source of population movement and change of occupation. We do not yet have a systematic study of the sociological significance of Indian famines. Unirrigated villages

are much poorer than irrigated villages, and they are much more backward. A few studies are currently being made of the social consequences and implications of the introduction of irrigation in some parts of Mysore, and the results indicate that irrigation means more or less a social and cultural revolution. The peasants of one village, for instance, altered their dress, to some extent their diet too. Communications improved and there was more money than before. Relationships became more contractual instead of being based on status. This prosperity was followed by a general desire to imitate the way of life of the Brahmins. The villages themselves say that refinement (**najuku**) came to them with irrigation.

I hope I have not given the impression that irrigation came to India with British rule—far from it. The Mysore village which I studied in 1948 was served by two canals, one over 600 years old, and the other, 300 years old. In the north-eastern part of Mysore State, tank irrigation was highly developed, and one district possessed over 4,000 tanks, the waters of which were used not only for drinking and washing, but for irrigating land. Tank-irrigation is not confined to south India, however. Gujarat had it, and in Gujarat are also to be found huge stepwells (vav) which irrigated many acres of land. Considerable engineering skill went into the building of these joint wells which were lined with steps right to the very bottom. Well-irrigation with Persian wheels obtains in parts of the Punjab and UP. In a considerable part of India, bullock power is used to lift water from wells to the fields. In south India, especially Tamilnad, human power is used to lift water from wells. I may repeat here, that in those areas where tank-irrigation prevailed, there was a hereditary village servant whose duty it was to regulate the supply of water from the tank to the fields.

Caste and Food Habits

It is well-known that there is an intimate relation between caste and diet all over India. Generally speaking, the upper castes are vegetarians and abstain from alcoholic liquor, while the lower castes are non-vegetarians and some of them consume alcohol as well. In fact, corresponding to the caste hierarchy there is a dietitic hierarchy. Orthodox Hindus belonging to the topmost caste abstain not only from all non-vegetarian food but also from certain root vegetables like garlic, onion, potato, beetroot, radish, and from tomato, drumstick and mushroom. Among non-vegetarians those who eat fish consider themselves superior to those who eat domesticated pig, and at the bottom rung of the ladder come the beef-eaters. Consumption of toddy and arrack begins at some low point in the hierarchy. There are, however, important regional differences. In parts of Rajasthan and Gujarat, which are dominated by Jain-Vishnava tradition, the bulk of the people are vegetarians.

It is clear that these religious rules and restrictions have an effect on the health and efficiency of the people, and these food-habits may be regarded as a 'hard point' in the culture of the people. It should be folly to expect quick changes of food-habits in the bulk of the people.

Vindhya—the Dividing Line

India is a country of bewildering cultural diversity, but underlying this diversity there runs a unifying principle. This has been observed by every student of Indian culture and thought—and indeed by everyone who has a wide and deep acquaintance with the country. But it is very difficult to handle this idea in a scientific manner. I have tried to handle this problem in my book **Coorg Religion and Society**. I regret it is not possible for me to discuss this here. I will confine myself to describing a few instances of this great diversity.

For my purpose India may be divided into two parts, the line of division being the Vindhya Mountains in the middle. The area north of these mountains is Continental India, and the area to the south, Peninsular India. Peninsular India and Continental India differ from each other in important respects. But in each of these major divisions, there are further sub-divisions: for instance, Bengal and Gujarat differ from each other and from other areas in Continental India. In the latter area a man may not marry a girl from his own village. A man normally has to marry within his caste both in the North and South. But in the North he has to avoid a girl from his own village. In U P, for instance, an exogamous circle with a radius of four miles may be drawn round a man's village, and the average distance of marriage is twelve miles. One investigator working in the Punjab reports that "two-thirds of the marriages have taken place with villages between four and twelve miles from Jhabal, with the greatest number clustering round an eight mile radius". Village exogamy is accompanied by certain attitudes towards girls born within the village. The girl born in the village is called a village daughter, and she is not in **purdah**, whereas girls who have come into the village by marriage have to observe **purdah**. A man is enjoined to treat a village daughter as his sister. In south India, on the other hand, there is no objection to marrying a girl from one's own village. A south Indian prefers to marry certain relatives like his mother's brother's daughter, or father's sister's daughter, or own elder sister's daughter. Where marriage with the maternal uncle's daughter is common, a family or lineage continues to recruit girls from another family or group of families, while where marriage with the father's sister's daughter is common, two families go on exchanging their girls. This also happens where a man marries his elder sister's daughter. One finds that in south India marriages occur in great numbers with particular families or villages. The social space of a villager does not seem to exceed a radius of 10 miles. This was much more so in the past than to-day.

Two Types of Marriage

If we contrast these two types of marriages we find that in north India the principle in choosing a spouse seems to be to extend one's connections, whereas in south India the principle seems to be to repeat and thereby strengthen already-prevalent bonds. In north India a man's social space seems to be greater than that of a man in south India. Again, in south India, the friction between mother-in-law and daughter-in-law was probably lessened by marrying a relative. It probably also delayed the partition of the ancestral estate. It will be interesting to study the social and economic effects of these two types of marriages.

Hypergamy in Bengal

A type of marriage known as hypergamy prevailed in certain parts of India. In Bengal, for instance, is a caste of Brahmins known as Kulins who constitute the highest division in the caste system of that place. A Kulin girl may only marry a Kulin boy, and as there was no restriction on the number of wives, a Kulin was free to marry as many girls as he liked. Marrying a Kulin boy lifted up the status of bride and her group, and therefore Kulin grooms were much sought after, and with the development of the dowry system many a Kulin boy found it convenient to go about the country marrying as many as he could. Marriage meant nothing more than a ritual conferment of status for which the groom had to be paid a certain fee. This led to polygamy among Kulins.

In Malabar

In the south-west corner of India a different type of hypergamy prevailed—it still prevails to some extent. There are two dominating castes in Malabar, the patrilineal Nambuthri Brahmins and the matrilineal Nairs. The Nairs were formerly soldiers and peasants, and huge estates were granted to them in recognition of their military prowess. The Nairs are not a single caste, but a group of nearly 300 sub-castes, constituting a hierarchy within themselves. Hypergamy prevailed both among the various Nair castes, and between Nairs and the Nambuthris. The topmost Nair girls liked to marry Nambuthri Brahmins. In fact, such a marriage was not known as a marriage, but as Sambandam which was a quasi-legal relationship between a man and woman. The Nambuthris are patrilineal and have primogeniture. The eldest son inherits all the property, but he has the duty of looking after his younger brothers and sisters. Among them only the eldest son is entitled to marry a Nambuthri girl. This is an important reason for Nambuthri estates remaining intact even to-day. The younger brothers are not allowed marriage. They have instead Sambandam connections with Nair women.

Among Patidars in Gujarat

A third type of hypergamy, prevailing in Gujarat, is even more interesting. Hypergamy prevails among the Patidars of Charotar, Anavil Brahmins, and a few others. The Patidars are divided into those belonging to Twentyseven Villages, Twelve Villages, and Six Villages. A girl from the Twentyseven Villages may marry a boy within her own group, or a boy from the other two top groups, while a girl from Twelve Villages may marry either one of her own group or a boy from Six Villages. Finally, a girl from the Six Villages may marry only a boy of her own group. In addition, no girl may marry a boy of her own village. There is a great competition for the hand of a Patidar boy. The Patidars are a rich agricultural and commercial community and many of them have made huge fortunes in East Africa. Even emigration to a different continent has not freed them from the bonds of hypergamy. Huge dowries are paid to the groom at the marriage, and as long as marriage lasts, the girl's party is expected to make periodic gifts to the boy's party, and they generally have to behave in a deferential manner towards the groom's party. A Patidar works hard and saves hard in order to meet the huge expenses of marrying his daughters. Formerly, infanticide prevailed among the Patidars. Girls were an expensive burden and parents therefore got rid of them by drowning them in milk.

Inter-Village Relations

In the whole of Continental India, the village which gives a girl in marriage is considered inferior to the village which receives her. Girls always move in one direction—from inferior to superior villages. In South India on the other hand, no such idea prevails, and it is common to find members of the same caste living in neighbouring villages and continually exchanging girls.

This certainly means that inter-village relations are closer in South India than in the North. It looks as though that the idea of village unit is far more developed in the North than in the South—in the North, land is not commonly given for cultivation to those who are out-

in agriculture



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side the village while in the South such a thing is quite common.

Evil Economic Effects

Indian economists have long been complaining about the evil economic effects of caste, joint family, and costly weddings and funerals. They have been so busy denouncing the peasant that they have made no attempt to understand him and his social environment. It is only now that a few anthropologists have tried to make studies of the social and economic effects of the periodic social crises like weddings and funerals. The peasant is proud, and failure to spend at wedding and funeral would injure his 'face' before his relatives, neighbours and friends. Any attempt to reform him must show more sympathy and subtlety than has been shown so far by our economists and welfare workers.

Segregation Between the Sexes

Another matter to which I have to refer, is the difference in the patterns of sexual segregation obtaining in different parts of rural India. Difference of sex is an important basis of social differentiation all over the world, including India, but it takes different forms in different parts of the country. In both continental and peninsular India, men and women keep apart from each other. In the North, women in the villages are required to observe **purdah**, that is they may not show themselves before men, and when they have to, they have to wear a veil or its equivalent. In parts of Western UP, each important farmer has three houses, one where his womenfolk live and cook the food and the other where the men lounge about and the third for cattle. Muslims are much more prone to **Purdah** than Hindus. But even Muslims do not have the **Purdah** in the rural areas of South India. The economic factor is, however, important in this connection—for the women of the poorer and lower caste families are required to work outside their homes to keep their families going. In Peninsular India there is no **purdah** though women between ages of 15 and 40 try to avoid showing themselves before men. The women of all except the richest families work in the fields.

Pollution

Another important fact that must be mentioned is pollution. One may say pollution is at the heart of social relations between individuals and groups in the rural areas, and a failure to understand ideas of pollution and purity will lead to great misunderstanding of Indian culture and society. (I have again to refer to Chapter IV of my Coorg Book where I have considered in detail the pollution concepts of the Coorgs and their relation to their kinship and social system). Pollution is ubiquitous, and women observe it much more than men, and old men much more than young men. The food that one eats comes under pollution ideas in a variety of ways. In south India a man may eat cooked food only from the member of an equally high caste or a member of a higher caste. He may not even accept drinking water and lime-paste for betel leaves from a member of a lower caste. Untouchables may not use the village well. They may not wash in the village tank, or at a higher point in the river than an upper caste man. In north India the rules regarding food are extremely complicated. Cooked food is divided into **Kacha** and **Pakka** — **Kacha** being the food cooked with water and **Pakka** being food cooked with ghee. **Kacha** food is only accepted from an equal or higher caste whereas **Pakka** food may be accepted even from some lower castes. Each man knows what food he may accept from whom.

Extreme Example

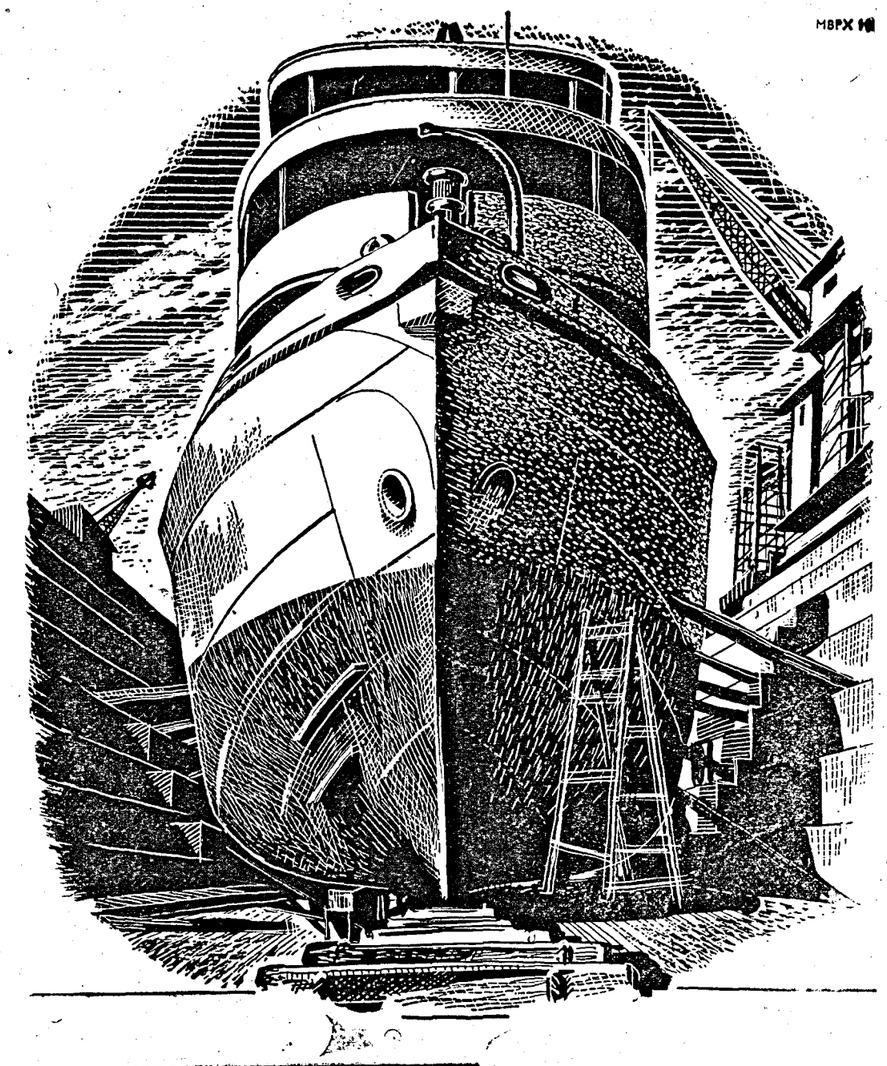
Pollution rules govern the relations between different castes. Untouchables have to stay apart from caste Hindus because contact with them defiles the members of the higher castes. Contact is again culturally defined. An extreme example of pollution by contact is obtained from Malabar where a Pulayan may not go nearer than ninetynine feet from a Brahmin, an Izhavan, sixty-six feet, a Nair thirty-three feet, and so on. Each man knows how near he may go to another. There are even unseeable castes.

Unity of the Village

I will now very briefly refer to the idea of the unity of the village which is common to all parts of India. In fact we may say that it is a near-universal. A small body of people who do not enjoy contact with other groups of people living far away, who share the same experiences year in and year out for many years, come to have certain common interests. Sociologists interested in India cannot help asking the question, "In what way does caste effect village unity"? In other words, caste divides people into clear-cut and hierarchial groups. A Brahmin has links with Brahmins in other villages, and similarly an Untouchable. Under these circumstances, what happens to village unity? Again, inter-village brawls are not unknown in rural India, and in a good many cases they mean only that the dominant caste in either village fights. It is unlikely that a Brahmin would be beaten in such a brawl unless he himself took the initiative and beat someone belonging to the other side. (I am assuming that the Brahmin does not belong to the dominant caste). An Untouchable certainly gets involved in a fight, but not however as a member of a village, but only in his capacity as a servant of one of the members of the dominant caste. But several observers have noticed that where a village comes into contact with an external authority like the Government, it usually shows unity. The presence of factions inside the village is usually temporarily ignored. This idea of unity receives a somewhat exaggerated recognition in parts of Saurashtra. The concept of **Gam nu nak** (the nose of the village) is very strong there. It means the nose of the village—if, for instance, the village cattle herd is injured, or if a village girl is insulted, then it is the duty of the whole village to take revenge on the person who inflicts the insult.

Self-Sufficiency

I will mention one last point before concluding this talk. One often hears of the self-sufficiency of villages. This self-sufficiency is a myth. It does not exist and it never did exist. It is true that in pre-British India the lack of communications, and the minimal part which money played in the economy enabled villagers to be largely independent of the outside world. But even then villages had close economic and social relations with neighbouring villages; they made use of nearby weekly markets, and they went on pilgrimages to famous shrines. They sought their brides in neighbouring villages—especially so in the North. It is important to stress this fact because responsible people talk of reviving the self-sufficient village. It is like reviving the double-headed eagle or the dragon.



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Reflections on Planning of the Economic Development of India

Paul A Baran

The author who holds a Chair in Economics at the Stanford University, California, is at present in India and is working at the Indian Statistical Institute at Calcutta.

THE objective of planning for the economic development of India should be maximal possible increase of current output, and such allocation of it as will insure the largest attainable rates of growth of output for the period encompassed by the planning horizon: 20-30 years.

In the light of this general goal, the immediate task facing economic policy is as complete as possible utilization of the country's available productive resources.

Although this basic goal is in conflict with a programme of maximization of gainful employment in the short run, this conflict is only partial. For unemployment consists of two segments that must be sharply distinguished. There are on the one hand unemployed who are urban dwellers, and have no jobs while there are available plant and facilities required for their productive employment. There are on the other hand fully or partly unemployed who inhabit the villages and who subsist—if ever so precariously—by drawing on their families.

It is clear that the limitations on the productive employability of the latter group (the "disguised" unemployed) are set by the speed of the accumulation of additional plant and equipment. Those limitations cannot be removed in the short run; they can be overcome only by a major investment effort.

The limitations on the productive employability of the former group of unemployed (the "Keynesian" unemployed) are of an altogether different type: they are the result of insufficient effective demand, and of prevailing monopolistic controls over the existing means of production. They can be removed by appropriate economic policies. The existence of limitations on output and employment stemming from the inadequacy of effective demand and from monopolistic controls is intolerable in advanced countries. It constitutes a veritable disgrace in the case of a poor country.

In an excellent study by Messrs. Lobel and Das (prepared for the Indian Statistical Institute) it is shown that the under-utilization of existing productive capacity in India reaches as much as 40%. The situation is even worse in some individual industries. To be sure, this unutilized capacity is unevenly distributed, and an attempt at its full utilization is bound to run into bottlenecks of various kinds. It is the primary, and indeed the most urgent task of economic planning at the present stage of India's economic development to examine carefully the structure of the available unutilized capacities and to identify the bottlenecks that are likely to obstruct the full utilization of the available excess capacities.

Such bottlenecks may appear in various areas; the measures needed to deal with them have to be selected accordingly. Broadly speaking they will fall into the following groups :—

(a) deficit financing of the planned investment programme creating the effective demand for additional output;

(b) investment in such plant and facilities as may be needed to overcome possible shortage, and to assure the necessary composition (proportionality) of output; the productivity of such (supplementary) investment would be necessarily very high;

(c) where the output that would be produced at full capacity utilization is of such a physical nature as to exceed the (increasing) effective demand, shifts in production may be necessary. Where such shifts are impossible—for technical reasons —government purchases with a view to exporting the resulting surpluses must be organized;

(d) where existing monopolistic controls are such as to prevent expansion of output in response to rising effective demand, nationalization of the relevant plants and facilities is called for;

(e) if balance of payments complications should arise, severest economies of foreign exchange as well as purposeful borrowing abroad must be instituted.

Until the investment programme in new plants and facilities has begun absorbing a growing number of "disguised" unemployed, that is, as long as those unemployed are compelled to remain in their villages, all measures must be taken to improve their lot in the countryside. Such measures include first and foremost an agrarian reform that would provide for a more equitable distribution of **that share of agricultural output that is currently consumed in the villages,** and secondly, the provision of a stable market for both agricultural and handicraft outputs that are marketed by the rural population. A government purchasing agency for the products of cottage industries removing the limitations of effective demand on their output would be urgently required. Such an agency could either market that output at home, if there is sufficient demand for it (at lower prices), or export it —absorbing, if need be, such losses as may occur. This amount of subsidy to the rural population would constitute a social relief payment warranted by the distressed state of the rural population and by the desirability of preserving the skills of rural craftsmen.

II

Of the maximum attainable current output a maximum possible share must be mobilized for productive investment.

Possible foreign assistance apart, the resources required for an investment programme are provided by the **economic surplus** that is currently generated in the economy. The **actual** economic surplus is equal to the actually observed saving (and investment). In poor countries this actual surplus is small, both absolutely and in relation to national income.

The actual economic surplus does not delineate, however, the volume of resources that could be mobilized for investment in productive plant and facilities. It is the **potential economic surplus** hidden in the country's economic structure, that has to be tapped, if a concentrated effort to promote economic development is to be undertaken.

This potential economic surplus appears under a number of headings. In addition to the output that can be secured by full utilization of available productive capacities, the most important categories are the following:—

(a) **The excess consumption on the part of the upper income groups.** It reflects itself in a high standard of living of those groups, in the large number of servants maintained by them, in trips abroad, in the acquisition of jewels, foreign luxuries and the like. It appears in the construction of lavish residences (Bombay), in the acquisition of land and in other forms. The exact magnitude of the amount that could be saved by the suppression of this form of resource utilization is not readily calculated; such tentative estimates as I have been able to make suggest that it might reach as much as Rs 500 crores per year. It would be an urgent task of economic research to secure as precise as possible information on this crucially important portion of the national income. It should be a matter of the utmost importance to those concerned with economic planning to scrutinize closely all possible measures (fiscal as well as administrative) that might enable the government to secure that slice of the national product for the purposes of economic development.

(b) **The unproductive workers** who absorb a considerable share of national income. They are first and foremost absentee-landowners and money-lenders; also super-abundant merchants, traders, agents and commission-men as well as redundant civil servants, lawyers and advertizing agents. Their total revenue might be estimated to be close to Rs 2000 crores per year. It would be imperative to study this problem carefully to estimate the amount of possible savings and to examine the possibility of a planned transfer of the individuals involved to socially useful occupations.

(c) Losses suffered by the economy as a result of **fluctuations of business activity.** To the extent to which such fluctuations are attributable to domestic causes, suitable countercyclical measures have to be considered and adequately prepared. To the extent to which such fluctuations may be caused by changes in world market conditions, the government should stand ready to insulate the economy against sudden declines in the demand for and the prices of Indian exports. Here again, economic planning calls for timely arrangements that would be able to cope with the problem.

(d) The drain on national resources caused by **capital flight** and by **transfer of profits abroad.** Strict controls on capital movements and blocking of the transfers abroad of profits earned in India by foreign companies are indispensable. Profits thus blocked will find their way into investment in India. In view of the smallness and frequently undesirable allocation of foreign private investment in India, the disincentive effect of such measures with regard to further private foreign investment may be safely disregarded.

It is my considered opinion that given a determined effort to eliminate waste in the Indian economy, and to mobilize at least a part of its potential economic surplus, the ratio of investment to national income could be rapidly raised to 15 per cent.

No planning for the economic development of an underdeveloped country can be considered to represent a wholehearted undertaking as long as the prevailing low ratio of investment to national income is accepted as a datum, and until all possibilities for its increase have not been fully explored and realized.

It is of crucial importance, however, to secure the indispensable increase in the investment ratio not by an encroachment upon the desperately low levels of mass consumption but by a systematic mobilization of the potential economic surplus.

Whether from the standpoint of economic rationality—the effect on the health and efficiency of the working population—or whether from the standpoint of elementary canons of social equity—a programme of financing the necessary investment by increased indirect taxes is wholly inadmissible. It would be most undesirable even if the entire potential economic surplus were already mobilized. It is altogether reprehensible as long as **nothing has been undertaken to utilize the potential economic surplus for development purposes.**

III

Little need be said about the **mode of utilization** of the economic surplus. Under the prevailing conditions, a considerable part of investment in the so-called private sector is undertaken in the wrong areas. Therefore, a system of strict investment controls is necessary that should assure the proper allocation of investment funds. Licensing of imports, of new construction etc. represent some of the requisite tools.

The division of the proposed investment between the public and private sectors as envisaged in the Second Five-Year-Plan is subject to doubt. It leaves to the government all the projects that by their very nature are bound to be most difficult, and most seriously hampered by lack of skilled manpower, of industrial tradition etc. It reserves at the same time to private business such enterprises as are more readily established and operated. The result will be a "socialization of losses" accompanied by private appropriation of rising profits. Such a situation will be readily exploited by those who are interested in discrediting the idea of economic planning with a view to force the "re-privatization" of inefficient and unprofitable government enterprises. It is mandatory, therefore, that the public sector should contain not merely the "tough" subjects, but also a sufficient number of ventures that in the present state of the economy will yield satisfactory profits and display the advantages of planned economy.

The division of the entire investment outlay provided for by the Second Five-Year Plan as between producer goods industries and consumer goods industries is inadequate. Given full utilization of the existing capacity of the consumer goods industries, a much larger allocation to producer goods industries is possible. Such a larger allocation combined with a considerable increase of the investment total could yield much more impressive rates of growth and permit a much earlier liquidation of "hidden" unemployment.

IV

The problems refered to above offer a rich field of work for economists and statisticians concerned with actual economic planning.

The development of economic thought and research has been always closely related to the needs of society at various stages of its development. Where this relation has been torn apart, economics was condemned to sterility or played even a negative, reactionary role in the process of social advancement.

What is needed in India to-day is undivided attention to the central issues of the mobilization and correct allocation of investment funds.

Gloom in Markets

Wednesday, Evening

THERE has been a shake-out in equities since the publication of the draft outline of the second Plan. A combination of adverse developments, such as banking disturbances, payments crisis and nationalisation of insurance, may have aggravated the slump in equities. Even so, it is abundantly evident that stock markets are nervous about the implications of the second Plan. This explains why enlarged provisions for deficit financing have not had any tonic effect on equities.

Investors are not worried as to whether the second Plan targets can be reached, or whether it can be financed without inflation. This is the main headache for the economists. But it is not without significance that stock markets do not seem to be enthused about these aspects in which investors may be expected to be interested. They seem to have reached the conclusion that the Plan may or may not raise national income to the estimated level, but it will not cause any boom in stock markets.

Gloom has descended over stock markets since the publication of the draft outline of the second Plan. That Congress was committed to ensuring a socialistic pattern of society, was not unknown to investors. But their alarm is not as much due to the estimated increase in taxation or to talks about fixing a ceiling on individual incomes as to the wider implications of the second Plan. Investors interpret the draft outline to mean that it is New Delhi's intention to impose gradual restrictions on the activities of the private sector.

Even before the publication of the draft outline, the Government's decision to nationalise life insurance had dealt a severe blow to confidence in the private sector. It is this psychological factor which is significant.

There are many provisions in the draft outline which would seem to confirm these apprehensions. It would be unfair for investors to be unduly disturbed over the Government's intention to develop and exploit mineral resources in future within the public sector. Informed investors could not have been unaware of the changing policy of New Delhi. It was known for some time past that the Government was in favour of including mining and mineral resources within the public sector.

Nor was it news that New Delhi was in favour of developing heavy industries hereafter within the public sector. Developments relating to the three steel projects made that evident. But there are indications in the draft outline that heavy machinery and basic capital goods will hereafter be developed only within the public sector. Even these indications are not as damaging as the other implications of the draft outline.

There are indications that the Government now prefers to grant long-term financial aid to industry not in the shape of interest-bearing loans, but through participation in equity capital. This is a possible development which has caused consternation among industrialists. This will mean that organised private industries seeking State aid will have to accept the Government's control and voting rights in return for financial aid. This progressive encroachment on the private sector is the main reason for the current slump in equities.

It will be conceded that there is much in the draft outline of the second Plan which should cause disquiet within the private sector. Increasingly it becomes obvious that the private sector will be allowed to function only within spheres now under its operation. Even subject to this limitation, there are many industries in and around Calcutta which should have scope for expansion. By and large, some consumer goods industries and light engineering concerns should have scope for expansion during the second Plan period.

Tea and jute are two consumer goods industries in which the Calcutta Stock Exchange is vitally interested. There are reasons why the present outlook for the tea industry is gloomy. But there are abundant indications that, despite the implications of the draft outline the jute industry should prosper. In recent months, there has been a welcome increase in the demand for jute goods. This industry is being modernised. In spite of growing Pakistani competition, the immediate future of the Indian jute industry is not as gloomy as to warrant continued neglect of jute shares.

Under the second Plan, light engineering industries will have unrestricted scope for expansion. In this sphere of operation, the Government will not intervene. As heavy industries expand, there will be wider scope for expansion of light engineering industries. This was the argument on which Engineering shares, listed on the Calcutta Stock Exchange, started moving up two years ago. These reasons are equally relevant to-day, and should encourage investors to take interest in these shares as the stock market here regains its poise.

Rohtas Industries Limited

NOTICE is hereby given that the Twentythird Ordinary General Meeting of the Shareholders of the Company will be held at the Registered Office of the Company at Dalmianagar, on Tuesday, the 20th March 1956 at 11-30 A.M. to receive and adopt the Directors' Report and the Audited Accounts for the year ended 31st October, 1955, to declare dividends, to elect Directors in place of the retiring Directors, to appoint auditors for the current year and fix their remuneration and to transact any other business that under the Articles of Association of the Company may be transacted at an Ordinary General Meeting.

Share Transfer Books of the Company will remain closed from 20th February 1956 to 6th March 1956 both days inclusive.

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Nursing its Old Wound

Thursday, Morning

THE Draft Outline of the second Plan has left the Stock Exchange cold. The reason for it is not easy to find. Now and again, whenever it feels depressed, the Stock Exchange nurses its old wound in public and complains about the stepmotherly treatment meted out to the private sector. There was also some nervousness on account of the reported impending payments crisis in Calcutta.

The reason for the Stock Exchange being off colour may, however, be none of these. The over-sold position in the leading scrips as disclosed by the budla rates for the last settlement might explain the present mood better. For carrying their purchases to the next settlement, bulls had to pay fifteen annas for Tata ordinary and ten annas for ACC. The budla rate for Indian Iron rose to 2½ annas. Tired longs, in the circumstances, may find it onerous to carry their holdings which, judging from these rates, must be pretty high. Against this background, occasional spurts have to be regarded more as temporary effects of covering rather than as an indication of a steadying trend.

The reported support by custodians of insurance companies to the share market appears, in retrospect, to have been nothing more than covering operations. The custodians could not have made any fresh purchases without specific directions from the Government. What they did was to complete the deals that had been entered into before they took over.

Textiles had tended to look up earlier in the week on hopes of higher dividends, inspired by the fine performance of some of the cotton mills e.g. that of the Brady group of mills whose working showed considerable improvement. Directors of New Great have recommended raising of dividends from Rs 7-8 to Rs 10. But the improvement could not be maintained and Bombay Dyeing led the way, declining from Rs 516-14 to 493-12. The selling pressure could only have been induced by speculation regarding a possible increase in excise duties, though reported fall in sales of cloth also contributed. Bombay Dyeing, however, soon improved as it came to be realised that despite a temporary decline in sales, the company must benefit substantially from increased production. In line with Bombay Dyeing, the other leading textile shares also closed better.

In the miscellaneous section, Belapur was knocked down from Rs 218-8 to Rs 214|- on rumours of a fresh agricultural levy but following reports that Walchandnagar was going to raise dividends from Rs 16 to Rs 18, Belapur not only recovered but shot up to Rs 242-8 and closed at Rs 239-6.

Cotton

Who has the Last Word ?

A BATTLE royal has been going on between the EICA who have had the last word on cotton so long, on the one hand, and the Forward Markets Commission which has been set up by the Government of India for regulating forward trading in all commodities all over India on the other. The Forward Markets Commission thinks that it is the Commission which has the last word on cotton as on other commodities. This dispute has to be settled, once for all. The first round went in favour of the Commission, the second round is now being fought out in the Bombay High Court. Considering the nature of the dispute and who the contestants are, it would be surprising if there were to be a third round and a final round. No one need doubt what the final outcome is going to be, though it seems that the dispute will be dragged on for a long time. The case is bound to go to the Supreme Court and until this final authority has delivered its judgment—and if the judgment is unfavourable, until the law is amended suitably—the cotton trader and the mills will have to do without hedge facilities which are so vital to the smooth marketing of a commodity like cotton in its long journey, through various stages, from the grower to the ultimate consumers, the mills.

Meanwhile, the continued absence of hedge facilities has been telling on the spot market also where activity has tended to slacken. There has not been much enquiry of late from overseas and mills are holding aloof, in expectation of a further decline in prices. Vijay has begun to move and its quality is reported to be good, both in staple and grade. But in the absence of any keenness on the part of buyers, prices of Vijay have tended to sag. Bengal, on the other hand, has managed to stay put, due to scarcity of supplies.

The presence of the President and the Secretary of the Karachi Cotton Association in the city has given rise to speculation about the possibility of an Indo-Pakistan deal for the exchange of 15,000 bales of Pakistani cotton for Indian coal. The Pakistan visitors are reported to have held preliminary discussions with representatives of the cotton trade.

Oilseeds

Curb on Exports Feared

ALTHOUGH the oilseeds market opened steady on sustained short-covering and renewed buying, the undertone perceptibly weakened towards the latter part of the week. The main reason for this reversal in trend was uncertainty surrounding New Delhi's future export policy. Following the ban on export of foodgrains, it was felt the Government might restrict exports of groundnut oil, especially when internal prices have been decidedly firm. The downward revision of the crop estimates confirmed these fears.

Groundnut February-March delivery which opened at Rs 30-10 gradually declined to Rs 30 on Tuesday and groundnut oil also came down in sympathy from Rs 15-13 to Rs 15-11. If the decline was no sharper, it was because of the strength in the ready section where groundnut received good support from crushers. There was hardly any export activity in groundnut oil due to paucity of export licences.

Castor May which had closed at Rs 119-12 last week fluctuated between Rs 118 and Rs 120-6 during the week. Ready castor also moved up with futures.

In linseeds, the trend continued to be easy following repeated rumours that the Government might impose an export duty on linseed oil. A bearish trend was noticeable in linseed oil at the beginning of the week. But towards the close, linseed improved fractionally from Rs 17-12 to Rs 18-2.

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CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1407.64	1392.36	1388.74	1242.57
2. Rupee Coin	104.55	105.38	106.80	103.10
3. Deposits				
a) Central Government's	60.54	52.87	52.11	52.57
b) Banks'	53.01	63.23	55.06	48.77
c) Other Governments'	11.00	14.40	8.46	11.07
d) Others'	15.92	15.79	15.83	34.02
4. Foreign Securities	667.15	652.15	691.90	663.15
5. Balances held abroad	71.06	81.41	43.96	69.29
6. Rupee Securities	603.22	603.26	563.51	447.73
7. Investments	49.75	50.37	51.58	64.05
8. Loans and advances to Governments	3.69	2.52	3.58	1.24
Scheduled Banks				
1. Demand liabilities (net)	628.88	642.43	609.57	571.77
2. Time Liabilities	412.30	409.88	413.33	369.17
3. Cash on hand	34.66	37.32	38.27	32.77
4. Borrowings from Reserve Bank	34.79	29.37	29.84	9.53
of which against Usance Bills	18.88	17.70	14.62	4.59
5. Advances and Bills discounted	634.63	629.74	603.85	538.34
of which State Bank's	117.71	114.47	109.16	09.66
6. Investments	380.45	381.77	382.93	354.47
of which State Bank's	107.31	107.14	107.55	101.00
Cheque Clearance	158 89	179.08	91.36	131.19

†For Reserve Bank and Cheque Clearance week ended 10-2-56. Scheduled Banks week ended 3-2-56.

Bombay Money Rates	10-2-56	3-2-56	13-1-56	11-2-55
Inter-Bank Call Rate	$2\frac{7}{8}$	$2\frac{7}{8}$	$2\frac{7}{8}$	$2\frac{7}{8}$
3 months deposits	$3\frac{1}{16}$	3	3	3
6 months deposits	$3\frac{1}{16}$	3	3	3

Bombay Bullion In Rupees and Annas

	16-2-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	97-11	95-13	95-11	92-14
Forward	97-2	95-13	94-5	92-1
Silver (per 100 tolas)				
Spot	173-14	172-14	174-11	165-3
Forward	174-2	173-9	175-9	16 -14

JUTE STATISTICS

Production ('000 tons)

	Dec. 1955	Nov. 1955	Oct. 1955	July to Dec. '55
Hessian	34.0	34.6	30.7	202.2
Sacking	56.6	49.9	43.5	285.9
Others	6.7	6.0	4.6	31.4
TOTAL	97.3	90.5	78.8	519.5
Total Production in the corresponding months of:				
1954-55	94.0	88.6	75.1	495.6
1953-54	77.8	69.0	66.8	433.6
Stocks:* ('000 tons)				
Hessian	23.5	27.9	29.7	—
Sacking	35.1	30.8	29.0	—
Others	5.6	4.3	3.6	—
TOTAL	64.2	63.0	62.3	—
Stocks at the end of the corresponding months of:				
1954-55	69.6	69.0	69.4	—
1953-54	98.6	98.3	102.9	—
Despatches:† ('000 tons)				
Hessian	38.5	36.0	36.3	227.2
Sacking	52.9	48.1	47.1	289.5
Rope, twine, etc.	3.9	4.1	3.4	23.5
TOTAL	95.3	88.2	86.8	540.8
Total despatches in the corresponding months of:				
1954-55	92.0	89.5	72.7	510.5
Raw Jute Consumption: (lakh bales of 400 lbs each)				
1955-56	5.64	5.38	4.60	30.01
1954-55	5.46	5.18	4.32	28.25
1953-54	4.53	4.15	3.88	25.12
IJMA Mills' purchases of raw jute (lakh bales)				
Pakistani†	1.13	2.29	1.23	9.24
In corresponding periods of:				
1954-55	0.36	1.10	1.02	5.10
1953-54	1.12	0.94	0.45	4.71
Indian	3.91	5.79	5.58	24.33
In corresponding periods of:				
1954-55	4.11	6.84	4.72	25.94
1953-54	4.30	4.65	4.45	21.00

* Stocks at the end of the month

† Despatches include exports and sales for internal consumption

Source : Monthly Summary of Jute and Gunny Statistics issued by the Indian Jute Mills Association

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The Railway Budget

THE Union Minister for Railways, Shri Lal Bahadur Shastri, must have enjoyed presenting his budget for 1956-57. He was, in the first place, able to tell the Lok Sabha that the mammoth undertaking managed by him did better in 1955-56 than he had anticipated this time last year. Gross traffic receipts in the year that is ending are expected at Rs. 314 crores, or nearly Rs. 22 crores more than the amount estimated in the budget last year. Ordinary working expenses have, it is true, also increased; but this increase has been much less than on the receipts side. In consequence, Shri Shastri has not only been able to step up the appropriation to the Depreciation Reserve Fund in 1955-56 by Rs. 10 crores; but he is able to show a larger net surplus as well.

The Minister was, secondly, in the happy position of assuring the House that, with nothing more than a 6¼ per cent surcharge on freight rates, the railways would be able to gather a much larger surplus in 1956-57. The surcharge would add Rs. 11.6 crores to railway receipts and would not be levied on transhipments of grains and pulses, fodder, manure, khadi, newspapers, newsprint and books. Given this additional charge, and assuming a further increase in the volume of traffic, the railways would have a net surplus of nearly Rs. 23 crores, after allocating Rs. 45 crores to the Depreciation Reserve Fund and paying over Rs. 39 crores as Dividend to General Revenues.

It is good to see the railways relatively prosperous once again and think in terms of net surpluses of over Rs. 20 crores. But there is as yet no room for complacence in this regard. The size of railways' surplus and depreciation provision has to be viewed against the capital expenditure of the railways in the coming years. In line with everything else under the Second Plan, the railways have a heavy development programme, involving an outlay of Rs. 1125 crores over the five-year period. And even with the surcharge on freight traffic, the railways will be able to find only Rs. 375 crores, or only a third of the needed resources. In other words, the main burden of railway development will fall on the General Budget rather than on the railway budget.

Shri Shastri therefore benefits at the expense of Shri Deshmukh. It would be short-sighted to forget this and rejoice at the fact that the railway rates have, by and large, been left at the existing levels. It is true that Shri Shastri has in his favour the arguments that he had already raised passenger fares last year, that any large increase in freight rates would inflate costs and that, in any case, the Freight Structure Enquiry Committee has yet to make its recommendations on the tariff schedule. These are not arguments that can be lightly brushed aside. Nonetheless, there is the undeniable fact that if we want more transport facilities, we should all put more into the railways in one way or another. Situated as we are, we cannot have too much development of railway facilities. And the expansion programme for the Second Five Year Plan will hardly suffice to meet the ever-increasing needs of the country. Under these circumstances one naturally asks the question: are the railways doing enough to finance their development programme?

As mentioned earlier, the Union Government will have to find Rs. 750 crores for the railways in the next five years, or an average of Rs. 150 crores per year. Of this, it is expected that Rs. 680 crores will constitute capital investment on the railway undertaking, on which dividend will be payable to general revenues. The remaining Rs. 70 crores will be in the form of withdrawal from railway funds and/or special loans to the Railway Development Fund as recommended by the Railway Convention Committee last year. Either way, the funds have to be found by the Union Government, through taxation, loans or a budget deficit.

When one is thinking of thousands of crores of expenditure, to worry about a paltry Rs. 70 crores might appear incongruous. But the point is that of all the public undertakings in India, the railways are the biggest and the most profitable. If even this undertaking should make inroads into the general fisc, it does seem worth a thought. Apparently, if railways earn a larger surplus in the coming years, it will not ease the strain on the general budget. For, the understanding between the Planning Commission and the railways seems to be that to the extent the latter add to their surpluses, the size of their plan will also increase.

All this is not to say that the railways plan should be cut down drastically. We have, in fact, already observed that the need for development of railway facilities is great and will be greater in the future. There is therefore no question but that resources have in one way or another to be found for this purpose. It is also true that Shri Shastri will not by himself be able to get all the funds needed for the railways. But one might still ask whether he could not have gone a little further than he has done in order to augment the resources for development.

This is a moot point, involving a nice balancing of the advantages and disadvantages of making the community contribute a little more in the form of higher railway rates than in the form of higher taxes. Each of these modes will have far-reaching effects on various sections of the economy; and it may be that taxing the community directly is better than adding to transport costs. But how and why such a decision is taken should be made clear, so that the country at large is convinced that the sacrifice imposed on it is the least possible and the fairest under the circumstances.

With the Second Plan and the total financial implications of it occupying so much of our thoughts, it is natural that this part of the Railway Minister's budget speech should receive primary attention. Shri Shastri has, however, many interesting things to say on other matters. Before the next five years are over, the quality of service provided by the railways will be better and safer. Members of the railway staff will enjoy more power and be, on the whole, better off. All this is very comforting. But when one desires austerity in consumption, even small things like this matter, and it would be unwise to ignore them.

Russia's "New Look"

REJECTION of the "cult" of personality is an incidental outcome of the Communist Party Congress. Far more significant is the decision to disown Stalinism. Not M. Khruschev, but M. Mikoyan seems to have emerged as the theoretician of the Communist Party in Russia. M. Mikoyan and Marshal Zhukov, and not M. Khruschev, have made significant policy statements before the Moscow session of the Congress. Since Stalin's death, the principle of "collective leadership" had gradually replaced the Big Brother concept. But the "father figure" idea has not been abandoned. Even as Mahatmaji is revered in India as the "father of the nation", Lenin has now replaced Stalin as the "father figure" in Russia. This is not as significant as the revival of Leninism. Not only Stalin's one-man dictatorship, but Stalinism, as a principle, is disowned. Lenin is re-discovered as the true interpreter of Marxism.

M. Khruschev is still the dominant leader of the Communist Party in Russia. But his role does not seem to be more than primus inter pares. Policy decisions will not be made by him alone, but by joint consultations between him and his top-ranking associates in the Party Executive. One-man dictatorship of the Party is rejected. But the role of the Communist Party remains the same. It is the "collective leadership" of the Party, and not the Prime Minister, who will control and dominate the State and the country. This aspect of life, society and government in Russia has been a matter for constant criticism in democracies. In Communist Russia, as also in all democracies, it is the Party that dominates the party in power. In a democracy, there is party system of government. So in Communist Russia. But in a democracy, there is more than one party. In Russia, there is only one party. But Communists argue, as M. Bulganin explained at his Press Conference in New Delhi, that in a Communist country, there is no scope or necessity for multiple parties.

Even as the re-introduction of the principle of "collective leadership" reflects the strength and influence of the Communist Party within Russia, some of M. Mikoyan's observations indicate a new relationship between the Party and the people. Even during the Stalin era, differences among the Party heirarchy were not unknown. Since Stalin's death, these differences have been openly discussed and re-discussed. Emphasis on "collective leadership" means that freedom of expression among members of the Party Executive will not only be tolerated, but will be encouraged. It is a logical corollary that the people will be allowed more freedom to discuss the policies formulated by the Party. M. Mikoyan was as critical of the Party's attitude to the people as of the defects of Stalinism. Even as the admission of the need for more freedom of thought and expression to the people is symbolic of the Party's growing strength, this internal political trend will not be unfamiliar to those who are aware of developing political events in Russia.

Peaceful co-existence, on the basis of **Panch Shila**, as the foundation of Russia's foreign policy and greater freedom within the Communist Party and the country are the major decisions of the Communist Party Congress. Before the latter aspect is analysed in detail, it is necessary to appreciate Moscow's foreign policy. In their speeches, all the Russian leaders accept peaceful co-existence as possible and desirable. But it is not without significance that Marshal Zhukov has been at pains to explode the Dulles threat of "massive retaliation" as well as of the theory of Gradual Deterrent through use of tactical atomic weapons. Marshal Zhukov has bluntly informed the Western Powers that Russia would not accept any limitation to an atomic war. He rejected the theory that, in any future war, nuclear weapons could be confined to front-line, tactical uses only. It is as well that Washington now knows that Russia will carry any future atomic war to American territory. This open declaration, like Russia's hydrogen bomb, should not only perpetuate the present "hydrogen stalemate", but may further the cause of peaceful co-existence.

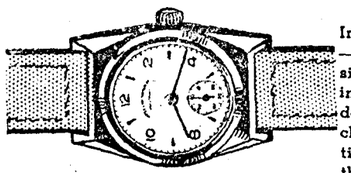
If Marshal Zhukov underlined Moscow's determination to match the Dulles policy of building positions of strength through consolidation of Communist Russia's military might, the speeches of the other leaders indicated a new shift in Russia's economic and foreign policy. It is clear the Russian leaders have come to the conclusion that the present "hydrogen stalemate" will be followed by a prolonged period of peaceful co-existence. This is the main reason behind the shift in Russia's economic and foreign policy. Details of the new policy may be changed as circumstances alter. But the new policy is based on M. Mikoyan's analysis of Capitalism. In 1952, Stalin propounder the theory that capitalist economy will disintegrate as the world market for capitalist countries shrinks. Stalin was not wrong in his premise, but in his conclusion. As Communist Russia's economic strength has developed, as the economies of Russia and her neighbouring Communist countries, including China, have been integrated, there has been a shrinkage in the world market for capitalist countries. But the longed-for crisis of Capitalism has not come about. In rejecting the Stalinist theory of absolute stagnation of Capitalism, M. Mikoyan emphasised the post-war improvement in talist countries. Ultimately, the cause of the world proletariat will triumph. But Russia, the home and leader of world Communism, will fight the battle with changed tactics.

Russian leaders have not abandoned their Marxist faith in the revolution of the world proletariat. M. Mikoyan is emphatic that the Welfare State experiment in capitalist countries cannot prevent the revolution of the world proletariat. He is sarcastic in his comments on evolutionary reformers of Capitalism. But he is an economic realist who is convinced that the cause of the world proletariat cannot be advanced by any blind belief in the inherent contradictions of Capitalism.

Peaceful co-existence will mean competitive co-existence. Encouraged by Russia's impressive economic strength, Russian leaders hope that they can beat capitalist countries at their own game. Russia will now try to emerge as a major world exporter of goods and technicians. Her economic policy will continue to have an accent on heavy industry. But she will soon produce enough consumer goods to enable an improvement in the standard of living of the people. Peaceful co-existence will help Russia to pursue such an economic policy. Labour productivity will be improved through progress of technology and abundant supply of power. There is an implied confidence in M. Mikoyan's address that Communist Russia will soon equal, and then surpass, America's economic strength. To achieve this aim, Russia must be assured of world peace. As peaceful co-existence helps Russia to attain this fundamental objective, the world proletariat will emerge supreme without firing a single shot by Communist Russia. Stripped of the obscure jargon in which Stalinism is rejected, this is the main assumption behind the new Russian policy. Such a shift in policy is a logical sequel to competitive co-existence. Throughout the world, the common man will expectantly await the outcome of the new policy of the new leaders of Russia.



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Weekly Notes

The Budget Next Week

NOTWITHSTANDING States' Reorganisation and all that, the coming week belongs to Shri Chintaman Deshmukh and his budget box. The budget he will introduce in the Lok Sabha next week ushers in the second Plan, a plan which so many have for so long desired will be bolder and better than the first Plan. It will have to set the pace for the next five years, and therefore invites more than normal interest.

That Shri Deshmukh will budget for a big increase in development outlay should by now be obvious to the meanest intelligence. It is equally obvious that, in the chaotic position in regard to the States, the Union budget will be the main instrument for pushing ahead towards the many objectives indicated in the Draft Plan. There will, therefore, be limited speculation on the expenditure side. By and large, speculation will be confined to the manner in which the Centre will distribute its expanded outlay among the various projects and States.

The bigger question is, however, how Shri Deshmukh will cover this increased expenditure. Looking at the Railway receipts for 1955-56, one might guess that the Union budget will also have benefited to some extent by the increase in the tempo of economic activity this year. Shri Deshmukh will probably draw part of his resources from larger yields from existing taxes. Further, the coming year is, fortunately, one in which there are no large debt maturities to be covered by the Government. But sizable loans are due for repayment in 1957-58, and the Finance Minister may well try to extinguish part of the future liabilities in the budget for 1956-57. Even so, it seems safe to expect that the Capital Account will take credit for sizable net borrowing from the open market. This, with the steady increase in small savings, should give Shri Deshmukh considerable amounts to play with.

And yet, he cannot avoid tapping new sources of taxation and a large budget deficit. If the expenditure targets in the second Plan are to be achieved, he will have to find Rs 250-300 crores more than in 1955-56 for development purposes. This is obvious from the fact that the steel plants are already on hand, and the Railways have gone ahead on the basis of an expected capital investment by Government of the order of Rs 115 crores. And if past trends are any indication, loans to State Governments will need to be larger than ever. Even with higher yields from existing taxes and larger borrowing, Shri Deshmukh will have a big gap in resources, the major part of which will need to be covered through borrowing from the Reserve Bank.

In the matter of deficit, Shri Deshmukh cannot now feel as uninhibited as he was last February. We have today a larger money supply, and no clear case for a reflationary programme. The world outside has, once again, reverted to anti-inflationary measures. And even in India, monetary policy may have to be somewhat more restrictive than in the past. All of which will cause him to be circumspect while stepping up the rate of deficit-financing. Which means in its turn, that the probability of a fair-sized increase in taxation is, as Damon Runyan would say, more than somewhat.

Marathon Session for Lok Sabha

ONE of the longest sessions of the Lok Sabha—planned to last nearly 3½ months—began last week, and is expected to end on May 26. If the amount of legislative work that has to be carried through is any indication, the current session may indeed be extended further, in order to allow for marathon speeches by members, especially on such subjects as States' reorganisation and the second Plan.

The present session, though technically a budget session, will perhaps spend less time on Railway and the General Budgets than on the States' Re-organisation Bill. Apart from being the most controversial item on the agenda, it has necessitated the introduction of two related Bills, proposing amendments to the Constitution in order to facilitate the reorganisation of States. Three categories of amendments to the Constitution have been proposed: first, those relating to ancillary or consequential changes, such as the abolition of the office of Rajpramukhs and the three categories of States, which will be incorporated in the States Bill; secondly, amendments which do not require the sanction of State legislatures e.g. safeguards for linguistic minorities, involving adjustments in article 35(b) of the Constitution; and finally amendments which require the sanction of State Legislatures, viz. changes in article 1(2) and the Fourth Schedule of the Constitution relating to alterations and renaming the units of the Republic and the allocation of Parliamentary seats among States. Both the States Bill and the amending Bills are expected to be referred to a Select Committee and may be taken up for discussion by the end of March.

The second Plan is another important item on the agenda which will engage the Lok Sabha for a good while. However, since the Plan has been under public discussion for quite some time now and has been considered recently by the Amritsar Congress, it is possible that attempts will be made to have the blue-print approved in a hurry. But it is unlikely that the non-Congress members of the Lok Sabha will let this important document, which proposes far-reaching economic and social changes, be passed without saying their pieces on planning at great length. Another important piece of legislation which is likely to occupy a great deal of the time of the House and generate some heat is the Insurance Nationalisation Bill, replacing the recent Presidential Ordinance. A lot will be heard about the autonomous nature of the proposed Life Insurance Corporation and extreme views may be expressed on the question of compensation.

An interesting feature of the present session is the large number of pending Bills before the House—33 official and 77 non-official. In addition, Government have on hand a dozen new Bills, while members have sought leave for moving more than half a dozen. To add to all these are the Representation of the People (Second amendment) Bill, as reported by the Select Committee, the Bar Councils Bill, the University Grants Commission Bill and the Voluntary Surrender of Salaries Bill. With so much important work to be done in so short a time, members of the Lok Sabha might well feel apprehensive. But perhaps our legislators are made of sterner stuff than many outside, and will find both the time and energy to do justice to the rich fare before them.

Pressure on the Bank Rate

THE dramatic rise in UK's Bank Rate last week has naturally led to some speculation about the future of the Bank Rate in India. The announcement made by the Reserve Bank regarding the increase in the rate for loan against bills and pro-notes from 3 per cent to 3¼ per cent just before the rise in the UK Bank rate has led some to believe that the Commonwealth Central Banks act as a team, when it is a question of making credit dearer. And, in any case, the feeling is gaining ground that inflation is round the corner.

Some monetary purists have been clamouring loudly against deficit-financing before it has actually got into its stride. Any upward movement in prices is frowned upon by them and an alarm is raised. The rise in the monthly average of wholesale price index in India from 363 in January 1955 to 375 in January 1956, which is no more than 4 per cent, is pointed out as an eloquent testimony to the fact that inflation is already on the way. Hence they say, the Reserve Bank should follow the Bank of England and raise its Bank rate, so as to bring it into line with the effective rates of interest in the economy and prevent an undue increase in liquidity. The banks are, in fact, reported to be contemplating an increase in the advance rates in order to impart a healthy tone to the Indian Money market. Average bank credit has moved from Rs 573 crores in January 1955 to Rs 675 crores in January 1956, and hence the feeling that it requires to be squeezed a bit.

It is, however, noteworthy that though total money supply has increased by Rs 244 crores or about 13 per cent during this period, the wholesale price index has moved up by only 4 per cent. The change in the group indices is even more revealing. There has been no change in the wholesale price index of Manufactured goods, and there is a negligible rise in that of semi-manufactured goods. The price index of industrial raw material has risen by over 5 per cent. But much of this rise is accounted for by the sharp increase in the price of oilseeds, which is due more to increased demand from abroad than to any monetary cause inside the country. In respect of food articles, the price index has gone up by 7 per cent, but in the context of the fall it suffered previously, this rise is more in the nature of a return to proper levels. In other words, in spite of the large increase in money supply, prices have not shot up dangerously as monetary pundits would have us believe.

Call Money

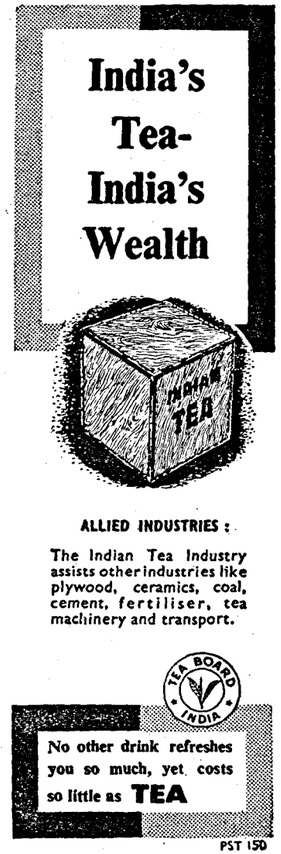
BUT there could still be a case for initiating a credit squeeze in view of the mad race for funds which the banks themselves are running. 'Call money' which used to be, in the past, a minor element in the money market is now a factor to be reckoned with. Many banks are now paying 3¼ per cent for 'call'—the same they offer for 1 to 12 months. Having got into the habit of depending substantially on this means, the banks are now unable to give it up. Unfortunately no statistics are available of the call money the banks are receiving—since current account deposits earning ¼ per cent interest and call money earning 3¼ per cent interest are both lumped together under the heading demand deposits. But it is well known that during the last six months some of the bigger Indian Scheduled Banks have been bidding up the Call money rates. The Exchange Banks have apparently been relying more on the bill market for their requirements so far. Now that the bill market rate has been raised, they might also enter the call money market with increased vigour.

Instead of stopping this scramble for call money, the banks are seeking to raise the advance rates in order to maintain their margin. Should they succeed in doing so, the Reserve Bank will be compelled to bring its Rate into alignment with the market rates at a higher level. Whether or not the Reserve Bank should raise its Rate here and now is a question that needs to be decided in the light of many considerations. But it ought not to allow itself to be stampeded into putting up the Bank Rate merely because UK has done so and the banks here want to safeguard their margins by raising the rates on advances. If the banks cannot agree among themselves to put a ceiling, and quite a low ceiling at that, to the call money rate, the Reserve Bank should step in and do something about it. Though outwardly, the bankers may raise a hue and cry, inwardly they will be glad to be relieved of the Frankenstein they themselves created by sheer cut-throat competiton. The interest structure in India requires adjustment from the bottom and not from the top.

Royal Visitors

INDIA, a secular Republic, wishes well of Iran. It is right and proper that New Delhi has extended a warm welcome to the Shah and the Queen of Iran. As the royal visitors from Iran continue their tour of this country, they can be assured of an enthusiastic welcome from the people. There have been close social and cultural contacts between India and Iran throughout history. There will be hope that the visit of the Shah and the Queen of Iran will lead to an active revival of intimate historical associations between these two countries to their mutual advantage.

Iran is a Muslim State. So are Indonesia, Afghanistan, Saudi Arabia and Egypt. It is symbolic of India's secular status as well as of her foreign policy of good neighbourliness that she has cordial relations with so many, among others, Muslim Asian neighbours. It is equally gracious of the Shah of Iran, as of the King of Saudi Arabia, to remind the Muslims of this country that



their main obligation, as citizens of this country, is to work for the progress and development of India. New Delhi and people of this country will appreciate the Shah's conviction that the Constitution of the Republic of India offers equal privileges and opportunities to all her citizens, including Muslims.

Iran is an oil-rich country. She occupies a crucial strategic position in Asia. She has, therefore, throughout history, been involved in international power politics. It was the present ruler's father who was the architect of modern, independent Iran. The present Shah has rid the country of foreign control and domination of her vast oil resources. By according a welcome to the royal guests from Iran, a member of the Baghdad Pact, India has shown that New Delhi seeks friendship with all nations. Though Iran is a member of the Baghdad Pact, the Shah and the Queen will visit Russia later this year. New Delhi will hope that this proposed visit will lead to amity between Iran and her northern neighbour. And the people of India can hope sincerely that Iran will continue her march to stable progress.

The Life Insurance Corporation Bill

Our Delhi Correspondent writes:

FOR life insurance companies, their employees and the policyholders who have been passing through a period of uncertainty, the prompt introduction of the Life Insurance Corporation Bill has provided some relief, though it will not answer all the questions. The Bill provides for the establishment of a corporation to which the life insurance business in the country will be transferred. But too much cannot be read into this corporation proposal; as the provisions of the Bill stand, the Corporation will be departmental in character, though it is not directly comparable to departments like the Company Law Administration. In common parlance, the word 'autonomous' is always linked with the idea of a corporation and it was the general belief that the Life Insurance Corporation also would have a quasi-independent status. The entire original capital of the Corporation of Rs 5 crores will be provided by the Central Government after Parliament makes special appropriation for the purpose; the members, not exceeding 15 including the Chairman, will be appointed by the Government. In the discharge of its functions under the proposed law, the Corporation is obliged to be guided by the directions on matters of policy by the Government, and the final decision on what constitute such matters also rests with Government.

Thus, though the Corporation will be a body corporate having perpetual succession, a common seal, powers to deal with property and fit to sue and be sued, it will presumably have no life, much less a soul, of its own. It is laid down that the Corporation should act on business principles 'so far as may be' and that its objective should be to develop life insurance business 'to the best advantage' (of whom, it is left unsaid). It is empowered to carry on business even outside India but this is apparently intended to tide over the transitional period since it is provided later on that the Corporation will have power to transfer the whole or any part of the life-insurance business abroad to any other person. The life business of State Governments will also merge with that of the Corporation; but not so the scheme run by the Central Government known as the Post Office Life Insurance Fund.

Among the persons who will be disappointed by the Bill will be the Auditor General who is excluded from the role of audit, to which he had seemed entitled in respect of every nationalised Corporation; auditors qualified to act for companies under the Company Law are considered enough (or are they preferred?) even for this vast new undertaking which will handle nearly Rs 400 crores of life funds. The actuaries will have a busy time, with the proposed valuation every two years; and 'if any surplus emerges'—to use the language of the Bill—not less than 95 per cent of such surplus should be allocated to the policyholder. Those who pay loaded premiums for policies with profits may however still wonder whether this is not a big 'if'. Under Clause 28 of the Bill, the Central Government seeks to guarantee the payments of all the assured sums and bonuses declared before and after nationalisation. This guarantee, therefore, makes it necessary that it should exercise a close watch over the working of the Corporation. The assurance is, however, qualified by the provision that the Corporation can in certain cases modify the contracts of insurance by reducing the amounts assured, if the financial condition of any insurer on the date of taking over is such as to justify that step. The reduction will not be arbitrary but governed by a scheme approved by the Government; even so, it introduces an element of uncertainty.

In Clause 13 of the Bill it has been provided that certain transactions of the insurance companies made in the last two years can be reopened if they disclose 'an unreasonable lack of prudence on the part of the insurer'. Payments made on sale of property without adequate consideration, purchases on excessive terms or other such benami agreements can thus be reviewed before the Tribunal of three members to be appointed to decide compensation and other claims. Whether such retrospective assessment of irregularities is proper may well be argued; there have been many such transactions which justify nationalisation, but should third parties suffer, even though it is provided that the Tribunal should take into consideration the extent of the responsibility of these parties? Why two years? The answer perhaps will be, why not?

The Corporation is empowered to invest its funds in such a manner as it thinks fit subject to rules to be framed by the Government, but whether investment in shares and debentures and loans on property will be available to the private sector as before will depend on the rules and the directions on policy to be issued by the Government. For the insurance employees, there is assurance that they will be taken over by the Corporation on the same terms of service. But there is also a condition that in certain cases, alteration in terms of service and reduction of salaries may be made. It is presumed that this will apply only to the sinecures mentioned by the Finance Minister in his broadcast address but other ranks may also feel uncertain.

Finally, the Bill provides (in Clause 34) for the application of such of the provisions of the Insurance Act of 1938 as Government considers necessary, to the business of the Corporation. Otherwise, the existing law will cease to govern life insurance business, though it has not been formally repealed but only indirectly suspended by this Clause. It is amazing that the memorandum on Delegated Legislation attached to the Bill completely ignores the sweeping character of this power to amend an existing law through notifications issued by Government.

National Institute of Social Sciences

THE proposal to start a National Institute of Social Sciences (first fully discussed in these columns in the issue of October 15, 1955, pp. 1213-4), we learn, is finding increasing support in quarters that matter. It is very necessary, therefore, to reiterate certain fundamentals which, if forgotten, will defeat the very purposes for which the Institute is to be founded. Firstly, the Institute should be devoted to carrying out fundamental research only—this cannot be stressed too much. In this transitional period, when the work of the universities is bedevilled by linguistic confusion, falling standards and increasing numbers, and the desertion of much of the best teaching material to more lucrative posts in Government, foreign firms and international agencies, it is necessary to create a sanctuary, where men with the necessary ability, qualifications and temperament can devote themselves to conducting research at the highest level—and nothing less— in the various branches of the social sciences. Call it even an ivory tower, if you like, but that is what is needed—a full-fledged institute for Advanced Research. There is real danger that without such an institute we will have frittered away the energies of the very few first-rate Indians in the social sciences—the country will have, like many an improvident peasant, eaten up the precious seed-grain with which the next year's crop is to be raised. And the tragedy of it is that there is no awareness at all of this problem in the country, either at the Governmental level or, what is even worse, at the academic level.

The Institute should have a certain number of fellows, selected on a five-yearly basis, and the fellowships should be renewed only if first-rate work has been produced. The fellow's primary aim should be to conduct original research in a field which he considers important and for which he has the necessary training. He might also be asked to guide the research of one or two junior fellows conducting doctoral or post-doctoral research. A few first-rate students, selected on an all-India basis, should be attached to the senior fellows for conducting Ph.D. research—this is being done in certain research institutions like the Indian Institute of Science at Bangalore and the Deccan College at Poona. The National Institute of Social Sciences could also hold occasional seminars on select topics for teachers in the social sciences in the various universities in the country. Both these measures are calculated to ensure that the senior fellows of the institute get the stimulus of contact with young and growing minds. But care should be taken to see that these activities do not encroach on the main business of the institute which should be to further fundamental research at the highest level. Otherwise, a publicity-seeking director may hold too many seminars, or the senior fellows may be spending all their time teaching and guiding research, instead of doing research themselves.

It is quite clear that the Planning Commission and the Community Projects Administration should be kept out of such an institute. Otherwise, the camel of applied research will push the Arab of fundamental research out of the tent. The temptation to be useful must be resisted at all costs. The Institute should develop a healthy convention by which the visits of Ministers and other non-scholarly VIPs are kept to an absolute minimum.

It is obvious that the personality of the Director is crucial in such a set-up. He should be a scholar and an administrator—an administrator who sees that administration is an evil which should be kept to the minimum. The day-to-day administration should be carried on by a Registrar who knows enough of academic life to free the fellows and Director for the important work of research. All policy decisions should be made by a council of senior fellows. The institute should be immediately responsible to a board of visiting scholars.

But it would be seriously doubted whether the country is enlightened enough to start an institute on these lines. What is more likely to happen, however, is that just one more institute will be started in which all the known errors and follies will be repeated—an institute dominated by men whose interests in intellectual problems has given way to a passion for the minutiae of administration, and a body of fellows who will be working on the social science equivalent of the solar cooker, synthetic rice and soya bean curd. The director will be spending all his time addressing press conferences, showing round VIPs, and signing bills in triplicate.

Ours is the age of back-room-boys no less in the field of the social sciences than in the field of nuclear energy. Unless those who are in power realize and create conditions for qualified men to pursue research into fundamental problems in peace, the judgment of history will go against them. But in our ancient and timeless land, who bothers about history?



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Off the Record

Wisdom Ex Post

IT is sheer lack of intellectual honesty to make any sweeping statements about the superiority of any one production technique over another on purely economic grounds, without taking into consideration all the relevant factors. And it needs to be remembered that the relevant factors are not all severely economic. Idealism and ethics can and do come into the picture, especially when one is concerned with the preservation and promotion of cottage industries. Importing these considerations into one's assessment of the scope of cottage industries is not tantamount to being romantic. The case for handicrafts can, for instance, be stated clearly and in a manner that leaves little room for any misunderstanding or sentimental nonsense. Broadly, it insists that machines can never kill art; so artistic handicrafts will always have a market and cannot be ousted by mass-produced goods. True, this market is specialised and difficult to exploit fully, without elaborate organisation. True also that art to be saleable should in some measure be wedded to utility, which calls for intelligent adaptation of designs and considerable efficiency in their execution, so that the products may continue to satisfy changing tastes and consumer preferences in the markets concerned. But these considerations are valid in respect of other consumer goods as well.

Since artistic handicrafts are necessarily expensive, however, markets for them have to be sought among the higher income groups, whether in India or abroad. In view of the scarcity value which the handmade products command in markets suffused with mass-produced goods, foreign markets should prove particularly attractive from this point of view. These markets, however, are not only difficult to get at, but also hard to retain, in view of the well-known capriciousness of the rich buyers.

An additional difficulty arises in adapting traditional skill and materials to markets which are highly susceptible to changing fashions—adjustment of supply to changing demand being rendered particularly difficult by the limited supply of skills, lack of adaptability of craftsmen and so on, the very factors which make for the special appeal of artistic handicrafts. Or, in other words, not being amenable to methods of mass production, crafts can rarely be developed in a big way for export markets. Besides these inherent limitations, there is another which may not be obvious at first sight. Art that is divorced from life ceases to thrive. Crafts that are similarly divorced wither and decay. Export orientation, therefore, may snap this vital link and succeed only in producing curios for tourists that will soon lose all cost appeal.

Leaving aside artistic crafts, there is another type of village industry which survives because of the limited local demand, partly because the market is too limited to attract mass-produced goods and partly because costs of transport and distribution offset the comparative advantage of large-scale production in factories. Other factors of advantage to village industries are availability of family labour which involves no cost in the absence of alternative employment opportunities, access to local raw materials etc. But these by themselves are not enough for their survival in the absence of the first two factors noted above.

In the economics of cottage industry, as in other spheres of operation of the economic process, note has also to be taken of inertia or friction. The process of displacement of less efficient by more efficient techniques of production is slowed down by friction of all sorts and by immobility, so that we come across the phenomenon all over India of people still plying some trade in which they are not making an adequate living. In recent times entry into some occupations has been restricted by trade union action. But this by itself does not fully explain the unfavourable ratio of rural to industrial wages in India. Part of it is explained by job cost and part by inertia, apart from hindrance to mobility; but the relative strength of these forces still remains to be studied and clearly ascertained.

Though data on village industries are extremely scattered and no systematic study of these data has yet been undertaken, it can be generally stated without fear of contradiction that in many sectors of the economy, the process of displacement is not entirely a fait accompli. Even today handloom products which are neither artistic nor so specialised as to meet only local demand also sell side by side with mill-made cloth. The village potter still struggles against the steady displacement of earthernware by utensils of enamel, porcelain and aluminium. Lately the process has been accelerated by the entry of plastic goods of all sorts into the range of competitive products. The village cobbler is steadily facing competition from factory-made shoes, especially the cheaper rubber and canvas shoes.

Partly the village craftsman survives because he is in a position, so to speak, to add to his product some 'servicing'; in the case of the cobbler or the blacksmith, it is because of the service he is able to give by repairing the shoes which he makes or the small tools and agricultural implements he turns out from his village smithy. On the other hand, new trades are coming up, such as that of the tailor who is no longer something of a novelty even for backward villages or that of the mechanic in the more advanced villages which happen to be connected by road with neighbouring towns and have, therefore, the indirect benefits of motor transport. A small repair shop catering for the requirements of cyclists or passing motorists has now become a familar sight in many parts of the country.

Since classification is the first step of knowledge, it should be made clear here that none of the village or cottage industries considered above are to be confused with small-scale industries which have grown up as an adjunct to large-scale industries. These constitute a separate group by themselves and have to be treated separately.

Leaving aside therefore the non-competing groups, there is still a wide sector, as mentioned above, where the process of displacement has been actively at work. This displacement has been going on, sometimes at a fast rate, sometimes rather slowly over decades and centuries. Even in the late years of

Shahjahan's reign, British yarn had been selling in the markets of Decca, the centre of muslin manufacture. During periods of acute shortage, this process had been temporarily held in abeyance. When world war II ended, import control and continued inflation staved off displacement awhile; but for quite some time now the process has been revived. Economists have at long last understood the character of this process, and what is more, have come to realise clearly, but only very recently, the social aspects of the problem. To be fair, it may be mentioned that the clear-sighted economist had no illusion about it, and when Messrs Bowley and Robertson recommended an economic census for India way back in the late 20s, they suggested that a subsidy for cottage industries, threatened by competition from factory products, would be perfectly justified and rational, as a substitute for social security which India did not have or could not afford.

The subsidy argument has now been revived and has come to win wide acceptance. A variant of this argument in a more sophisticated form is in terms of aggregates for the economy as a whole. Development of factory industries is the result of investment in these industries. If more efficient production displaced labour in less efficient production, it had hitherto been accepted on trust that the answer was not to go slow, but to go fast. It has taken economists many, many years of groping and blundering to see the process in clear and correct perspective. Because we cannot go fast enough with more efficient production, progress being limited by the ability of the country to invest in the more productive industries, we have to go slow until we are able to step up the rate of investment so fast that all the labour that is displaced, as a direct consequence of such investment, can be readily absorbed in employment, the opportunities for which are created by larger investments. The substance of all this had been grasped by men of common sense and leaders of insight long ago. Hence Gandhiji's emphasis on the Charkha, though the symbol of the charkha meant much more. The conclusion is difficult to resist that economists, like philosophers, are wise only after the event. It is in the evening that the owl of Minerva takes wing.

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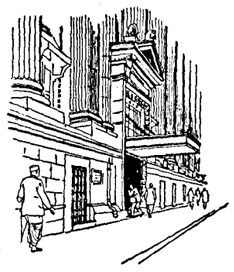
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The Macmillan Squeeze

ECONOMIC policy with the mailed fist: the show of drive and determination to squeeze symptoms of inflation out of the economy is what the latest economic measures are designed to portray. After hesitating and dithering for many months with what was and is a critical situation, the Eden Government has now acted in a desperate effort to save its life and what little is left of its prestige. It seeks to give the impression that it is in control of the economic forces at work. In fact, few will be convinced by the exhibition. It is certainly true to say that, with the possible exception of Labour's rule in its last days of 1950, never has a Government of the United Kingdom shown greater lack of touch with the concrete situation than is now shown by Sir Anthony Eden and his colleagues.

The British economy has, since 1945, passed through a number of crises. In only one instance was the policy of capitulation resorted to: the 1949 devaluation of sterling. But never has there been confusion in policy. Today control over the forces fashioning the economy are no longer in the hands of the authorities. This fact became clear as long ago as 1953. The almost revolutionary abandonment of physical controls was replaced by a set of tenuous monetary measures whose subsequent history was to prove their ineffectiveness as a substitute. Even then the use of these measures in the name of 'flexibility' has been bewilderingly varied and out of keeping with the concrete situation. The present variation is, however, the most remarkable of all.

Rise of One Per Cent

The bank rate, which since February 1955 has remained unchanged at 4½ per cent, has now been pushed up to 5½ per cent. Thus in a full year, the rate has been pushed up by one per cent. In that same year the visible trade deficit rose from £599 million to £862 million—a rise of over 30 per cent. In September last, a number of changes in the purchase tax were imposed in a Supplementary Budget bringing within the field of indirect taxation a whole host of consumer and other goods. In spite of this, the volume of imports rose by over 1 per cent between the third and fourth quarters of 1955. At the same time, this tactless measure resulted in trade union submissions, under the threat of strike action, of wage claims amounting to an increase of some £150 million in a year. We may go a bit further: in the six months following the Chancellor of the Exchequer's request for a significant cut in bank lending, total Bank loans have been cut by £309 million. And yet the Board of Trade reports that commercial stocks over the past six months have remained at about a constant level. Maybe the Eden Government has been unlucky—in contrast to its luck in 1952, when recovery was occasioned not so much by the resort to monetary policy, but rather by the maintenance of American import levels and foreign aid—anyway, all that the Eden Government has attempted up to now has come to nought. Inflation persists. It is more likely that the current difficulties have little to do with luck: nothing like the Indian monsoon exists in this part of the world to determine levels of production, employment and the balance of payments. There is, thus, little wonder that the present measures evoke no enthusiasm in the country as a whole. Even the Liberals have censured Government.

Not New Enough

The Macmillan measures are, principally, four in number, and none of them are new enough to call for particular appreciation: (a) the rise in Bank rate to 5½ per cent; (b) restriction on hire purchase transactions by increasing the initial deposit level; (c) withdrawal of a certain amount of subsidies on bread and milk; and (d) pruning of capital expenditure programmes of the public sector (nationalised industries, local authorities and Central Government). It is said that with regard to the first, a Bank rate of 4½ per cent had no longer become penal because of two money market developments —the fall in gilt-edge security values had made their yields move beyond the 4½ per cent level; and secondly, that the discount houses were now so frequently 'in the bank' that a 4½ per cent bank rate was irrevelant to the general pattern of short-term rates.

Maybe these movements justify a rise in the bank rate. But its implication in the wider fields of economic activity are not so clear. Will higher interest rates restrain borrowing in a situation already steaming with inflation and with profit levels generally in the region of 15 to 20 per cent? Your correspondent does not believe that such a restraint will emerge. On the contrary, some of the larger private firms are financing their investments and their stock holdings from huge accumulated liquid resources which they had built up since the war. In this situation the rise in interest rates is more likely to affect prices, encourage wage claims and so make the export trade become increasingly difficult. If, however, a 5½ per cent bank rate is designed to encourage the inflow of private foreign capital to sustain the exchange rate, and so to build the gold reserves, then here again, considerable doubts exist.

Negative Significances

Today, the talk of crisis rather than the bank rate affects the attitude of the international speculator. In this situation, it is difficult to see the bank rate affecting the gold reserves. The other measures, too, are of negative significance to the main questions of the day. The previous hire purchase restrictions had taken off the boil in this field of consumer spending—where it may still have an effect is in regard to control over the purchase of producer goods on the hire purchase system. In so far as this measure will be applied, it will represent the only tangible control over private investment activity.

The withdrawal of bread and milk subsidies—an act of folly at the best and a crime at the worst—will exacerbate the price-wage spiral and will give fresh vent to inflation. As for the controls to be exercised over investment in the public sector, no new development in policy is introduced: the fall of £309 m. in bank advances in the last six months is, in the words of the **Financial Times**, 'reflective of the contraction of lending to the nationalised industries'.

For many months now, the local authorities have not been able to borrow funds from the Central Public Works Loan Board, and the Macmillan measure here is only an indication of the continuance of the existing practice. As for Central Government expenditure, capital and other, the latest estimates coming from each of the Government departments and, in particular, from the Defence Ministry, show that Government spending in the next financial year will be higher than in the last.

Mr Macmillan has informed the House of Commons (against a chorus of 'Resign') that the Capital Issues Committee will henceforth adopt a severer attitude towards all new applications. He did not, however, mention whether the raising of capital of £50,000 or less by any company will come again under the purview of the Capital Issues Committee. There is evidence that a number of companies have been circumventing the regulations by forming subsidiary companies with capital issues of £50,000 and less, and in this way have been free to raise as much money as they want for investment and expansion.

Private Capital

According to an investigation carried out by the Board of Trade, private industry intends to increase its capital expenditure between 1955 and 1956 by as much as 17 per cent, which is equivalent to an increase of about £208 m. Nothing in Government's new measures impinges on this expected level of private capital investment. And it is this field of activity which over the past year, and most surely in the coming, has claimed most of the economic resources of the country.

These claims have, therefore, prejudiced the export trade, called for an increase in imports and has led to the very full employment situation in the country. It would have been expected that even if Government did not wish to impose import controls, it could have, without much difficulty, imposed some control over the building of factories. The impression obtained, however, is that Government is more bent on depressing living standards than interfering with the whims and fancies of private capital, whether or not these whims and fancies lead the country to the brink, if not, to disaster.

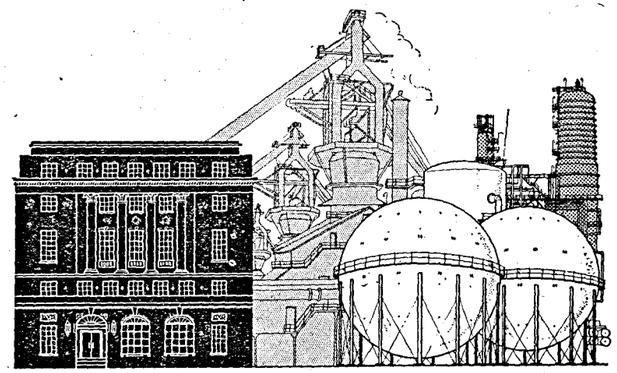
Letter to the Editor

EMPLOYMENT FOR WOMEN

I WONDER why in the discussion of cottage industries, the making of papads, pickles, the stitching of dining leaves, and leaf cups, embroidery, knitting and sewing are not mentioned. I do not know how many people are engaged in these activities, nor the amount of money they earn, but I do know that they provide employment for many poor women some of whom are widows. Cannot the benefits of co-operation be extended to them? The significance of such an extension would be out of all proportion to the amount of money earned because every pie earned would go a long way in maintaining many an unfortunate woma and her half-starved children.

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Power for the Countryside

Rural Electrification. Prepared by the Secretariat of the Economic Commission for Asia and the Far East. United Nations, New York. Pages 85, Price 6 shillings.

THE provision of electric power to rural areas has been considered an essential precondition for raising the standards of living of the rural population. While the consumption of electric power in general provides a measure of a country's development, it may be said that the extent of rural electrification provides a measure of the extent to which the rural areas are keeping pace with and contributing to the economic progress of the country. It is, for instance, only through utilisation of power that cottage and small-scale industries in the rural areas can hope to achieve high levels of productivity and efficiency.

The difficulties involved in taking electricity to the rural areas are, however, immense. In fact, except in the most favourable circumstances, they are almost insurmountable by unaided private enterprise. These difficulties arise principally from the low load one can expect in the countryside and its relative dispersal over a wide area. Both these factors tend to raise the cost of production of power above the level that generally obtains in urban areas. The fact that "on the one hand, the cost of energy supply is higher than for urban areas and on the other hand, the value of service to the consumer is lower", also makes it difficult to determine the most suitable tariffs.

The existence of these difficulties provides a challenge to the ingenuity of the electrical engineer. The rapid progress of rural electrification will, undoubtedly, depend upon the extent to which he is able to meet this challenge and devise suitable adjustments by which the cost of electric power will be reduced substantially below presently anticipated levels both by directly reducing the cost of production and by stimulating higher and more evenly distributed consumption of electricity.

The ECAFE report on rural electrification shows that while much can be done in this direction, over-optimistic ideas about rural electrification need to be guarded against. The capital out-put ratios of power projects are admittedly very high. They are likely to be much higher for most rural electrification schemes. While it may be admitted that sectoral capital out-put ratios cannot be the sole determinants of sectoral investments, considerable attention must needs be paid to them when total capital resources are limited. Although, therefore, decentralisation of industry and the mechanisation of rural industries may apppear to be attractive, their scope is dependent on the economic possibilities of provision of power, the capital requirements of which are high and the output low. However desirable rural electrification may be in itself, it will have to proceed slowly until other developments in backward countries have created more favourable conditions.

The report does not examine the question along these lines. It is concerned with the countries of South-east Asia in most of which there has been very little progress in rural electrification with the notable exception of Japan where there has been rapid progress since the nineteen-twenties and 97.5 per cent of all the villages and towns have been electrified. Its installed capacity of 108.0 KW per 1000 of population and 23.6 KW per square kilometre of area compare favourably with the United Kingdom figures of 291 KW and 59.4 KW respectively. For India, the respective figures are as low as 4.5 KW and 4.85 KW.

The report examines the difficulties that are likely to arise in bringing power to the rural areas and suggests the directions along which the solution can be found. Power supply to a particular rural area may come from an existing power system or from a local generating station to be specially set up for the purpose. "The supply from a large net-work would provide an area with cheap power," the report points out, "if the distance of the load-centre from the available point of supply on the grid is commensurate with the extent of the load to be catered for." With a large number of hydro-electric power stations in the country, this suggests the possibility of a considerable measure of rural electrification in this way, but the catch is obviously in the phrase "available point of supply". The mere passage of high voltage lines through an area may not necessarily imply the possibility of electrifying it, contrary to what the casual observer is likely to believe.

In cases where supply from a large hydro and thermal grid becomes uneconomical, the report suggests that it may be possible to build small hydro-power stations at dam sites or small drops in irrigation channels or on perennial mountain streams. If thermal power stations of low capacity become necessary (say up to 250 KW), diesel engine generating sets prove generererally more economical. In stream stations, "concerted efforts should be made to utilize the low-grade coals available in large quantities in almost all the countries of the region." As a measure of economy in generation, standardisation of size of generating sets is recommended and certain standard sizes and voltages are suggested.

Since the cost of transmission forms the most significant element in the cost of power, particularly in the rural areas where distances covered are long and power requirements low, the report devotes considerable attention to the question of reducing costs. The following are laid down as the qualifications necessary for an ideal rural line:

1. Adaptability for isolated supply en route
2. Margin for development of load
3. Low initial cost
4. Reasonable reliability of supply and low maintenance and
5. Simplicity of construction with minimum number of parts.

To reconcile these opposing considerations is the task to which the report sets itself. The statement of the principle on which decision must be based is irreproachable. "Sound engineering development", it says, "consists in meeting the immediate and foreseeable needs at the minimum cost consistent with technical suitability and reliability of service; risks have to be balanced, and a satisfactory solution is one which combines immediate suitability with reasonable flexibility to meet increased demands in the future." The difficulty arises in applying this principle correctly as it is stated.

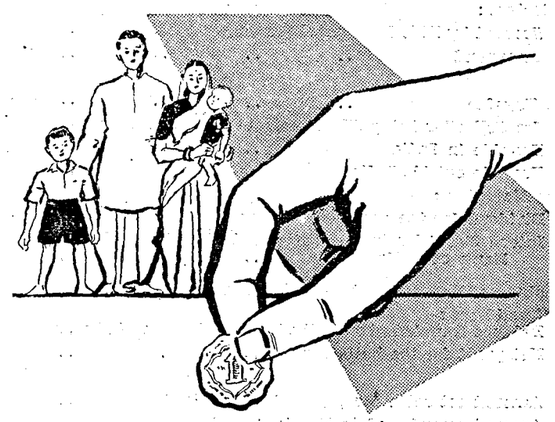
One direction in which the report suggests the reduction of costs is the lowering of certain safety and other standards. "The high factors of safety and large ground-clearances stipulated in the various government enactments and the rules framed thereunder in the past, were mainly intended for use in urban areas and require suitable revision," it says. The use of treated wooden supports, the omission of overhead ground wire, the reduction of ground clearances and the use of substitutes for automatic oil circuit breakers to secure protection against overloads and ground faults are among the measures recommended. A number of other deviations from conventional practices are also recommended for the rural areas. The technical feasibility of these measures is obviously a matter for technical experts who should, however, approach the question free from preconceived notions and with a willingness to reconsider orthodox criteria in the light of needs.

The report also discusses the problems connected with Utilisation, Propaganda and Load Building Methods, Tariff and Finance in separate chapters. For the present, the demand for electricity in the rural areas of the region will be limited to a few purposes: lighting, lifting water for irrigation and operating small machinery for the processing of agricultural products. To increase the utilisation of power, the report lays special stress on establishing a chain of refrigeration plants to preserve food, sea products, vegetables and fruit. The report also points out that though individual farms cannot afford to own large agricultural equipment, electricity will provide the means for the farmer to combine with his neighbour in the collective ownership and economical utilisation of equipment. This might encourage a type of co-operative effort which is highly desirable.

The report is, on the whole, an excellent hand-book on the subject and the recommendations it makes are worthy of careful consideration not only by students of public utility economics, but governments and specialised agencies concerned with adding a little more substance to the living conditions of the rural populace. For us in India, who are thinking of decentralisation in a big way, it offers many suggestions which, with determination and ingenuity, we may be able to put into effective use.

CORRECTION

THE increase in agricultural production expected under the Second Five-year Plan will not be 35 per cent as stated in the Delhi Letter entitled "Phasing the Plan and Industrial Policy" in the Economic Weekly Annual Number, but only about 18 per cent, which gives an annual increase of about 3 per cent at a compounded rate. The error has arisen from the estimate of the increase of the Index of agricultural production to 135 in 1960-61, from its present level of 115, with 1949-50 as the base year (100).



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PER DAY . . . . . .

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DA 55/164

BALANCE SHEET OF THE STATE BANK OF INDIA AS AT 31st DECEMBER 1955

CAPITAL AND LIABILITIES	Rs. a. p.	Rs. a.
1. **Capital :**		
Authorised Capital—20,00,000 shares of Rs. 100 each	20,00,00,000 0 0	
Issued, Subscribed and Paid-up Capital—(pursuant to Section 5(1) of the State Bank of India Act, 1955),—5,62,500 shares of Rs. 100 each ..		5,62,50,000 0
		6,35,00,000 0
2. **Reserve Fund and Other Reserves**		
3. **Deposits and Other Accounts :**		
Fixed Deposits	33,90,64,198 14 5	
Savings Bank Deposits	27,92,80,237 4 4	
Current Accounts, Contingency Accounts, etc.	164,15,83,667 2 11	225,99,28,103 3
4. **Borrowings from Other Banking Companies, Agents, etc. :**		
(i) In India	5,00,00,000 0 0	
(ii) Outside India	..	5,00,00,000 0
Particulars :		
(i) Secured by Bills Discounted per contra	5,00,00,000 0 0	
(ii) Unsecured	..	
	5,00,00,000 0 0	
5. **Bills Payable**		7,80,78,009 3
6. **Bills for Collection being Bills Receivable** as per contra :		
(i) Payable in India	39,71,210 15 4	
(ii) Payable outside India	8,38,910 0 5	48,10,120 15
7. **Other Liabilities :**		
*Dividend for the current half-year	45,00,000 0 0	
Inter-Office Adjustments (after deducting Rs. 9,16,542-6-9 due from Imperial Bank of India)	5,42,64,076 1 3	5,87,64,076 1
8. **Acceptances, Endorsements and Other Obligations** per contra		13,17,894 1
9. **Profit and Loss :**		
Balance transferred from the Imperial Bank of India	33,56,438 13 8	
Net profit for the half-year	68,59,396 1 0	
	1,02,15,834 14 8	
Amount set aside for payment of Dividend	45,00,000 0 0	
Amount transferred to Pension Funds	2,78,500 0 0	
Bonus to Staff	20,00,000 0 0	34,37,334 14
10. **Contingent Liabilities :**		
Claims against the Bank not acknowledged as debts Rs. 6,49,754 12 8		
Bills of Exchange rediscounted .. .. Rs. 28,571 7 0		
Outstanding Forward Exchange contracts .. Rs. 16,28,93,925 4 7		
Guarantees given on behalf of Directors, Local Board Members or Officers of the Bank .. Rs. 29,031 4 6		
Guarantees given on behalf of others .. Rs. 4,89,97,724 9 9		
*Of which Rs. 24,75,000 to be credited to Integration and Development Fund in terms of Section 36(1)(a) of the State Bank of India Act, 1955.	Total ..	257,60,85,538 10

PROPERTY AND ASSETS	Rs. a. p.	Rs. a. p.
1. **Cash :**		
In hand and with Reserve Bank (including foreign currency notes) ..		25,17,25,404 10 8
2. **Balances with other Banks :** On current account On deposit		
(i) In India .. Rs. .. Rs.		
(ii) Outside India .. Rs. 4,20,81,268 9 10 Rs.	4,20,81,268 9 10	4,20,81,268 9 10
3. **Money at Call and Short Notice**		1,53,33,333 5 4
4. ‡**Investments** [securities valued in accordance with Regulation 73; shares, debentures or bonds at or below cost]		
(i) Securities of the Central and State Governments and other Trustee Securities, including Treasury Bills of the Central and State Governments ..	106,40,44,520 11 4	
(ii) Shares authorised under the State Bank of India Act, 1955	56,75,952 13 0	
(iii) Debentures or Bonds	79,96,875 0 0	
(iv) Other Investments—Pakistan and other Government Securities, etc.	9,20,21,901 8 3	116,97,39,250 0 7
‡Of which investments of the face value of Pakistan Rs. 2,07,10,900 are pledged against borrowings from other Banks, Agents, etc.		
5. **Advances :**		
(I) Loans, Cash Credits, Overdrafts, etc.—(i) In India Rs. 83,56,05,522 0 11 (ii) Outside India Rs. 5,45,38,412 14 0	89,01,43,934 14 11	
†(II) Bills Discounted and Purchased— (i) Payable in India .. Rs. 14,49,78,666 3 10 (ii) Payable outside India .. Rs. 2,30,02,628 7 0	16,79,81,294 10 10	105,81,25,229 9 9
†Of which bills of the value of Rs. 7,95,00,000 are held by the Reserve Bank of India as security against borrowings as per contra		
Particulars of **Advances :** See separate Statement appended		
6. **Bills Receivable being Bills for Collection** as per contra :		
(i) Payable in India	39,71,210 15 4	
(ii) Payable outside India	8,38,910 0 5	48,10,120 15 9
7. **Constituents' Liabilities for Acceptances, Endorsements and Other Obligations** per contra		13,17,894 1 7
8. ***Premises less Depreciation :**		
As transferred from the Imperial Bank of India on the 1st July 1955 ..	1,16,70,315 8 10	
Additions (Rs. 29,861-5-0) less Deductions (Rs. 351-8-0) during the half-year	29,509 13 0	
	1,16,99,825 5 10	
Depreciation written off during the half-year	1,54,955 0 0	1,15,44,870 5 10
9. ***Furniture and Fixtures less Depreciation :**		
As transferred from the Imperial Bank of India on the 1st July 1955 ..	44,41,853 14 2	
Additions (Rs. 6,08,449-10-2) less Deductions (Rs. 12,816-4-10) during the half-year	5,95,633 5 4	
	50,37,487 3 6	
Depreciation written off during the half-year	2,81,564 0 0	47,55,923 3 6
10. **Other Assets, including Gold and Silver :**		
Bullion	..	
Adjusting Account of interest, commission, etc.	1,07,94,776 8 10	
Stationery, Stamps, Suspense, etc.	58,57,467 2 10	1,66,52,243 11 8
11. **Non-banking Assets Acquired in Satisfaction of Claims**		..
12. **Profit and Loss**		..
*NOTE—Includes Rs. 4,68,512-10-0 (against which a sum of Rs. 53,947-10-0 is still to be received) being written down value of certain Pakistan assets sold, pending completion of formalities.	Total ..	257,60,85,538 10 6

PROFIT AND LOSS ACCOUNT FOR THE HALF-YEAR ENDED 31st DECEMBER 1955

EXPENDITURE	Half-year ended 31-12-1955 Rs. a. p.
1. Interest paid on Deposits, Borrowings, etc.	64,26,044 15 2
2. Salaries and Allowances and Provident Fund (including Salaries and Allowances of Chairman Rs. 24,000-0-0 and Managing Directors Rs. 52,635-7-9 for the half-year) ..	2,29,26,922 9 10
3. Directors' and Local Board Members' Fees and Allowances	50,530 0 0
4. Rent, Taxes, Insurance, Lighting, etc.	11,68,928 15 3
5. Raw Charges	83,979 11 8
6. Postage, Telegrams and Stamps	8,20,561 3 4
7. Auditors' Fees	25,000 0 0
8. Depreciation on and Repairs to the Bank's Property ..	6,02,591 10 1
9. Stationery, Printing, Advertisement, etc.	13,31,618 5 5
10. Loss from Sale of or Dealing with Non-banking Assets ..	..
11. Other Expenditure	13,14,714 9 7
12. Balance of Profit	68,59,396 1 0
Total ..	4,16,10,288 1 4

INCOME (less provision made d the half-year for bad and doubtful debts ar r usual or necessary provisi	Half-year ended 31-12-1955 Rs. a. p.
1. Interest and Discount	3,02,19,815 13 0
2. Commission, Exchange and Bro	1,12,13,240 1 10
3. Rents	1,77,232 2 6
4. Net Profit on Sale of Investment d and Silver, Land, Premises and other Assets	..
5. Net profit on revaluation of Inve s, Gold and Silver, Land, Premises and other Assets	..
6. Income from Non-banking Asse d Profit from Sale of or Dealing with such Assets	..
7. Other Receipts	..
8. Loss	..
Total ..	4,16,10,288 1 4

PARTICULARS OF ADVANCES	Rs. a. p.
(i) Debts considered good in respect of which the Bank is fully secured	94,58,01,558 7 9
(ii) Debts considered good for which the Bank holds no other security than the debtors' personal security ..	3,11,74,770 2 7
(iii) Debts considered good, secured by the personal liabilities of one or more parties in addition to the personal security of the debtors	8,11,48,900 15 5
(iv) Debts considered doubtful or bad, not provided for ..	..
	105,81,25,229 9 9
(v) Debts due by Directors or Local Board Members or Officers of the Bank or any of them either severally or jointly with any other persons	1,89,810 1 11
(vi) Debts due by companies or firms in which the Directors or Local Board Members of the Bank are interested as directors, partners or managing agents or, in the case of private companies, as members ..	15,13,14,189 7 8
(vii) Maximum total amount of advances, including temporary advances made at any time during the half-year to Directors or Local Board Members or Officers of the Bank or any of them either severally or jointly with any other persons	2,51,614 5 3
(viii) Maximum total amount of advances, including temporary advances granted during the half-year to the companies or firms in which the Directors or Local Board Members of the Bank are interested as directors, partners or managing agents or, in the case of private companies, as members	15,19,59,620 14 6
(ix) Due from banking companies	8,42,62,857 8 10

REPORT OF THE AUDITORS

TO THE PRESIDENT OF INDIA .

We, the undersigned Auditors of the State Bank of India, appointed under Section 41(1) of the State Bank of India Act, 1955, do hereby report to the Central Government upon the Balance Sheet and Accounts of the Bank as at the 31st December, 1955.

We have examined the above Balance Sheet and the Profit and Loss Account and the Accounts relating thereto of the Central Office and the Local Head Offices at Bombay and Calcutta and the Returns submitted and certified by the Secretary and Treasurer of the Local Head Office at Madras and by Branch Agents, which Returns have been incorporated in the above Balance Sheet and Accounts, and report (i) that, in our opinion, the Balance Sheet is a full and fair one, containing all the necessary particulars and properly drawn up so as to exhibit a true and correct view of the affairs of the Bank, according to the best of our information and the explanations given to us and as shown by the Books of the Bank; (ii) that where we have called for any explanation or information such explanation and information have been given to us and have been satisfactory; (iii) that the transactions of the Bank which have come to our notice have been within the powers of the Bank; (iv) that the Returns received from the Local Head Office at Madras and from the Branches of the Bank have been found adequate for the purpose of our audit; (v) that the Profit and Loss Account shows a true balance of profit for the period covered by such account; (vi) that, in our opinion, the Balance Sheet and Profit and Loss Account are drawn up in conformity with the law; and (vii) that, in our opinion, Books of Account have been kept by the Bank as required by law.

The audit of the Books and Accounts of the Central Office has been carried out jointly by Messrs. S. B. Billimoria & Co. and Messrs. Ray and Ray. The audit of the Books and Accounts of the Local Head Offices has been carried out at Bombay by Messrs. S. B. Billimoria & Co. and at Calcutta by Messrs. Ray and Ray.

S. B. BILLIMORIA & CO.
RAY & RAY. } Auditors.

9th February 1956.

V. N. CHANDAVARKAR,
NEVILLE N. WADIA,
J. D. CHOKSI,
R. G. SARAIYA,
A. D. GORWALA,
D. R. GADGIL,
B. VENKATAPPIAH,
BADRIDAS GOENKA,
G. M. MACKINLAY, } Directors.

JOHN MATTHAI, Chairman.

VAIKUNTH L. MEHTA, Vice-chairman,

S. K. HANDOO, Managing Director.

West Bengal's Second Plan

UNDER the second Plan, West Bengal's expenditure is estimated at Rs 153 crores, inclusive of this State's share of expenditure on DVC. In presenting the budget for 1956-57, Dr B C Roy indicated the sources of financing the State's second Plan. As Finance Minister of this State, Dr B C Roy repeats the familiar arguments advanced by Finance Ministers of all States. Under the present system of allocation of resources between the Union and the units, the States have little scope for expanding their tax resources.

West Bengal, partitioned Bengal, has been a deficit State. It has a large current deficit. But Dr B C Roy expects that tax revenue, even at current rates, will gradually increase due to the strengthening of the administration and to the gradual improvement in economic conditions. It is assumed that the total revenue deficit will not exceed Rs 13.4 crores during the second Plan period. Additional taxation is expected to yield Rs 12.1 crores in the next five years. Loans may provide Rs 25 crores. In 1956-57, the State's borrowing programme amounts to Rs 5 crores. This State's share of small savings will come up to Rs 8.8 crores in the next five years. Thus, the State's resources available for the second Plan is estimated at Rs 29.5 crores.

During the second Plan period, additional taxation measures contemplated are "the entry tax on tea, extended coverage of sales tax, irrigation rates, etc. Tax achievements during the first Plan are not impressive. In 1949, the coverage of sales tax was extended. Thereafter, and up to 1954, no new tax was levied nor the rates of existing taxation raised. In October 1954, a tax on aviation spirit was imposed. During September and October 1955, sugar was included within the scope of the sales tax, and the sales tax was extended to cover gold and gold ornaments.

Though additional taxation during the second Plan period is under contemplation, no new taxation is proposed for the first year of the second Plan. In Dr B C Roy's budget speech, the only positive indication is that this State will be borrowing Rs 5 crores in 1956-57. Does the absence of any new taxation by this State for the first year of the second Plan mean that both the Union and the States have endorsed the Union Finance Minister's earlier suggestion that fresh taxation should be postponed for the first one or two years of the second Plan? This is an interpretation of West Bengal's budget which industry hopes is correct. It should not be ignored, however, that the absence of any positive tax proposal in West Bengal's budget may be due to uncertainties about the plan for merger of West Bengal and Bihar.

From the Chair

The Scindia Steam Navigation Company Limited

Speech of the Chairman Shri Dharamsey M Khatau

THE following is the speech delivered by the Chairman, Shri Dharamsey M Khatau, at the 36th Ordinary General Meeting of the Company held on Wednesday, the 22nd February, 1956, at 4 p m at Scindia House, Ballard Estate, Bombay:

Gentlemen,

I assume that, as usual, you will permit me to take as read the Directors' Report and the Audited Accounts for the year ended the 30th June, 1955, which have been in your hands for some time now.

It is regrettable that the results this year have been less satisfactory than in the previous year. There are four main causes for this. The Dockers' strike in the UK and the congestion at UK and Indian ports and the 'Go Slow' of Port and Stevedoring Labour caused a delay of 380 voyage days. The loading of rice at Rangoon was about 400 tons per day as against the anticipated 800 tons per day on which the freight rates were based. This caused considerable loss. The cost of stevedoring has risen to the extent of about 15 per cent over the previous year. The cost of Marine Dues, Claims etc. have also gone up. The cost of coal increased by about As 10 per ton. The necessity of chartering vessels to fulfil commitments for rice liftings from Burma was unprofitable. This would not have been necessary if the construction of ships at the Visakhapatnam Shipyard had proceeded according to programme.

In view of the unsatisfactory results the Managing Agents have agreed to accept Rs 8 lakhs only and waive the balance of Rs 2,26,951 provided that the amount so waived is exempted from Income-tax in their hands. Our thanks are due to the Managing Agents for this gesture.

Our Reserves and Surplus now amount to Rs 6.51 crores against Rs 6.27 crores last year. Our Specific Reserves have increased from 5.29 crores to Rs 5.94 crores at the end of the year.

As we are in need of finance for further modernisation of our tonnage, we have requested the Government to release Rs 2.47 crores invested in the shares of Hindustan Shipyard Ltd. and Eastern Shipping Corporation Ltd.

Coastal Freights

The tonnage plying on the coast today is not sufficient to carry all available cargoes. From 1950 to 1955 Coastal tonnage has increased only from about 200,000 tons gross to 244,000 tons. Due to prevailing unsatisfactory conditions all round about 20 per cent more tonnage is now required to carry the same volume of traffic. To meet the increasing demands and relieve the pressure on Railways more coastal shipping is needed; but the prevailing prices of ships are very high. A standard coastal ship which used to cost about Rs 44 lakhs in 1950 would now cost about Rs 80 lakhs. Unless rates of freight are raised to meet the operating costs, acquisition of fresh tonnage is impossible.

The Coastal Conference therefore decided to increase the freight rates on General Cargo by 10 per cent from 1st June and request Government for same increase in Coal rates from May 1955. Before these increases could be effected, it was suggested by Government that the freight rate structure on the coast should be maintained until the Rail-Sea-Co-ordination Committee reported its findings. On further representation Government have allowed a meagre increase of 5 per cent in the rates on coal and general cargo from 15th October last.

The Coastal Conference believes that the rates of freight should be fixed at a level to meet fully the costs of operation, normal depreciation, reasonable provision for rehabilitation and fair return on capital employed. The present Coastal fleet has many old vessels which will require replacement at no distant date. A provision for rehabilitation of fleet out of earnings is therefore necessary. There is no reason why a return of 10 per cent on Gross Block value should not be granted in the case of shipping, while fixing the rates of freight, as is allowed by the Tariff Commission for other industries. On the above basis, the short-fall of earnings over the operating expenses comes to 28 per cent of the earnings. For a new ship the short-fall comes to over 50 per cent. While I am not suggesting that the rates should be enhanced to this extent, I trust Government will recognise the necessity to provide reasonable incentive to shipping companies for expansion of tonnage.

Pending submission of the Report by the Committee, the Conference has urged that as an interim measure coal and general cargo rates be increased by 15 per cent from 1st March 1956. I hope Government will grant early relief in this conection.

India|UK-Continent Trade

The combined liftings of the two Indian Lines—Messrs India Steamship and ourselves—of the exports from India to the UK and Continental countries amount barely to 15 per cent of total exports to these countries. As soon as the new ships on order are delivered we intend to employ 18 ships in these trades. Even so, in the entire overseas trade of this country, the participation of Indian Lines comes barely to 5 per cent. We have, therefore, still to go a long way towards the target of attaining a 50 per cent share in the carriage of our overseas trade. But we are going to expand and I wish to emphasise that it is the ambition of the Indian Lines to participate equally in the carriage of the foreign trade of this country.

Tonnage Programme

The question of building new ships for the coast is very difficult. I have already informed you about the very unsatisfactory state of affairs on the coast at present. Needless to repeat that no shipowner can think of building new ships for the coast unless the existing conditions show material improvement.

B S N (1953) Ltd.

The operations of this Subsidiary during the year have resulted in a loss of Rs 4.25 lakhs. This is due to heavy cost of repairs and surveys owing to old age of its vessels; these costs for the ensuing year are likely to be still heavier. Another factor responsible for the loss is the complete suspension of the Company's passenger service between

Bombay and Panjim (Goa). It is difficult at the moment to surmise as to when it would be possible to resume this Service.

Four of the six vessels operated by this Company are more than 20 years old and will need to be replaced during the next three to four years. The cost of replacement of four ships is estimated at about Rs 3 crores and, even if orders were placed now, it would take not less than 24 months to obtain deliveries. Before we can decide to make such a heavy commitment we would like to make sure that we would be able to earn an adequate return on capital after meeting costs of operation and providing for at least normal depreciation. This is not possible at the present level of fares. In these circumstances we requested Government as early as last August for an increase of 33-1|3 per cent in the existing passenger fares. Government have now referred our proposals to a Shipping Rates Advisory Board, consisting of Shri N S Lokur, Chairman, Railway Rates Tribunal.

You will agree with me that the Company cannot go on incurring losses year after year and, unless an adequate increase in passenger fares is allowed, we may have to consider seriously the question of closing down these services. I hope and trust that the Authorities will consider this question seriously, keeping in mind the importance of maintaining these services which provide the only convenient link between the Konkan ports and Bombay for 12 lakhs of passengers.

Prospects for the Current Year

I would now like to acquaint you with the prospects for the current year as they appear to me. On the expenditure side, costs of operation under various heads show no signs of decrease. Actually there is bound to be increased expenditure under certain items; for example, we shall have to spend considerably more on ship repairs in view of a larger number of ships having to be put through special surveys during 1955-56. Some of these ships are older and will, therefore, require heavier repairs. Stevedoring costs are already high and will increase further on account of the introduction of the Piece Rate system of payment to labour. As regards fuel-oil, there was an increase of sh. 5|- in the prices with effect from March, 1955, and a further increase of sh. 7|6 d. from 1st January of the current year; from the 15th of the next month the prices will further increase by about sh. 3|-. On the other hand, as I have already stated, two German-built and two Visak-built ships were delivered to us during 1955. Three of them will have been in commission practically for the whole of the current year and one for nearly six months. The increase of 10 per cent in freight rates from February 1955 together with comparatively brisk movement of cargoes from the UK and continental ports to India will show its full effect in the current year. The future increase of 10 per cent in rates which will be effective from next month will be only partly reflected in the current year. A distinct improvement in our freight earnings in India|UK-Continent service may therefore be expected. On the Coast, so far as working coditions at ports are concerned, one may hope that the corner will be turned as a result of the introduction of the Piece Rate system of payment. The rate of freight on salt from Saurashtra to Calcutta has been fixed at Rs 31|4|- per ton for the year 1956, which is Rs. 3|2|- more than the previous rate. The rates on coal and general cargoes were increased by 5 per cent last October. Any further increase that it may be possible to secure in coastal rates will not be fully reflected in the current year. Having regard to the position I have indicated, it appears to me that on the whole the working during the current year should be reasonably satisfactory compared with the year under review.



Price Stabilization in Agriculture

P C Bansil

With the everyday fall in the prices of agricultural commodities, (ignoring for a moment, the recent temporary rise) price stabilization is on the lips of everybody. Floor prices have already been fixed not only for rice and wheat, but also for some of the coarse grains like jowar, bajra and gram. This has necessitated a comprehensive study of the problem.

Meaning

Price stabilization is to be clearly distinguished from various forms of farm relief and legislative measures which are introduced with the idea of raising domestic price levels. A policy of price control like that of the last World War, which aimed at checking the rise of prices to soaring heights is also not to be taken as price stabilization. As pointed out by the Business Men's Commission of 1927 on Agriculture in the U S A, "real price stabilization would affect a mitigation in price fluctuations, but this would involve a scaling down of the heights of prices as well as an elimination of their depths. Though this would not make an incompetent producer rich, it would prevent the ruin of reasonably efficient farmers whose production is really needed and who tend to be replaced by new-comers liable to suffer the same fate." Price stabilization of agriculture would thus enter into the wider field of stabilized incomes and stabilized wages not only of those engaged in the field of agriculture, but also of the mass of non-agricultural workers.

The Need

The natural question that arises is: why should there be need for a policy of price stabilization in agriculture alone? Although the whole of world economy is based on business cycles—and volumes after volumes have been written on how to control them—yet it has been accepted that fluctuations in agricultural prices are so marked that they call for special consideration. According to a Report of the League of Nations on Depressions during the last 20 years, the price of jowar and wheat was halved three times within 12 months, and the price of cotton three times in periods of 18 months. Sir Roger Thomas puts it that next to rain, price changes have been the greatest enemy of the farmer. In a country like India, where agriculture contributes as much as 50 per cent to the national income and where as many as 80 per cent of the population are directly connected with it, such wide fluctuations in the incomes of people are bound to bring ruin to many. It was for this very reason that agricultural countries suffered most during the depression of 1929. It is this importance of agriculture in most of the agrarian economies of the world and the peculiar nature of agriculture that call for a policy of price stabilization.

Again, agriculture being the supplier of raw material to the industrial sector, "the effective guarantee of a minimum price will not only introduce an element of stability in agriculture, but also promote stability in other spheres of economic life" in the words of the Prices Sub-Committee. The Famine Inquiry Commission has opined thus " A fair return to the cultivator is one of the foundations not only of agricultural prosperity, but general prosperity also." Similar were the views of the Bombay Plan which recommended that "large fluctuations in the prices of agricultural commodities have been among the most important factors which have prevented agriculturists from making more sustained efforts to improve the yield of the land. To check these fluctuations in future and to assure to the cultivator a measure of security in respect of the prices of his crop, we suggest that for the principal agricultural crops, the Government should adopt a policy of fixing fair prices."

The matter became so important that the FAO meeting at Copenhagen set up a World Food Board for stabilizing agricultural prices in the international market, so much so that the FAO, in its recent report, attributes the huge increases in world food resources mainly to the widespread adoption of farm price support and other measures to stabilize farmers' incomes giving them confidence to grow more food.

Implementation

Imperative as this policy of active interference by Government in the field of agriculture would appear to to be, it is necessary to find out how far such policies can be implemented. The first problem to be faced is the fixation of appropriate prices. Government is to look after the interests of both producers and consumers. While a producer would like to cover his cost of production with a net balance equivalent to the income obtainable in other comparable occupations, a consumer, and that also in fairness, can only be satisfied by a level which enables him to meet his basic minimum needs at a given level of income. These are obviously conflicting interests, and to reconcile them is not an easy matter. Fortunately for a country like India, where the majority of producers are themselves the consumers, the conflict resolves itself to some extent. But the clash between the rural population, which is predominantly agricultural, and the urban population employed in industry, service and trade still remains. The answer thus lies in the fixation of prices which provide a stable income to agriculturists as well as stable costs of living to urban workers.

The solution normally suggested and even adopted in the USA has been the re-establishment of a parity, so that the goods which the farmer buys should not cost more than the goods which he sells during a normal period taken as the base. This, however, cannot serve as a sufficient test of what 'constitutes a permanently good rural-urban balance', as was pointed out by the Secretary for Agriculture in his Report to the President of the United States of America for the year 1936. F.L. Thomson in his 'Agricultural Prices' went so far as to say that 'parity prices constitute an unscientific, arbitrary, and frequenty misleading objective'.

The Prices Sub-Committee, when presented with this very problem, accepted that the principle adopted while fixing prices should be one of keeping the interests of the agriculturists foremost and that 'if the producer's price so fixed is beyond the means of certain classes of consumers, they should be given adequate relief though consumption subsidies.' Accepting this as an equitable and fair solution of the problem, let us examine how far this is practicable.

In order to watch the interest of

the cultivator alone, while fixing prices, we are required to know the cost of cultivation of the various crops or at least some of the major crops and the rural standard of living indices. Reliable data about both these constants are, however, lacking.

Cost of Cultivation

As for the cost of cultivation, besides comprehensive farm accounting data throughout the country on which very little work has been done so far, the next question is whose cost of cultivation we are to take into consideration. Is it the most efficient, the inefficient, the average or only the marginal cultivator whose cost of cultivation is to be taken as a basis. Each set of cultivator has different costs according to the nature of the land, his environment and his own standard of efficiency in farming. If we fix prices on the basis of marginal or inefficient cultivators, it would mean encouraging inefficiency in farming which is to be deplored at this stage when we are just in the midst of planning. If prices are those of the most efficient ones, that would mean no place in farming for a majority of our subsistence cultivators for whom agriculture has always been a losing concern. This would aggravate the employment situation and defeat the very purpose of planning. The Prices Sub-Committee rejected even the average cost which, according to Krishnaswami, should be an average for all along the line, i.e., the class of land, nature of ryot, methods of cultivation, area of holding, tenure of holding and all such similar factors. He recommended instead 'representative' costs.

Now how are we to decide which is the representative cost? And how can we afford to ignore the various factors referred to by Krishnaswami? Our cultivator is himself illiterate, and apart from some stray enquiries conducted by some University students, there is no other machinery which can help us in the matter. Some cut and dry solution like the one mentioned by Mr. Krishnaswami that in normal times the cost of production is roughly half the price in the case of paddy and one third in the case of millets would obviously seem to be quite invalid when it has been accepted by all and sundry that agriculture in India is a losing proposition.

Standard of Living Indices

As for this other component, we meet a worse fate here. Firstly, we have the same lack of statistics; and secondly, we do not know as yet what standard of living we are aiming at. There are innumerable items which enter into the peasant's daily consumption pattern. In the absence of proper price indices and a study about the weights to be attached, how can we possibly work out a standard of living indices for the rural masses?

With these limitations about both our constants, one wonders how far we can be successful in our effort to find out the real parity price.

The Cost Factor

Assuming that we reach some sort of rough estimate about the price that is to be fixed for various agricultural commodities, it would be extremely necessary to form an idea of the cost involved in the experiment. Government will have to spend money firstly for the setting up of machinery to purchase foodgrains and then to distribute it to the non-producers at subsidized prices. Our experience of a decade of State trading in food, as pointed out by a recent publication of the Employers' Association, Calcutta, has cost the nation not less than Rs 277 million. Then the subsidy scheme for food, which remained in operation only for 6 years (from 1946-47 to 1951-52), cost another Rs 1551 million. The total on these two counts alone works out at some Rs 287 million per annum. This was when Government handled hardly 6 to 7 million tons or only 12 to 15 per cent of the total of production of foodgrains.

Marketable surplus in the case of wheat and rice alone, as estimated by the respective Marketing Reports, is of the order of 55 and 40 per cent respectively. In a deflationary market and under a price support policy, every farmer will try to sell off the maximum of his grains. It is just possible that the marketable surplus in the case of wheat and rice may even increase in the sense that the producers begin to meet requirements from coarse grains, a major portion of which (75 to 80 per cent) is being consumed at present on the farm. Assuming that no major shift takes place the Government will have to come forward for the purchase of some 30 per cent of the total food production. Taking 60 million tons as the average annual production of cereals (including gram) and Rs 8 per maund as the average price, the total investment would work out at Rs 4480 million for cereals alone. The policy will have to be extended to other crops as well. All this would mean that an appreciable portion of the national income will have to be allocated for the price stabilization policy when every penny is required for the national development of the country.

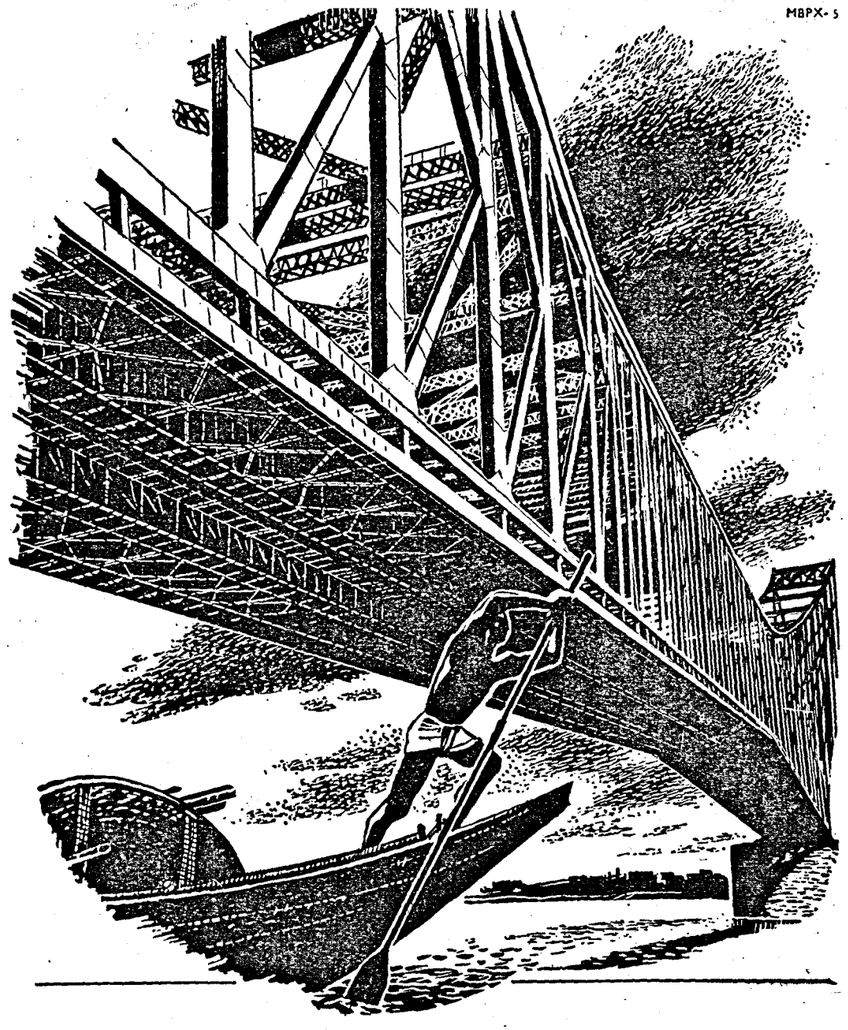
It may be argued that the amount spent on the purchase of cereals or other agricultural produce will be recovered when they are sold back at the fag end of the year. We do not know what portion of this amount we will be able to recover. Maybe that the price falls down much below the purchase price. In case we are sure that the price will go up, the purpose can be served by a simple method of providing ware-housing facilities where the cultivator can deposit his grain at the harvest time, as already recommended by the Rural Credit Survey. Why then go into the botheration of this complicated machinery at all?

Prices and Production

The other argument adduced in favour of price stabilization which is much advertised during a deflationary period, is the disincentive the farmers are supposed to get in the absence of a price support policy. This in other words means a consideration of the cost of production theory. Seasonal factors remaining the same, Dr Natarajan established a high co-relation between acreage and prices.

This theory is assailed on the ground that firstly, agriculture in India is never a profitable or even a business proposition. It has on the other hand been accepted as a losing concern. Secondly, the cultivator is on the land not by choice, but by force, because he cannot do anything else. Thirdly, the supply of the various factors of production—land, labour and capital—which tend to be more or less inelastic, is not responsive to the changes in the price of agricultural produce. According to George O'Brien capital invested in the land also assumes a fixed form, and the supply of labour becomes all the more inelastic, particularly when the farm is worked by the owner and his family.

The abandonment of a farm in such cases means the abandonment of the home. Even if some little elasticity is assumed in the supply of these factors, the greater time-



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lag between the 'input' of these factors and the corresponding output renders the cultivator helpless to adjust production to price changes. Fourthly, agriculture being susceptible to natural hazards most, the cultivator can rarely think of his actual cost of production. According to Wyllie, 75 per cent of crop variations are due to weather conditions.

Lastly, while the costs of production are more or less sticky, prices of agricultural produce are invariably determined mainly by extraneous factors. Costs of production vary from place to place, but agricultural prices tend to be the same over wide areas. There is, for example, a slight difference in the basic price of wheat in the various 'mandies' (markets) of India. No wonder if even world prices exert their influence on the prevailing prices in other countries. Farm prices are at least influenced to an appreciable extent by the general price level. This is supported by E M OJALA who makes a comprehensive study of the farm prices in USA, Sweden and UK.

Changes in prices have been so varied and wide that the question of their having any relation with cost of production would not arise. The prices of agricultural commodities fell by more than 50 per cent during the depression period, while the cost of production fell only by 15 to 20 per cent. The problem can be examined with respect to falling as well as rising prices separately.

Falling Prices

Normally it may be said that when the price of a commodity falls below the cost of production, the supply would stop over a period. The fundamental law seems, however, to be contradicted in the case of agriculture in general and food in particular, where farm consumption itself takes a big slice out of the total production. Again, due to the peculiar nature of agriculture, the farmer cannot introduce changes in his programme at short notice. There are certain paddy lands in South India which are not suitable for any other crop. No shift under such circumstances is possible even over long periods. Where such a shift is possible, the cultivator can at best divert lands from less profitable to better crops. Even this becomes impossible in the case of a general depression.

A glaring proof of the inability of the cultivator to adjust production to the level of the fall in prices is found when we study the position during the 'thirties'. According to the Director General of Commercial Intelligence and Statistics, the value of agricultural crops, taken at an average harvest price, fell from Rs 10,340 million in 1928-29 to only Rs 4,730 million in 1933-34. But there was hardly any decline in the net area sown or the agricultural output.

Odds are that agriculture being more a mode of life than a business proposition in a country like India, the cultivator may be compelled to increase rather than decrease his production under falling prices. The tendency was clearly observed during the depression of 1929-33. This is because he cannot afford any further contraction in his already scanty income. An individual farmer, according to O'Brien, who acting in isolation reduces his production may have to face a double loss arising from a smaller output and a lower price.

It may be argued that the demand for agricultural, particularly, food crops being practically inelastic, the cultivator may charge monopolistic prices. Such possibilities are, however, rare. Firstly, because the number of producers is large and secondly, scattered as these cultivators are over a vast area, there is no machinery or institution under which they can put themselves. Agricultural prices are accordingly rather competitive.

Production may thus have an inverse relation to falling prices, but the question of its having a linear relation would not arise. Supply in agriculture, in other words, remains more or less inelastic during the falling prices. Notwithstanding all this, there are examples in a country like England where between 1873 and 1896, a 50 per cent fall in the price of wheat led to a decrease in the area under wheat from 3.5 million to 1.7 million acres. Again the passing of the Wheat Act in 1932 was followed by an increase in wheat acreage by over 40 per cent in a period of 3 years. Such a price flexibility may be possible where agriculture is run more on business lines and where the country has an industrial rather than an agrarian economy, but not in a country like India.

Rising Prices

The position with regard to rising prices would, however, seem to be a little different. The farmer, under the depressed market condition, while not curtailing his production, is at the same time disinclined to make an addition to the prime costs. The use of fertilizers, for example, was uneconomical in India during the 'thirties', at least for food crops. But the demand for them has tremendously increased during the post-Independence price spurt. High prices also provide sufficient incentive for the cultivator to try improved methods of cultivation and put into practice the result of experiments conducted in the laboratory. It is, however, implied that Government will extend not only full co-operation, but also resort to extensive propaganda in that direction. If normal facilities are not available, even progressive cultivators, who are keen on introducing new improvements, may be helpless to do anything. All these things may have the combined effect of increasing production, but always in response to an effective demand. This is the most important thing. During the initial stages of the Grow More Food Campaign, the cultivator was not prepared to divert cotton lands to food unless Government gave a guarantee to purchase the extra produce at pre-announced prices.

It can be safely concluded from this study that agricultural, specially, food production may never have a sagging tendency either under falling or rising prices. The possibility on the other hand is that in both cases, production may be increased.

Conclusion

In the face of all these difficulties, it would be seen that whatever the attraction of the policy in theory, it is not possible to put it into practice unilaterally. This was the opinion of Messrs Paish and Bauer, expressed by them in their 'Fluctuations in Incomes of Primary Producers', even in the case of America where agriculture hardly contributes 6 per cent to the total national income.

When our ultimate objective is the rehabilitation of agriculture only, this, in the words of the US Secretary for Agriculture, can be well served by giving incentive to production. Agriculture may then ask for an increasing share of an increasing total income. Over-emphasis on prices to the neglect of production leads to scarcity. Larger output at lower unit prices, with industry leading the way, is essential to safe progress towards parity prices and a fair share of the national income for agriculture.

Around Calcutta Markets

Equities Marking Time

Wednesday, Evening

EQUITIES are marking time. Clive Street has somehow tided over its payments crisis. In four of the clearing shares, forward trading has been resumed. In Indian Iron and Burrakar Coal, however, only cash trading is now allowed. But the recent behaviour of the Calcutta Stock Exchange indicates that investors lack confidence. Trading has been extremely thin. Price fluctuations are, therefore, negligible. As neither buyers nor sellers show any eagerness to add to their commitments, equities remain flat.

Till last week, market circles were complaining that activity will not revive unless forward trading was resumed. Since Friday last, forward trading facilities have been re-opened for four clearing shares. But this has not led to any noticeable revival of trading on the Calcutta Stock Exchange. It is evident that the market will take time to recover from the effects of the payments troubles.

Market's Ills

Though Clive Street is suffering from this additional handicap, weakness in stock markets elsewhere indicates that the malady lies deeper. Investors are worried about the implications of the second Plan. Life insurance has been nationalised. Belief is widespread that banks will be nationalised. Industry interprets the second Plan to mean that the Government is determined to restrict the scope of activity of the private sector. This is the main reason for the inactivity in stock markets.

At Amritsar, Congress defined Avadi more clearly. Congress is committed not only to implementing a socialistic pattern of society. But its policy, as Amritsar suggests, is to build a "socialist structure" in this country. It is in this context that nationalisation of life insurance, proposals for fixing a ceiling on individual incomes and the actual enforcement of the new Company Act are having their exaggerated repercussions on stock markets.

Coming Budget

Stock markets are anxiously awaiting the presentation of the Union budget. Details of the second Plan and the Government's plan for organising the nationalised insurance industry are already known. So, the importance of the Union budget relates to possible increase in taxation. Even the Taxation Enquiry Commission recommended an increase in taxation. But the second Plan's estimated increase in taxation exceeds TEC's indications. This will not be denied. But the question is whether direct taxation would be raised further.

Sooner or later, the rate of the estate duty is likely to be raised. There are talks about fixing a ceiling on individual incomes. It will be recalled that TEC is in favour of fixing such a ceiling. But some are inclined to the view that the rate of the estate duty is likely to be raised later rather than sooner. And even Congress admits that the ceiling on individual incomes will be imposed only gradually, and by slow stages.

Indirect Taxes

This indicates that there may be no appreciable increase in direct taxation in the coming Union budget. That West Bengal's budget contains no fresh proposal for taxation, is an indication that the Government may postpone any material increase in taxation for the first one or two years of the second Plan. Two inferences are, therefore, permissible. One is that there may not be any further increase in direct taxation. And the second is that New Delhi and the States have to rely increas-

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ingly on indirect taxation to maximise tax revenues.

In normal circumstances, these assumptions should encourage a brighter sentiment in stock markets. But, in the present phase of the economy, any rise in even indirect taxation may affect stock markets. It will be recalled that industry opposed strongly TEC's recommendation that indirect taxation should be increased to check consumption. Last year, the Union budget originally proposed some new indirect taxes. But these proposals were dropped later, on protests that the proposed levies would check consumption.

Money Rates

Apart from these wider considerations, there is the problem of rising industrial costs. With the recent increase, Bank Rate in Britain is fully two per cent above the rates prevailing in many countries of the world. This does not call for a higher Bank Rate in India. In this country, inflationary conditions are not present. Nor is there any serious balance-of-payments trouble. So the reasons wich are supposed to justify the increase in the British Bank Rate are not applicable to this country.

But India is not likely to avoid some of the incidental consequences of a higher Bank Rate in Britain. Already, the Reserve Bank's rate for accommodation under the Bill Market Scheme has been raised. It is only to be expected that exchange banks will increase their borrowings from the Indian money market. This will cause a further hardening tendency in call and short-term money rates. Scheduled banks will, therefore, be forced to raise their lending rates. This, in turn, will inflate industrial borrowing costs.

Tea and Jute

With these wider background factors, the peculiar problems of tea and jute industries may be considered. Recent policy decisions of New Delhi indicate that the Government is not in favour of continuation of the International Tea Agreement. But an enlargement of the export quota is not likely to expand exports when the world demand for tea is falling. There is also the question of restriction of tea output in this country. There are some who wonder whether any such plan can be enforced effectively.

Developments relating to the jute industry are conflicting. Jute output is expanding. Despatches are higher, but are not moving up as much as the increase in output. Increased production has led to a fall in the prices of jute goods, but not in raw jute. Thus, the spinner's margin continues to be unfavourable. Meanwhile, the Government has imposed control over production of jute goods. This does not affect directly the organised sector of the jute industry. But Jute shares remain quiet because of the relative steadiness in raw prices.

Around Bombay Markets

Mixed Trend

Thursday, Morning

ALTHOUGH the stock market opened on a subdued note on Thursday last and succumbed early on Friday to the news of the rise in the British Bank rate, it later emerged with handsome gains all round, thanks to optimistic reports about the settlement of the payments crisis in Calcutta. The rise in the Bank rate from 4½ per cent to 5½ per cent had a mixed reception and while industrials recovered their earlier losses, the gilt-edged tended to rule soft, with the 3 per cent 1986 Government Paper having sellers around Rs 79-12, losing nearly eight annas.

The raising of the British Bank rate naturally created some doubts in the minds of investors as to whether the Reserve Bank would follow suit. Knowledgeable circles, however, felt that there was no likelihood, nor was there any necessity for such a rise. They argued that the Indian economy was on a sound footing and the Reserve Bank open market operations have been conducted in such an efficient manner that Central Government securities were, more or less, stabilised on a 3½ per cent basis for short-dated securities, 3¾ per cent for medium-dated securities and 4 per cent for long-dated ones. Moreover, an increase in the Bank rate would raise the cost of Government borrowing, at a time when the Planners have proposed to raise, for the second Plan, as much as Rs 700 crores by way of loans, and Rs 500 crores through small savings. In view of these, it was felt that an upward revision of the Bank Rate was not desirable. Meanwhile, the Reserve Bank clarified the position in a statement on Wednesday, and as anticipated by the market, there is to be no change in the Bank Rate.

Tata Ordinary opened at Rs 224 and on strong bull support went up to the highest level of Rs 227-8 to close at Rs 225-8. Indian Iron, which were quoted at one time at Rs 31-15-6, fluctuated between Rs 32-5 and Rs 32-10 on Tuesday to close at Rs 32-6-6.

There was a smart recovery in textile scrips thanks mainly to favourable advices from Ahmedabad. Century which opened at Rs 460-8 improved sharply to Rs 484-8, on reports about the encouraging financial results of the mill and the possibility of higher dividends and closed at Rs 481-8. Bombay Dyeing were influenced mainly by reports that the Company might step up dividends; after opening at Rs 518-12 they rallied to as high as Rs 530 to close moderately at Rs 523-2.

In the miscellaneous counter, ACC, Scindia, Bombay Burma, National Rayon and Tata Chemicals were in the limelight. ACC which opened the week at Rs 203-12 declined by a few points to recover once again and improve to Rs 205 before closing at 202-12. Bombay Burma opened at Rs 523-12 and went up to Rs 536-4 before closing at Rs 530, while National Rayon improved by four points to reach the highest for the week at Rs 222-8, and closed at Rs 220-8. Tata Chemicals moved up from 16-7 to 16-11 to close at Rs 16-8.

Cotton

Pakistan Cotton

A NOTABLE development in the cotton market was the announcement in respect of import of Pakistan cotton. While this has been generally welcomed in trade quarters, speculation has been rife as to when Karachi would abolish the export duty of Rs 270 on raw cotton. Traders feel that no good would come out of the announcement regarding

the import of Pakistan cotton unless Pakistan removes the export duty. They point out that inasmuch as comparable varieties of Indian cotton could be had at around the same price as Pakistan cotton, no material business could be expected to result if the Pak duty is not removed. For, the duty will always have the effect of widening the price difference between Pakistan and Indian cotton of the same grade and staple length. Incidentally, this is the first time that the Government of India has allowed imports of 7/8" and above cotton, the normal practice having been to permit imports of 11/16" cotton.

Futures trading in cotton continues to be at a standstill pending the decision on the case now being heard in the Bombay High Court.

Meanwhile, the cotton tangle came up before the Rajya Sabha during the debate on the Cotton Cess Amendment Bill, when the Union Minister for Agricuture, Dr Punjab Rao Deshmukh stated that if it was necessary to act in the manner Government had done (the reference was to the action taken by the Forward Markets Commission) he was certain that "the Commerce and Industry Minister must have strong reasons for it. It is for the House to judge how far his contentions are valid and satisfactory". This would suggest that, on this question, Dr Deshmukh does not see eye to eye with T T Krishnamachari. Defending Government action, Mr Krishnamachari observed that the main reason for interference with the East India Cotton Association was the complete ineptitude of the Association and that many members of the Association themselves were operating on the market. He justified the intervention of the Forward Markets Commision and stated, "when the forward market became a gambling market, I do not know how, because of succeptibilities of a few vested interests, Government could keep quiet."

In the spot market at Sewri brisk activity was witnessed on good mill and export demand. Popular varieties recorded marked appreciation for the greater part of the week.

Oilseeds

Keen Demand for Linseed

IN the oilseeds section, trading in linseed was characterised by near-boom conditions. Prices of linseed and linseed oil reached new peak levels, and the main inspiration for this was provided by a veritable scramble for linseed oil in London. The keenness of the UK demand for linseed oil is evident from the fact that buyers are even pepared to bear the possible burden of an export duty, about which rumours have been current for some time now. London quotations showed a rise of £7 per ton, taking the total advance in price in the past fortnight to nearly £15. Buyers in London have become aggressive in view of the smaller Argentine crop of linseed which resulted in nervous short-covering over a wide front. Indian shippers are anxious to effect shipments before the end of the current season, evidently to avoid the effect of an export duty should it materialise. In the event, spot supplies found ready and active buyers and prices naturally advanced by leaps and bounds. Linseed February-March delivery gained nearly Rs 4 while linseed oil prices improved by Rs 2 per quarter.

Groundnut and castor prices also ruled firm for the greater part of the week. Despite fair arrivals of groundnuts firmness in prices was maintained due to sustained demand. London quotation for groundnut oil was firm at around £125 per ton, but no business of any note could be transacted inasmuch as the bulk of the export quota has already been utilised. Some traders are, however, optimistic that Government might issue fresh export quotas, although Government's reluctance to do so is well known to them.

Thanks to good support at lower levels, castor prices were maintained around high levels. There were also reports that the demand for castor oil from the US would broaden shortly. Meanwhile US quotation for BSS castor oil was around 14 cents per lb and shippers claimed business for a modest quantity.

Compa ny Ntes

Rohtas Industries

THE annual report of Rohtas Industries Ltd. for the year ending October 31, 1955 discloses excellent working results in the wide range of its industrial ventures. The year witnessed a sharp rise in value of sales to Rs. 9.76 crores from Rs. 6.71 crores in 1953-54, and brought in gross profits amounting to Rs. 1.5 crores as against Rs. 1.2 crores in the preceding year. Net profits also show a sizable increase, having risen by over Rs. 17 lakhs to Rs. 83.77 lakhs during the year under review.

Significant progress has been made in the Company's major industrial enterprises; the output of paper has gone up from 16,074 tons in 1953-54 to 20,135 tons in 1954-55; that of asbestos cement from 4,334 tons to 6.156 tons; sugar from 6,718 tons to 9,999 tons; and the output of vanaspati has recorded nearly a ten-fold increase from 688 tons to 6,857 tons. The only industry which has shown a small drop in production—from 3.53 lakh tons to 3.25 lakh tons—is cement; but the directors point out that this has been due to operational difficulties consequent on modernisation of the machinery in the cement factory. However, during the first quarter of the current year, output trends appear to have brightened up.

After adding the balance of profits brought forward from last year, the net disposable profits of the Company for 1954-55, amount to Rs. 88.24 lakhs. Out of this, a sum of Rs. 25.81 lakhs has been set apart for bonus to staff and Rs. 15 lakhs have been transferred to General Reserve, leaving a balance of Rs. 47.43 lakhs. The directors have maintained the dividend on the old ordinary stock of the company at Rs. 1-8-0 per share of Rs. 10 each. After meeting the dividends on preference shares and allocation of Rs. 20 lakhs towards taxation reserve, the balance of Rs. 4.9 lakhs is to be carried forward.

The programme of paper factory modernisation and expansion is proceeding satisfactorily. A new Coating Machine, capable of producing 10,000 tons per year, is expected to go into production by the end of the current year, which will enable the company to meet the entire domestic demand for coated varieties of boards. The vanaspati products of the company are finding improving demand. The management have been successful in arriving at a settlement with their employees valid up to 1957-58 regarding bonus, grades etc. With all these encouraging developments, the prospects of the company in the years ahead should be bright indeed.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1406.82	1407.64	1382.71	1241.15
2. Rupee Coin	104.61	104.55	106.38	103.28
3. Deposits				
a) Central Government's	64.55	60.54	50.29	51.74
b) Banks'	54.12	53.01	67.50	51.07
c) Other Governments'	13.06	11.00	13.37	14.12
d) Others'	15.69	15.92	21.41	34.07
4. Foreign Securities	667.15	667.15	667.06	663.15
5. Balances held abroad	71.11	71.06	72.55	68.58
6. Rupee Securities	603.22	603.22	588.36	447.73
7. Investments	49.39	49.75	51.23	68.25
8. Loans and advances to Governments	3.84	3.69	1.82	1.20
Scheduled Banks				
1. Demand liabilities (net)	621.89	628.88	626.76	571.14
2. Time Liabilities	413.50	412.30	412.51	370.95
3. Cash on hand	34.93	34.66	35.95	32.00
4. Borrowings from Reserve Bank	39.46	34.79	28.45	10.26
of which against Usance Bills	19.41	18.88	14.38	4.92
5. Advances and Bills discounted	641.00	634.63	615.60	544.31
of which State Bank's	119.43	117.71	111.83	112.88
6. Invst. in Govt. Sec.	378.99	380.45	381.92	355.24
of which State Bank's	106.77	107.31	107.49	101.44
Cheque Clearance	148.31	158.89	164.59	137.06

†For Reserve Bank and Cheque Clearance week ended 17-2-56. Scheduled Banks week ended 10-2-56.

Bombay Money Rates	17-2-56	10-2-56	20-1-56	18-2-55
Inter-Bank Call Rate	$3\frac{1}{16}$	$2\frac{7}{8}$	3	$2\frac{7}{8}$
3 months deposits	$3\frac{1}{16}$	$3\frac{1}{16}$	3	3
6 months deposits	$3\frac{1}{16}$	$3\frac{1}{16}$	3	3

Bombay Bullion — In Rupees and Annas

	23-2-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	99-7	97-11	95-10	92-9
Forward	98-13	97-2	94-14	92-1
Silver (per 100 tolas)				
Spot	174-10	173-14	175-4	164-9
Forward	175-10	174-2	174-14	164-5

COTTON STATISTICS

MILL CONSUMPTION

(in '000 bales of 400 lbs each)

Description:	Nov '55	Oct '55	Sept '55	Aug '55	July '55	Sept '55 to Nov '55
Indian	352.68	386.0	382.97	362.46	376.10	1121.56
Foreign	42.88	45.94	45.17	41.98	49.50	133.99
of which American*	2.70	3.72	4.40	5.1	7.45	10.82
Egyptian	13.56	13.93	15.04	13.2	15.04	42.53
E. African	16.47	17.95	17.05	15.3	18.82	51.47
Sudan†	9.68	9.94	8.44	8.1	8.16	28.07
Pakistan	—	—	xx	xx	xx	—
TOTAL	395.56	431.94	428.14	404.44	425.60	1255.55
Consumption in corresponding periods a year ago:						
Indian	348.93	311.31	328.02	329.4	333.1	988.25
Foreign	62 11	55.01	60.78	61.9	66.1	177.90
TOTAL	411.04	366.32	388.80	391.3	404.2	1166.15

* Includes both United States and Peruvian cotton.
† Includes both Sudan Egyptian and Sudan American
xx Negligible

MILL STOCKS OF COTTON

(in '000 bales of 400 lbs each)

	Nov '55	Oct '55	Sept '55	Aug '55	July '55
Indian:					
1955-56	1055.21	1125.55	1278.13	1443.4	1551.9
1954-55	850.22	861.05	916.00	1010.8	1117.7
Foreign:					
1955-56	167.86	169.34	172.30	179.2	180.7
1954-55	161.14	173.90	169.21	200.4	212.8

Source : East India Cotton Association

COTTON IMPORTS

(in '000 bales of 392 lbs each)

Source	Oct '55	Sept '55	Aug '55	July '55	Sept '55 Oct '55
USA	—	1	—	1	1
East Africa*	11	6	32	38	17
Egypt & Sudan	22	21	20	39	43
Other countries	2	2	1	1	4
TOTAL	35	30	58	79	65
Total imports in corresponding months of the previous year	44	28	38	78	72

*Includes Kenya, Tanganyika and Uganda.
Source : Indian Trade Journal

COTTON EXPORTS

(in bales)

Destination	Exports from 1st Sept. to 16th Feb. 1955-56	1954-55	1953-54
United Kingdom	38,796	12,980	7,087
Continent	61,343	19,806	14,316
China	34,651	1,409	251
Hongkong	24,990	—	—
Japan	131,642	49,008	35,606
USA	2,764	9,329	9,543
Other foreign countries	24,20	760	1,452
Total all foreign countries	296,806	93,292	68,255
Coast Ports	62,668	52,241	59,946
TOTAL	359,474	145,533	128.201

Source : East India Cotton Association.

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group	Week ending 4-2-56	Week Ago	Month Ago	Year Ago
I **Food Articles:**	**331.1**	**334.0**	**331.3**	**303.4**
Cereals	398	398	397	340
Pulses	345	356	358	244
Others	236	241	236	262
II **Industrial Raw Materials:**	**468.4**	**456.1**	**456.0**	**428.5**
Fibres	468	451	455	473
Oilseeds	490	474	460	356
Minerals	431	433	445	411
Others	441	449	463	482
III **Semi-Manufactures:**	**349.3**	**347.6**	**351.9**	**340.8**
Leather	345	335	412	388
Mineral Oils	202	202	202	221
Vegetable Oils	429	426	426	397
Cotton Yarn	439	433	433	444
Metals	280	280	280	241
Oilcakes	363	360	360	291
Others	330	330	330	335
IV **Manufactures:**	**375.4**	**374.9**	**375.6**	**376.8**
Textiles	409	408	409	421
Jute	418	417	424	467
Cotton	403	403	403	411
Rayon & Silk	494	486	486	464
Woollen	278	278	278	310
Metal Products	371	371	371	340
Others	285	285	285	284
V **Miscellaneous:**	**531.5**	**537.1**	**548.7**	**549.6**
All Commodities:	**376.3**	**375.3**	**375.7**	**359.8**

INDUSTRIAL DISPUTES

(Resulting in work-stoppages involving ten workers or more)

Year/Month	No of disputes: Starting during the period	No of disputes: In Progress	No of workers involved ('000): Starting during the period	No of workers involved ('000): In Progress	No. of man days lost ('000
1939	—	406	—	409	4,993
1947	—	1,811	—	1,841	16,563
1950	—	814	—	720	12,807
1951	—	1,071	—	691	3,819
1952	—	963	—	809	3,337
1953	—	772	—	467	3,383
1954	—	840	—	477	3,373
1954 :					
Oct.	66	88	31	42	276
Nov.	48	62	16	25	240
Dec.	75	101	44	54	263
1955 :					
January	72	95	38	49	323
February	68	91	32	38	144
March	87	112	63	70	335
April	68	99	19	30	304
May	92	119	53	66	835
June	121	154	56	85	1,035
July	70	108	13	58	681
Aug.	201	233	82	90	519
Sept.	89	249	24	92	567
Oct.	79	113	22	27	133

Source : Indian Labour Gazette

WAGON LOADINGS (IN TERMS OF 4-WHEELERS) ON BROAD AND METRE GAUGES—

APRIL — OCTOBER 1955-56

Items	Broad Gauge 1955-56	Broad Gauge 1954-55	Percentage Change	Metre Gauge 1955-56	Metre Gauge 1954-55	Percentage Change
A-Revenue Earning Traffic:						
1. Coal and Coke—						
(a) for public	564,654	572,005	— 1.29	113,397	101,540	+ 11.7
(b) for non-Government Rlys.	2,013	1,619	+ 24.3	88	318	— 72.3
2. Grains and pulses	203,854	179,817	+ 13.4	157,672	159,019	— 0.85
3. Oilseeds	36,938	28,536	+ 29.4	40,552	32,973	+ 23.0
4. (a) Cotton, raw	21,514	15,103	+ 42.4	18,491	15,181	+ 21.8
(b) Cotton, manufactured ..	14,458	14,078	+ 2.70	9,567	8,108	+ 18.0
5. (a) Jute, raw	18,251	23,567	— 22.6	17,724	18,347	— 3.40
(b) Jute, manufactured ..	5,962	2,285	+160.9	2,219	2,136	+ 3.89
6. Sugar	27,475	28,575	— 3.85	37,432	37,314	+ 0.32
7. Cement	81,673	84,151	— 2.94	65,839	57,789	+ 13.9
8. Iron and Steel—						
(a) Pig iron	9,747	5,250	+ 85.7	3,649	1,734	+110.4
(b) Others	82,295	73,385	+ 12.1	14,276	12,770	+ 11.8
9. Tea	7,886	7,118	+ 10.8	11,159	12,227	— 8.73
0. Metallic Ores—						
(a) Manganese ore	39,497	34,238	+ 15.4	11,441	8,765	+ 30.5
(b) Iron ore	101,503	100,472	+ 1.03	15,263	17,530	— 12.9
(c) Others	4,748	2,692	+ 76.4	3,614	3,490	+ 3.55
1. Miscellaneous full wagons ..	865,675	747,203	+ 15.9	654,684	559,560	+ 17.0
2. Miscellaneous smalls ..	222,943	235,340	— 5.27	209,673	208,552	+ 0.54
-Non-Revenue Traffic:						
3. Free hauled Railway coal & materials—						
(a) Coal for home line ..	143,456	141,730	+ 1.22	101,234	106,887	— 5.29
(b) Coal for other Govt Rlys. and manufacturing units	175,975	171,701	+ 2.49	8,099	4,955	+ 63.5
(c) Other stores	100,209	85,694	+ 16.9	54,493	40,585	+ 34.3
TOTAL	2,730,726	2,554,559	+ 6.9	1,550,566	1,409,780	+ 9.9

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Deshmukh and Direct Taxes

SHRI CHINTAMAN Deshmukh's sixth budget has, as usual, been criticised both for what it proposes and for what it does not. It is true that criticism from these two standpoints do not come from the same people; but it often comes from the same class of people. And Shri Deshmukh could well sit back and let these opposite arguments cancel each other out. Not that he will in fact be able to do so; indeed, as last year, he may end up by withdrawing some of his proposals in the course of the debate on the Budget. But in terms of logic, he could hold out that he has done nothing more than translating the objectives of the Second Plan into fiscal measures, necessary or feasible in the first year of that Plan.

The fact is, all of us want certain things without having to risk or sacrifice certain other things. We want, basically, an acceleration of the rate of growth of the economy, but no change in the social and economic institutions to which each of us is in his own way attached. We desire greater social justice, but not through intensive taxation since it results, so the argument goes, in levelling down rather than levelling up. Many such contraries could be listed; but for the time being, we have before us Shri Chintaman's latest proposals and it is about the grouses and grumbles occasioned by them that we are concerned.

Shri Deshmukh has sought to add about Rs. 25 crores by indirect taxation in the form of additional excise duties and about Rs. 8 crores by direct taxation in the form of enhanced corporation and super taxes to the revenues of the Union Government. This he has been obliged to do on account of the increased expenditure on development activities in the budget. He had a problem of covering a revenue deficit of over Rs. 50 crores, ignoring for the moment the large shortfall of resources on the capital side. Part of the revenue deficit, it should be remembered, was occasioned by the unwillingness of the Parliament and the country to accept his budget proposals last year. That apart, the choice before the Finance Minister was to leave this uncovered and raise the budget deficit, or cut down development outlay, or seek to match revenue expenditure as far as possible by revenue receipts. He has chosen, in the main, the last of these and made himself liable to the criticism that he has thereby made it impossible for the private sector to accomplish the task set for it. Had he chosen either of the other two courses, he would have been equally vehemently accused of trying to sabotage the public sector's plan or to imperil the economy by unleashing the forces of inflation. It is surely unfair to ask a Finance Minister to provide more and more funds without giving him the option to impose fresh taxes or to borrow without inhibitions from the Central Bank.

This is perhaps too broad a statement of the situation. The argument is always not that Shri Chintaman should not have resorted to fresh imposts but that he should have arranged them in such a way that particular segments of the economy attracted most of them. Now, the measures that he devises are to be judged from two fundamental angles: firstly, how far do they help in mobilising and channelling investible resources to the sectors where development is most desired; and secondly, how far do they ensure the basic content of a socialistic society, viz. re-

duction of economic inequalities. As observed earlier, he has leaned very heavily on indirect taxation and drawn only mildly on direct taxes. Yet one cannot resist the temptation that it is the latter which has caused most debate. May be this is because such a small proportion of the population pays direct taxes, and this minority is the best organised and the most vocal. May be it is because direct taxes have, or are believed to have, a greater disincentive effect than indirect taxes. Whatever the reason, the point remains that Shri Deshmukh's proposals in regard to corporation and super-taxes have met with vociferous disapproval. In comparison, the outcries against the excise duties have been on a lower key.

What in effect, does Shri Deshmukh propose? Firstly, the super-tax on incomes above Rs. 70,000 is to be slightly raised, so that the tax on incomes above Rs. 1,50,000 will be 91.9 % instead of 88.6% as at present. Secondly, registered (partnership) firms will be subjected to a graduated tax, amounting to a maximum of one anna six pies in the rupee on incomes over Rs. 1,50,000, incomes up to Rs. 40,000 being exempt from the levy. Thirdly, in respect of non-section 23-A companies, the rebate of one anna in income-tax on undistributed profits is withdrawn. Fourthly, a graduated super-tax will be levied on the dividends in excess of 6 per cent of paid-up capital declared by Indian Companies. Fifthly, bonus issues are to be subject to a tax of two annas; and finally, the penal super-tax payable by a Section 23-A company dealing wholly or mainly in investments is raised from four annas in the rupee to eight annas in the rupee on undistributed profits.

These proposals are, so to speak, the principal bones of contention. They are disapproved of because they touch two important sources of funds for the private sector, viz., the savings of persons in the highest income ranges and the retained profits of business enterprises. On the face of it, it is true that these measures seem to be somewhat contrary to the earlier measures for encouraging business enterprises to retain their earnings rather than distribute them. But it is not all one way; the rebate on retained profits is of course withdrawn; but the imposts in respect of distributed dividends is enhanced, so that the margin of encouragement for reinvesting profits is more or less maintained. If in the process a portion is to be transferred to the fisc, it is obviously not such a one as will drastically reduce the funds available to companies, especially when every effort is being made to step up substantially activity in all sectors of the economy. It is doubtless good strategy not to yield anything unless one is forced to; but in the present social climate there are also other things to be considered—as, for instance, a willingness to see the development efforts in the public sector as necessary and complementary to those in the private sector,

The unstated part of the Finance Minister's argument is perhaps this. In the coming year, a great deal will be spent on development by both the public and private sectors. This will, in its turn, augment the demand for a variety of goods, consumer goods as well as capital goods. By and large, the demand for the former will be only partly met by the larger firms, because government policy will be directed to restricting their outputs and providing special encouragement to the smaller units of production. Because of this conjuncture, the larger firms—which would in general be organised as joint stock companies or registered firms—will be in a relatively advantageous position to earn higher profits. Since reinvestment of earnings in factory consumer goods industries is to be regulated, they could well declare larger dividends without harming their asset position. Part of this, it is true, will be taxed; but part will go to augment other incomes from out of which some savings could be expected. These personal savings will be more mobile than the retained profits of consumer goods industries. In other words, the new measures could contribute to a freer movement of investment funds within the private sector. Capital goods industries in the private sector would, in general, be unable to distribute as large dividends as the consumer goods industries and therefore the incidence on them would be comparatively small.

If this is the basis on which Shri Chintaman has proceeded, it is obviously a compromise imposed on him by the plan objectives and the philosophy of a mixed economy. Quite frankly, the way to mop up disproportionately large profits likely to arise in large-scale consumer goods industries and trades is to levy a straight-forward excess profits tax. Instead, he has adopted the graduated super-tax related to distributed dividends. This smacks of an excess profits tax; only it still acts as an encouragement to retain profits in a way that the excess profits tax does not. It does seem, therefore, that much too much heavy weather is being made about the direct taxation proposals—especially when the policy objectives with regard to income distribution are remembered, and when it is realised that a good case for a straight-forward excess profits tax can be made during the next few years.

The indirect taxes in their turn raise the questions whether their incidence is fair and whether in the last analysis, they are not a stimulus to inflation. These questions need to be carefully considered. But considering the limited coverage of direct taxes in this country and the great need for resources for the public sector, the excise duties have to be lumped by the mass of people. Perhaps the mass of people will lump them without crying havoc.



Indictment of Congress

HONESTY may or may not be a political virtue. But integrity is an essential ingredient of statesmanship. Pandit Nehru's views on linguistic States are emphatic and well known. But he has the honesty to admit that many others, including Congress leaders, hold different views. During the ugly disturbances in Bombay and Orissa, as the Congress "High Command" continued its never-ending discussions on the problem of linguistic States without coming to any firm decision, suggestions had been made that Parliament should be recalled. Congress lacked the imagination to provide an early opportunity to the representatives of the people to discuss the issue. It rejected suggestions for an all-party conference. Instead, it held its session at Amritsar to warn the people that it was determined to enforce its own pattern of re-organisation of States. Belatedly, Parliament has now had the opportunity of discussing the issue during its debate on the Address of the President. Pandit Nehru is frank in his confession that the parliamentry debate is "an inquisition and an indictment" of the Government's policy to linguistic States.

True, being only the Minister of Planning, Shri Gulzarilal Nanda does not have to have the sense of proportion or the perspective of the Prime Minister. True also, there is nothing like leather. Even so, one could not help feeling amused at his lament that Parliament was showing a lack of perspective in emphasising the problem of linguistic States to the neglect of economic planning! It is a pity that his devotion to planning makes Shri Nanda forget that he is also a good Congress man or that so long as he is in Parliament, he has to be a good parliamentarian. He cannot be unaware that, at Amritsar, Congress rightly stressed the problem of linguistic States. As a parliamentarian, he should know that a debate on the Address is not the only or necessarily the most proper occasion for discussing the second Plan. Parliament will have an opportunity for debating the Plan when it starts discussions on the budget and again, when the final Plan is presented to it for its approval.

To question Shri Nanda's knowledge about parliamentary procedure or to cavil at his lack of political sense, is not to suspect the people's or their representatives' awareness of the importance of economic planning. Congress can legitimately claim to have made the people Plan-conscious. It can, with equal pride, claim to be a stern critic of its own first Plan. In their report to the Amritsar session, the Congress secretaries take pains to establish that Congress economic experts have succeeded in convincing the Congress Government that growing unemployment is the most urgent economic problem before the country. It would be ungracious not to concede this claim by Congress. But it would be equally foolish to pretend, as the Congress Government, including the Prime Minister, does, that the urge for linguistic States will subside as employment expands. Members of Parliament have indicated that this hope stems from a confusion of thought. All thinking persons will endorse Parliament's verdict.

Two disconcerting facts emerge out of the parliamentary debate on the Address. One is the seeming conviction that the people do not want linguistic States, but that the Opposition is making political capital out of this issue. This is not only an unjust slur on the Opposition, but it is absolutely dishonest of Congress to fabricate such flimsy political arguments in defence of its undefendable stand on linguistic States. Congress will fool no one, least of all its own members, by pretending that the demand for linguistic States has no popular support. It is a tribute to Pandit Nehru's integrity that he does not take cover under any such patently false excuse. He is aware of the people's demand. But he thinks that this demand is not just. As Prime Minister, he regards it his duty to lead the people back to the right path. His right to pursue such a policy will not be denied.

Not only Congress, but even PSP seems to be divided on the issue of linguistic States. Though the national executive of PSP is in favour of linguistic States, Asoka Mehta seems to be concerned with the inherent dangers of such States.

Far more surprising is Acharya Kripalani's suggestion for postponing re-organisation of States so that the problem could be solved later in a calmer atmosphere. Rajaji initiated this suggestion. It has the support of Pandit Nehru. And now, the veteran PSP leader has lent his weight to it. It bodes ill for a country when its undisputed leaders of integrity lack the vision or the courage to solve a crucial problem that confronts it. This is a counsel of despair. It ill becomes the nation's elder statesmen. A problem cannot disappear by postponing its solution. Delay in solving the problem can only aggravate discontent.

More than once, it has been stressed in these columns that Congress or the country's accredited leaders cannot forever advance the 'infant State' argument, that Congress has a responsibility to pursue such a policy as to ensure territorial integrity and harmonious relations between the various units in the future. Even as Congress, the major political party, would be disowning this prime responsibility by delaying the solution of the linguistic problem, it would be undemocratic in imposing its policies against the wishes of the people. Acharya Kripalani is not alone in his criticism against the proposed zonal councils. During the parliamentary debate on the Address, many Congress members have insinuated that Communists supported linguistic States so that they could gain control of some small units, while others supported the formation of linguistic States in order to deprive the Communists of one of their effective political weapons in some of the States concerned. In a federation, the party in power at the centre cannot always hope to be in control of all the units. A time may soon come when some of the States in this country may be administered by a party which is different from that in control of the Union government. Such a state of affairs is not uncommon in the United States of America, but it has never menaced that country's political integrity . It, as well as linguistic States, cannot pose any threat to India's political stability or integrity. These are incidental issues which demand immediate and urgent attenion to the problem of amending the Constitution so as to define firmly the relation beween the units and between the units and the Union. Congress would be well advised to concentrate its energies on these problems instead of imagining threats, where none exists, to national unity.

Weekly Notes

Indonesia

ABROGATION of the union between Indonesia and the Netherlands will not cause any surprise. Djakarta and The Hague signed a protocol in 1954 for the dissolution of the union, but it was not ratified by either. Even the Dutch delegate to the recent series of conferences on the disputes admitted that the union was "an unsuccessful experiment". Djakarta regards abrogation as "cancellation of something that never existed". On both the issues in dispute, both countries are so adamant that there is no scope for compromise.

West Irian, Dutch New Guinea, is one of the main issues in dispute. Djakarta claims West Irian as Indonesian territory. This is denied by the Netherlands. In claiming absolute sovereignty over West Irian, the Dutch argue that this territory is not even a "juridically disputed" issue. Evidently, The Hague implies that West Irian is not an issue in dispute, as the acceptance of any such stand by Indonesia would prejudice the Netherlands' juridical basis of the claim. As Indonesia is equally firm that West Irian is Indonesian territory, it is clear that no compromise solution of this problem is possible. Indonesia's claim to West Irian is widely endorsed.

Under the 1949 agreement, the Dutch investors in Indonesia were allowed certain rights and concessions. This aspect of the relations between The Hague and Djakarta has created subsequent complications. There is considerable Dutch investment in Indonesia. These investments are mainly in sugar, rubber and some other plantations and in oil wells. Djakarta's contention is that it must have power and authority to exploit these resources in the national interest of the country. It is not difficult to appreciate Djakarta's claim that these issues should be subject to national legislation. Though The Hague is reconciled to accept this claim so far as future investments are concerned, it claims that investments covered under the 1949 agreement should not be subject to national legislation in Indonesia. As with West Irian, on this issue also there is deadlock.

Though the breakdown in negotiations was not unexpected, the absence of any agreed settlement had the immediate effect of delaying any solution on the Dutch and Indonesian prisoners held for "infiltrating" into each other's territory. Even without a settlement of the major issues in dispute, the question of exchange of these men should have been solved. That even this issue could not be settled, indicates the sharp conflict that exists between the two countries. It is possible that The Hague is relying on political changes in Indonesia for a favourable consideration of its claims. Admittedly, Dr Harahap's regime is a caretaker government. But, whatever be the ultimate composition of the Indonesian Government, The Hague seems to be optimistic in hoping that Djakarta will ever accept its claims. On the issues in dispute, a coalition government of the Masjumi, the Nationalists and the Nabadatul Ulama is not likely to be less adamant than the caretaker Government of Dr Harahap.

Elections in Greece

IN Greece, personalities rather than policies dominate politics. That is why, the country is frequently without a stable, progressive government. Political instability is aggravated by the unduly complicated system of voting. It may succeed in ensuring representation to all the splinter-groups, but the basis of elections can hardly lead to a stable government. Field Marshal Papago's Greek Rally began to disintegrate soon after the leader's death. But the King's choice of one of his associates as his successor led to a demand by the other political parties for a fresh election.

Though the National Radical Union, the Greek Rally in its modified form, has won the elections, it has emerged out of the polls with a slender majority. Its victory was mainly due to the complicated system of voting and to the lack of unity among its political rivals. It has won the elections, but it will experience difficulties in forming a stable government. In an election fought mainly on issues relating to foreign affairs, the Democratic Union, the Opposition, won more votes than the Radicals. There is a moral in this for Britain. It is clear that the Greeks are in favour of complete Cypriat independence and not merely home rule. Results of the election confirm the Opposition's criticism that the Greek Government's Cyprus policy is moderate. For the defeat in the elections, the Democratic Union can only blame the outmoded basis of elections.

Scholarly Crusader

A SCHOLAR, thinker and humanitarian, the late Acharya Narendra Deva gladly gave to politics what he might have preferred to give to literature and education, were the most pressing needs of this country different. With the struggle for freedom going on, a man of his burning idealism could not possibly look on nor shut himself up in a cloister; and even when independence came, it meant no respite to one who felt so deeply for the poor and the underprivileged. Within the Congress, which he served with great devotion and distinction, there was no position which was not within his reach; but he not only sponsored a socialist group under the auspices of the national organisation, but also helped it break away from the parent body when the political objective of swaraj was achieved. Yet, it is a measure of the man's loftiness of mind and spirit and his catholicity of outlook that the Congress could hardly reconcile itself to the thought that he had left the fold. Indeed, he was one of the few leaders whose appeal was directly to the national mind; and neither ideological differences nor political quarrels could ever affect the quiet influence he wielded in the country.

It is not given to many to find satisfaction in continuing to be in the wilderness when the primary goal has been won and when others scramble for position and power. But the Acharya's single-minded loyalty to the Socialist cause was such that nothing else seemed to matter to him, save perhaps his life-long fondness for scholarship and educational advance. The fact that the party he had nursed was prone to bewilderment and bickering and that it had suffered several setbacks in its difficult career was no damper to his zeal. To the last day of his life, he watched over its progress with fraternal solicitude, and his last thought was, characteristically enough, given to the future of the young party. Such faith cannot but find final vindication, though the odds may seem to be against it just now.

Mobilising Resources

Our Delhi Correspondent writes :

THE Central budget for 1956-57 has to be judged by its effectiveness as an instrument for mobilising resources for the Second Plan and for reducing inequalities in income. And if these twin objectives are to be realised gradually, so as to minimise the overheads of too abrupt a change, the budget has much to commend itself. Once this theory of gradualness is accepted, it would be really difficult to find fault with the budget proposals. All that one may say by way of criticism is that a particular proposal will in fact not conduce to the objectives set or a measure could have been made more effective without discouraging private enterprise.

With Kaldor in Delhi, the first of the recommendations of the National Development Council, which is for a ceiling on income, can only be put through in an attenuated form. The increase of super-tax on incomes above Rs. 1.5 lakhs is as near to 'ceiling on income' as the Finance Minister can get. Of course we would be hearing less and less about it now. Defective as the definition of income for taxation purposes is, attempts at dividend limitation could not have been successful without discouraging the issue of bonus shares. The new tax proposal for bonus shares will also be a damper for the expansion of the existing units made solely with a view to avoiding taxes on income. Thus the new levy will, in a sense, be a substitute for a tax on wealth which is the other recommendation of the National Development Council which has been accepted by the Government.

It is arguable that the substitute is only a pale shadow of the real thing. But, then, an effective tax on wealth would have deranged the stock markets and retarded capital formation in the private sector. Again, a case may be made out against the increase in the super-tax rate in the above Rs. 1.5 lakhs group. It may, instead of fetching a larger revenue, promote tax evasion, both legal and illegal. May be, it is a gesture the Finance Minister had to make. Having relied on indirect taxation for a total of Rs. 25 crores, he could not afford to ignore direct taxes altogether, particularly those on high incomes. A move like this, irrespective of effects on revenue, is likely to prove popular—a thing the Finance Minister may understandably fall for, especially in an election year.

Investors realise that the measures for reducing inequality of incomes could have been much more drastic. That is why the market favourably reacted to the budget proposals in early trading in the post-budget session on Wednesday. Anyway, the recent shake-out had prepared the market for a heavier burden. The uncertain undertone at close is traceable to the proposal for the graduated levy on dividends above 6 per cent. The implications of this proposal which are causing concern among market-men, are likely to have decisive effects on markets.

While direct taxation proposals are enacted to fetch Rs. 10 crores, the additional imposts on the masses are to net Rs. 25 crores. These measures were as much dictated by considerations of balancing the revenue budget as by the necessity of enforcing restraint on consumption. If cloth and road transport are thus made costlier, the burden has to be borne, if not cheerfully, at least philosophically. The Finance Minister may well be right that the average living standard will not be adversely affected by his tax proposals.

Bharata Be-shukriya

(with apologies to the shade of JOHN KEATS & LA BELLE DAME)

O what can ail thee, Taxpayer,
Distraught and palely wondering
What new demands the State will make
On thee, poor thing?

The Budget looms at this year's end
A Kali-Durga terror-form,
And thou shalt make complete returns
Of thy wealth, poor worm.

The public sector much I fear;
It squeezed me in its slow embrace,
And now my bank's small overdraft
I cannot face.

Thy private enterprise must wilt
Since thou art voted socialist.
Thou, in thy lakhs shalt pay and mourn
The welfare thou hast missed.

The Very Rich, thou mayst be sure
Have fixed up properties abroad;
But thou, the simple taxpayer,
Stay, with thy Lord.

Who is thy Lord, O gentle soul?
It must be Labour, field or town.
Take dust from them, and thou shalt live
Their hatred down.

The Second Five Year Planning Chiefs
Have grasped thy goods for deficit.

Sannyas for thee is left, at least.
Go foresting with it!

Thy total wealth, thine income burn
A hole in pockets everywhere
Except thine own. Cast ceilings off!

Come ! Take the air!

Ah no, kind counsellor, I'll stay
Distraught and palely wondering.

Shramdan, sampattidan I'll give,
And Bhoodan sing.

Evelyn Wood



Budget Estimates

An Assessment of Ways and Means

IN recent times, attention is generally concentrated on two aspects of the Union Budget, viz. the taxation measures and the planned budget deficit. This emanates from the fact that everybody expects the Union Government's development outlay to go up from year to year, and everybody knows that the Government's financial resources are not always adequate to meet these demands. The Finance Minister has naturally to devise new measures for enabling the Government to fulfil its portion of the development programme; and unless he taxes or borrows from the people, he has to resort to deficit-financing. The precise point upto which he decides to rely on taxes rather than on budget deficit is a matter of importance —indeed of great importance. The preoccupations of most people with this question is therefore understandable. However, a closer analysis of the mundane figures set out in the budget statements often helps in getting a clearer perspective of what is being attempted and why. We confine ourselves to this type of analysis here.

The principal budget data, relating to both revenue and capital transactions, are set out in the accompanying table*. The Revenue Account of the budget is simple enough, once we keep on the one side the merits and demerits of new tax proposals. It will be observed that the anticipated increase in tax revenue between 1955-56 (revised) and 1956-57 (budget) is in absolute terms less than the additional yield of Rs. 34 crores expected from the new tax proposals. This is traceable to the fact that a number of tax reliefs granted subsequent to the last budget—especially in the field of customs duties—will have a full year's effect on the expected tax yields, compared to the partial effects experienced in 1955-56. Clearly, part of the additional taxation in 1956-57 would amount to no more than compensatory; to that extent, judgments regarding the additional tax burden in 1956-57 will have to be modified.

* For an explanation of the procedure followed in drawing up the Table, see The Economic Weekly for March 5, 1955, p. 326.

As one would expect, the expenditure estimates for 1956-57 show a much larger increase over the revised figures for 1955-56. These revised figures are, it should be noted, smaller than the outlay budgeted for 1955-56 last April, but not much smaller. A great deal of fuss is made about the Finance Minister's propensity to overestimate expenditure and underestimate revenue. But a glance at the figures for 1955-56 indicates that this is in turn due to a propensity to grumble at any and everything After all how big is the discrepancy between the budget and revised estimates for 1955-56? On the revenue side, the expected increase for 1955-56 over the budget estimates is of the order of Rs. 20 crores, or a deviation of about 4 per cent on the plus side. In respect of expenditure, the shortfall compared to the budget estimates is about Rs. 9.5 crores, or a deviation of about 2 per cent on the minus side. Surely these are not errors of estimation that could be classed as "significant". And in any event, it seems unfair to cavil at the Finance Minister for providing a small margin in his estimates for meeting the unforeseen charges that may fall on the fisc in a period of twelve months.

To return from the digression. The anticipated increase in revenue expenditure is due mainly to larger outlays envisaged under the Development Departments, such as education, public health, industries etc. These are inevitable during a period of development; indeed they constitute an indication of further developmental effort. None questions the need for development, nor the need for the Union Government taking an active part in it. One might, if one is not so mightily afraid of taxation, even say that the additional outlay envisaged on these nation-building activities is not enough to ensure the attainment of targets set under the Second Plan. Shri Deshmukh has, if anything, been parsimonious in this respect. And yet people cry extravagance!

Let us continue with the figures. Turning to the Capital Account, which really indicates the quantum of development expenditure to be undertaken in one form or another, it will be observed that the direct outlay on development (item V (i) in the Table) increases by Rs 69.1 crores between 1954-55 (Accounts) and 1955-56 (RE), and by Rs 103.1. crores between 1955-56 (RE) and 1956-57 (BE). This is entirely expected, in view of the rate of expenditure envisaged under the Second Plan. It is to be noticed that under this head the largest increases are in respect of railway capital (Rs. 41 crores) and industrial development (Rs. 64 crores). Needless to point out, this again follows from the Second Plan allocations and priorities. Indeed, the additional outlay on industrial development is somewhat larger, if account is taken of the loans to be advanced to concerns in the public sector, such as Hindustan Steel, Ltd., Rourkela, Sindri Fertilizers, Air-India International etc.

The other big item on the Capital Expenditure side is the lending operations of the Government, mostly to State Governments. This is an item which grows from year to year though apparently the rate of its growth has not been on the increase. Loans to State Governments increased by Rs. 69 crores between 1953-54 and 1954-55, and by Rs. 58 crores between 1954-55 and 1955-56 (RE). The increase next year is to be of the order of only Rs. 24 crores. There are, however, certain things to be remembered in this connection. Loans to States showed a big increase in 1954-55 because in that year State Governments had been asked to keep away from the open market, and a combined loan for both the Centre and the States was floated by the Union Government. The practice was changed in 1955-56 and the States actually resorted to the open market twice in 1955. On the same lines, it is possible that the increase in loans to States has been kept rather low in 1956-57 (BE) on the presumption that State Governments could tap the market to a substantial extent by offering, as they usually do, somewhat better terms than those of India Government loans. Besides, the transfer of funds from the Centre to the States is not confined to the loans alone. Numerous other transfers in both the revenue and capital accounts have to be taken into account before one is able to assess the financial assistance rendered to States to facilitate their development programmes.

Given this situation viz. the necessity of finding funds not only for the Union Ministries but also for the States—the large deficit in the budget is a foregone conclusion. With the economic and psychological obstacles to garnering a large surplus on the revenue account, the Finance Minister has to bank on the Capital Account for the funds needed for capital expenditure of one sort or another. He hopes to borrow in 1956-57 a net amount of Rs. 100 crores internally, and about Rs. 39.5 crores abroad—from USA (Rs. 28 crores), U.S.S.R. (Rs. 10 crores) and the World Bank (Rs. 1.5 crores). It would, perhaps, be possible for Shri Deshmukh to borrow more than Rs. 100 crores internally next year. But, as mentioned earlier, he intends to refrain from doing so in order to let the States float their own loans. Besides the long-term loans, the Capital Account takes credit for Rs. 89 crores in 1956-57 (BE) under small savings and unfunded debt, compared with Rs. 85 crores in 1955-56 (RE). The Finance Minister has, apparently, been somewhat conservative in this regard too, since the actuals have in the past generally been higher than the revised or budget estimates and the small savings campaign is being progressively intensified.

The above two are, in effect, the principal sources of capital receipts. The third major item, other deposits and advances (net) is one about which little prognostication on the basis of past trends is possible. As was pointed out last year, this item is suspect, because a substantial part of the credit under it in both 1955-56 (RE) and 1956-57 (BE) is due to net receipts under 'suspense'. What this means is anybody's guessing but it is certain that this is not to be treated as a genuine source of funds. Further, the larger inflow under this item in 1955-56 (RE) is due partly to net receipts of Rs. 13.7 crores from the Cash Balance Investment Account which is another way of saying that securities held by Government were reduced to that extent. This could, incidentally, be tantamount to deficit financing if the securities are sold to the Reserve Bank.

Unlike in 1954-55, the Capital Account benefited to the tune of Rs. 11 crores in 1955-56 (RE) from State Trading Schemes. This is, in effect, a conversion of the large stocks built up in 1954-55 into cash, and perhaps meant a genuine flow of funds from the private sector to the fisc. For the next year, State Trading Schemes are expected to involve a net investment, so that there is little chance of the funds required for development plans being obtained from that source.

All of which naturally makes it imperative for Shri Deshmukh to go on expanding the Floating Debt. Here, he has been grossly overestimating the possibilities. The budget for 1955-56 envisaged an increase of Rs. 340 crores in Government of India's Floating Debt; the revised estimate for 1955-56 put the probable increase at Rs. 240 crores. Considering that between April 1, 1955 and February 10, 1956 the outstanding of Treasury Bills had increased by only Rs. 31 crores, it seems very unlikely that the actual increase between April 1, 1955 and March 31, 1956 will be as much as Rs. 240 crores. But things may be different next year, in view of the continuous increase in the capacity of the Government to spend, virtually no margin in the cash balances and the increasing demand for money in an expanding economy.

Budget of the Government of India, 1956-57

(in Rs Crores)

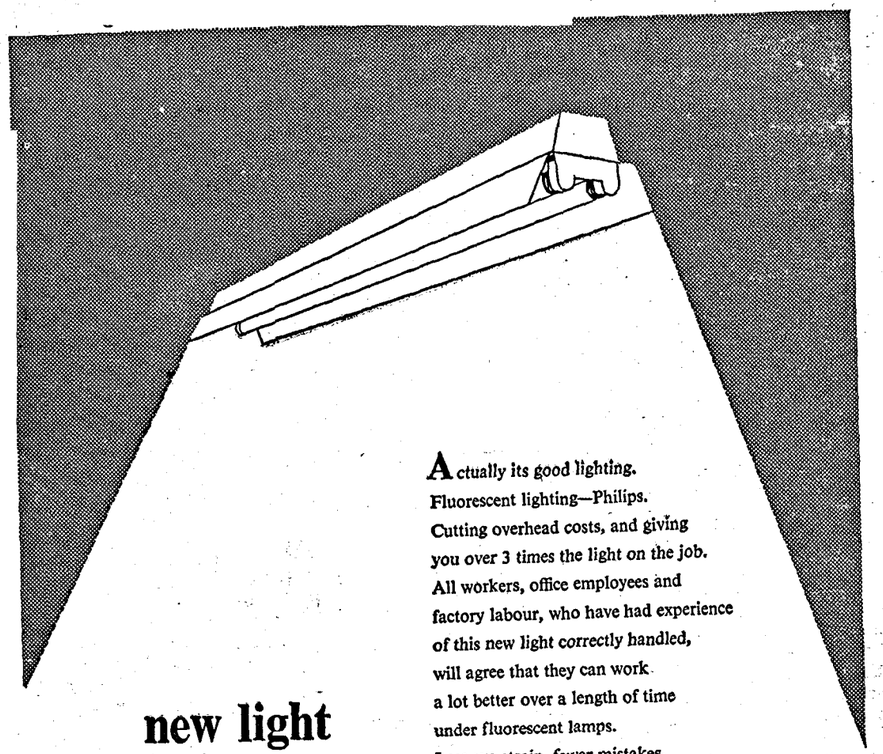
		1954-55 (Accounts)	1955-56 (Revised)	1956-57 (Budget)
I	**Revenue Receipts**	**456.1**	**501.7**	**527.7**
	(i) Tax Revenue	402.5	429.3	461.0
	(ii) (i)as percentage of total	88.2	85.5	87.3
	(iii) Non-tax Revenue	53.6	72.4	66.7
II	**Revenue Expenditure**	**422.6**	**489.4**	**545.5**
	(i) Defence Expenditure	186.7	185.1	204.0
	(ii) (i) as pencentage of total	44.1	37.8	37.4
	(iii) Civil Expenditure	235.9	304.3	341.4
	(of which under Development Departments)*	(53.4)	(89.8)	(114.7)
III	**Surplus (+) or Deficit (—) on Revenue Account (I–II)**	+ 33.5	+ 12.3	— 17.7
IV	**Capital Receipts**	**175.8**	**243.0**	**349.3**
	(i) Long-term Loans (net)	109.9	40.3	135.5
	(ii) Small Savings & Unfunded Debt (net)	70.5	82.8	89.2
	(iii) Loans repaid to Government†	38.6	37.8	42.1
	(iv) Additions to Depreciation & other Reserve Funds (net)	— 13.2	— 0.5	5.3
	(v) Other Deposits & Advances (Net)	— 8.3	77.3	72.4
	(vi) Miscellaneous (net)‡	18.2	5.3	4.8
V	**Capital Disbursements**	**391.5**	**477.0**	**687.0**
	(i) Development Outlay	90.7	159.8	262.9
	(ii) Defence Capital Outlay	8.5	20.4	26.3
	(iii) Compensation to displaced persons	11.7	1.0	26.2
	(iv) Schemes of Government Trading	63.5	— 11.0	9.5
	(v) Loans and Advances†	224.1	307.3	370.3
	(of which to States)	(193.3)	(251.0)	(274.3)
	(vi) Other Expenditure§	— 7.0	— 0.5	— 8.2
VI	**Surplus (+) or Deficit (—) on Capital Account**	—175.8	—234.0	—337.7
VII	**Overall Deficit**	—142.3	—221.7	—355.4
VIII	**Financing of Deficit**			
	(i) Increase in floating Debt	136.8	240.0	355.8
	(ii) Withdrawal from Cash Balances	5.5	— 18.1	— 0.4

* Includes Scientific Departments, Education, Medical and Public Health, Agriculture, Rural Development, Veterinary, Co-operation, Industries & Supplies, Aviation, Broadcasting, Civil Works, Community Development Projects, National Extension Service and Local Development Works.

† Including 'Inter-State Debt Settlements'.

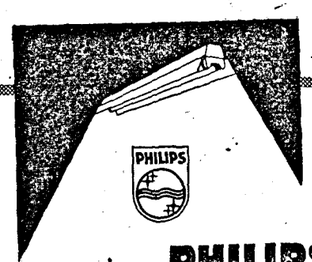
‡ Appropriate for Reduction or Avoidance of Debts, Remittances (net) and Transfer of Cash between England & India (net).

§ Commutation of Pensions, Capital Outlay on Sterling Pensions and Capital Outlay on Currency.



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From the London End

British Military Preparedness

IF any evidence is required to show how far we are from peace or how near to war, then it will be found in the Defence White Paper issued this week. It will also be found in an equal measure in three service estimates now being submitted to Parliament. The White Paper is unequivocal: the forces required to support the present (and new) strategy "must play their part in the cold war" and "must be capable of playing their part effectively in global war should it break out". It goes further: the new strategy (which is examined below) would, according to the White Paper, contribute:

> "to the stability of the free world and the security of overseas territories whose peaceful development may be threatened by subversion whether overtly communist or masquerading as nationalism."

One has come to expect verbiage like this from the Americans; it is a matter of great consequence that Britain's policy-makers should now not only use similar jargon, but also possibly base their policies and assumptions on attitudes for which the U.S. State Department and its Secretary have a reputation.

'New Strategy'

This year's Defence White Paper is significant not only for the possible change in attitude indicated here, but also for the description given to the new strategic factors underlining Britain's military policy and the economic repercussions arising from it. The 'New strategy' is, in fact, not so very new. It has its origins in the 'positions of strength' policy first enunciated by Mr. Dean Acheson, Secretary of State, in the last American Democratic Party Administration. The strategic factors which underline Britain's policy are thus mainly concerned with the ways in which the so-called 'deterrent' — the ultimate weapon — can be strengthened; or, in terms of practical warfare, how a solution to the problem of the 'means of delivery' of the H-Bomb can be achieved.

The White Paper attempts to argue against the well-known view that the policy of 'deterrence' can have little impact when, in fact, the Russians too are in a position of producing thermo-nuclear bombs and of ensuring delivery to destinations as far away as New York. The White Paper states that the objective of the Western Powers is 'defensive'. It claims that Western Powers will never be aggressors; but they must have the power of instant and overwhelming retaliation if attacked. It, therefore, argues that it is this 'retaliatory power which is the vital factor'. The fact that Russians are using a similar argument to maintain their military preparedness and that the similarity of outlook of both the power blocs is necessarily leading to an intensification of the armaments race is, of course, ignored. Those sections of the White Paper which concern themselves with disarmament are as hollow and unreal as the sections defining Britain's new strategic policy are dangerous and tragic.

More Mobile and Flexible

The effect of the so-called new strategy is to make each of the armed forces conform to what is called 'a new concept of flexibility". In the case of the army, there is to be some reduction in manpower between now and 1958. Already the army staff is involved in a considerable measure of reorganisation of design to establish 'the concept of flexibility'. Intensive trials to determine the best organisation 'for a nuclear war' have already been instituted in Germany. The present form of the armoured divisions will be changed so as to make it more mobile and flexible, and, thus, as the White Paper puts it, 'to enable it to exploit rapidly changing conditions'.

Since it has become the policy for nuclear weapons to be used in what is called 'limited wars', the new organisation of the fighting formations will henceforth be adapted to the needs of war theatres other than in Europe. In concert with the new concept of flexibility, the navy is being adapted on the basis of smaller fleets of modern design and propelled in the main by nuclear power. In spite of the fact that the new strategy attempts to re-define the role of the armed services in the age of thermo-nuclear weapons, the navy is still to be assigned a special 'place in the immediate problems of the cold war'. The navy, according to the White Paper, is to play an important part in 'upholding our interests and influence in peace time in the distant parts of the world'.

Since it is the power to deliver the ultimate weapon that constitutes, in the thinking of British military circles, the supreme 'deterrent,' the Royal Air Force comes into its own. The White Paper states unequivocally that the primary task of the air force continues to be the building up of the V-Bomber Force and its associated stock of nuclear weapons.

It is expected that a new bomber —the Vulcan—will join the Valiant in the bomber task force and that the production difficulties experienced last year will have been solved in 1956-1957. The tactical air force is being strengthened largely for the defence of the country, and it appears that some of the expenditure in the air force estimates will cover the increase in fighting power and the lethal capacity of the fighter aircrafts in service or to be put into service. The first generation of guided missiles will also become available from production in the course of 1956-57.

Economic repercussions

The economic repercussions of the new strategy are made particularly important by the economic crisis. The new strategy necessarily involves:

(a) A larger expenditure on the armed services than before,

(b) Greater reliance on the metal and metal-using industries for the provision of weapons required in terms of the new strategy and

(c) The premium placed on skilled personnel in the armed forces.

It is precisely in respect of each of these three problems that Britain's economic crisis is relevant. The higher cost of defence expenditure which, according to the White Paper, will amount in the year 1956-57 to £1,548.7 million will generate incomes which, at least absolutely, will be higher by some £11 million, compared to the year 1955-56. The strain which such an expenditure will impose on the resources of the country is unlikely to be overcome by any sharp increase in taxation or by any other attempt to restrain private consumption and investment. Thus, in spite of the economic situation, expenditure in respect of defence continues to race ahead, and

in spite of the qualms voiced in the White Paper, the prospect is for such a high level of expenditure ultimately to overwhelm the economy irretrievably.

The new strategy calls for weapons which largely emanate from the British metal and metal-using industries—industries which today are possibly the most vital for the maintenance of a high level of exports and thus for equilibrium in the balance of payments. It would, therefore, follow that the military reliance on these industries can, with weighty impact, further imperil the balance of payments.

A Shock

It has only been as a result of the considerable emphasis placed on scientific and technical education in the U.S.S.R that Britain has woken up to the needs of promoting a more science-conscious British labour force. The vacancy columns of the daily newspapers run long with offers of jobs to those with some training in the pure sciences, and it has come as a shock to a largely self-satisfied people that their educational attainments are insufficient for Britain to man its newer industries, and in particular those industries which have good prospects in world trade. In the face of this shock comes the demand for highly skilled and qualified technical personnel for employment in the military establishments of the Government. This demand already impinges upon the supply of labour in the civil sector of the economy.

The White Paper recognises that the economy of the U.K has been overstrained and that there exists 'a pressing need to limit defence expenditure to what is truly essential'. The estimate of £1548.7 million, submitted for the year 1956-57, must, therefore, be construed as being the minimum expenditure required for the pursuit of the new strategy. As stated above, it is slightly larger than the expenditure incurred last year. It is not difficult to imagine increases in this level of expenditure taking place in the coming years, since what is now being planned is to be only the 'absolute minimum'.

Summary of Estimated Expenditure

£ million

	1955-56	1956-57
Admiralty ..	347.0	351.0
War Office ..	484.0	479.0
Air Ministry ..	540.4	517.5
Ministry of Supply	147.5	185.0
Ministry of Defence	18.3	16.2
	1,527.2	1,548.7

Government hopes to obtain some £50 million from the Americans as defence support aid and this expected receipt will reduce the level of defence expenditure to £1,498.7 million which, taking into account the receipts of American aid in the last financial year, would represent an increase of over £4 million.

No Defence?

The attention given to the requirements to strengthen the 'deterrent' would have necessarily called for sufficient measures in respect of direct home defence. The White Paper speaks meaningfully of the nature of nuclear radiation and fall-out and of the vast dangers which these represent. It goes on, however, to attempt to justify inactivity in this field in view of the current economic difficulties. It states rather hypocritically that 'heavy expenditure on purely defensive measures by weakening our economic strength and reducing the sources available for building up the strength of the deterrent might well work against the primary objective of ensuring that global war itself is prevented'. Maybe, this is simply another way of stating that there is no defence against thermo-nuclear warfare.

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Official Papers

Bench Mark Survey for New Forest Policy

Indian Forest Statistics 1950-51 & 1951-52. Issued by the Economic and Statistical Adviser, Ministry of Food and Agriculture. Manager of Publications, Delhi, 1955. Pages 192, Price Rs 20.

THE latest issue of the Indian Forest Statistics relates to the year 1950-51 and 1951-52. The information contained in it is, therefore, mainly of historical interest. This particular issue will perhaps be of special interest, as the Government of India revised its Forest Policy in May 1952; and this record of the two preceding years may serve as a bench mark for studying the changes that have resulted from the new Forest Policy.

The main aim of the comprehensive National Forest Policy, which replaces the earlier one dating from 1894, is to check the "indiscriminate extension of agriculture on forest with consequent deprivation of fuel and timber to the local population and stripping the land of its natural defences against dust storms, hot dessicating winds and erosion". A comparison with other countries shows that the proportion of land under forests is relatively low in India, being only 22 per cent of the total land area.

Extension of Forests

The objective of the new policy is, therefore, to have at least one-third of the total land area under forests, to achieve which the extension of regular forests to waste lands is planned. The Planning Commission's recommendations for forest development include the strengthening of the Forest Administration where private forests have been transferred to public ownership; renovation of areas which were over-exploited in war-time; afforestation where large-scale erosion has taken place; development of forest communications; development of village plantations to ease the fuel supply position; and increased utilitsation of non-conventional varieties of timber after proper seasoning and chemical treatment.

Forests are classified according to (i) types—merchantable and unprofitable or inaccessible; (ii) legal status—reserved, protected and unclassified; (iii) composition—mainly coniferous and non-coniferous; and (iv) ownership — State, corporate bodies and individuals. In the interests of national economy and scientific forest management, the trend towards complete State ownership and management is to be welcomed. This trend is evident from the fact that the area under the State increased from 82 per cent of the total forest area in 1950-51 to 91.6 per cent in 1951-52.

Statistical Tables

The statistical tables—of which there is a large number—are classified under the following heads: (i) area of forest (ii) volume of standing timber (iii) out-turn of forest produce (iv) employment of labour (v) revenue and expenditure (vi) foreign trade and (vii) miscellaneous. And the tables are followed by two appendices at the end, including one on Vana Mahotsava. But apart from the bare figures, there is very little by way of explanation from which the lay reader may derive some guidance.

The statistics of employment are an instance in point. Employment of labour in forest and forest industries is presented in a series of tables under four heads, viz., forest management, forest extraction, forest industries and grand total. And under each of these again, information is given for two separate categories, viz., 'A'—those mainly dependent on forestry and forest industries and 'B'—those partially dependent on forestry and allied industries.

Now, of the people employed in forest management, who are mainly dependent and who partially dependent on forests? This is puzzling. Common sense does not help. Nor does the introductory note throw any light. Besides—this is a comparatively minor matter and understandable—there are many gaps in these as in other tables. Many of the States did not report at all. So, it is difficult to compare the totals of employment for the two years, viz., 1950-51 and 1951-52.

Employment Figures

The paragraph on employment, in the introductory note, is perhaps the most breath-taking. An interesting observation is made therein, viz., that forests are an important source of employment; and in 1951-52 about 44 million persons were mainly dependent and 91 million people partially dependent on forestry and forest industries. The total employment would thus come to about 135 million people out of the country's total population of about 360 million. This figure is indeed staggering. For, even agriculture—the primary occupation of the people—does not provide employment to such large numbers. According to the 1951 Census economic tables, the number of those 'employed' in agriculture—including those who are self-supporting and those who are earning dependents and excluding non-earning dependents—totals only about a 100 million.

As regards forestry and the allied industries, it is found that those who derive their means of livelihood from forestry and collection of forest products—i.e. employers, employees and independent workers—number 2.5 lakhs. If we add to this those engaged in the category of occupation described as wood and wood products and in the manufacture of furniture and fixtures and paper and paper boards—which together engage about 11 lakh persons—the total employment would be 1.35 million. How does this figure compare with 135 million given in the forest report? Obviously, either there is an error in compiling the employment figure or there is confusion about what this figure 135 million refers to.

A glance through the statistical tables relating to employment of labour, however, lends weight to a presumption that the figure may refer **not** to **employment** but to total **man-days** worked in forestry and forest industries in 1951-52. Table 4.1 gives the number of persons employed on the first day of each month, beginning from April and ending with March for the years 1950-51 and 1951-52. And on page 139, where the grand total is struck, we find that the average number of persons employed per day for 1951-52 is about 120,000 in respect of those mainly dependent and 251,000 in the case of those partially dependent. If these daily employment figures are converted into man-days for the year 1951-52, we get 43.8 million man-days for the former category and 91.6 million man-days for the latter. These figures, it will be seen, approximate

to those given in the introduction, viz., 44 million and 91 million respectively. This is, of course, only an interpretation.

Major Products

The major products of Indian forests include timber, round wood, pulp wood, fire wood etc., and among the minor products are bamboos and canes, fibres and flosses, drugs, spices, gums and resins, lac etc. The out-turn of major products declined from 558 million cubic feet in 1950-51 to about 517 million cubic feet in 1951-52, but their value went up slightly from Rs 18.94 crores to Rs 19.95 crores in the same period. The value of minor products also increased by about Rs 12 lakhs to Rs 7.04 crores in 1951-52. An interesting point in this regard is that of the total estimated value of Rs 7.04 crores of minor forest products, State-owned forests contributed as much as Rs 6.97 crores.

Despite her vast forest resources, India is still a net importer of wood products. Among the major products, we import more of hard wood than soft wood, such as teak from Burma. Some quantity of hard wood is also imported from US, Canada, Sweden and Thailand. But included among wood products are such derivatives as paper and pulp. This classification is probably in conformity with international usage, but it nevertheless gives a very misleading impression about India's dependence on forest products as it is commonly understood. India also imports minor forest products such as gums, resins and lac, mainly from Singapore, Thailand and UK, and tanstuffs and dyestuffs from Burma, Kenya and Singapore.

Our largest net imports are under the head 'wood products' which were valued at Rs 15.83 crores in 1951-52 as against Rs 10.55 crores in the previous year. We export only hard woods, some derivative products, wild animal products, gums, resins, lac etc. And our net export of minor forest products such as gums and resins, which go mainly to UK, West Germany, Belgium, US and France, were valued at Rs 2.13 crores in 1951-52.

Vana Mahotsava

An assessment of the 'Vana mahotsava" programme is also attempted. We are told that out of the 44 million trees, planted during the first 'Mahotsava' in July 1950, 'more than 38 per cent were reported to have survived'. The second 'Vana mahotsava' (July 1951) has been declared 'more successful' inasmuch as more than 50 per cent of the 35 million trees survived.

Though otherwise dry and severely statistical, the introductory note is relieved by a piece of colourful writing on the march of the Rajasthan desert. The desert, we are told, has spread through the ages and threatens to engulf the fertile alluvium of the Indo-Gangetic plain. But one need not be unduly scared by this threat as measures for the immobilisation of the desert are already in hand. Government appointed an ad hoc committee to advise it on the measures to be taken for the purpose. The recommendations of the committee envisage the setting up a Desert Research Station at Jodhpur to study silviculture of indigenous vegetation, its succession and propagation. The research station is also to undertake extension work consisting of the following:

(a) distribution of seeds and plants,

(b) establishment of cases as nucleus for the spread of vegetation around police posts on the border, railway stations, schools etc.,

(c) establishing shelter belts along selected roads and railway lines, running transversely to the direction of the wind,

(d) improved agricultural practices and animal husbandry, rotational grazing etc., and

(e) establishment of 6 fuel and fodder reserves of not less than a thousand acres each to demonstrate rotational lopping and grazing.

Technological research, relating to forests and their products, is carried on at the Forest Research Institute at Dehra Dun under the control of the Union Government. Forest education is provided in the forest colleges at Dehra Dun and Coimbatore, which are also administered by the Centre. Besides, the Dehra Dun Research Institute holds short-term courses of a specialized nature in the different branches of research conducted at the Institute.

Some Improvement

Since the Directorate of Economics and Statistics took over in 1947 the collection and publication of statistics relating to forest administration in India, some improvements have been effected both in the content and coverage of statistics. Even so, a great deal remains to be done before Indian forest statistics attain the standards of the FAO and some of the foreign countries.

Among the items on which information has to be included are: (i) production of wood classified by important species (ii) wood manufactures (iii) prices of forest produce and manufactures (iv) wages of forest labour and (v) consumption of forest produce. We are told that suitable pro formas for the collection of these data have been designed and sent to forest authorities in the States. One may, therefore, hope that the existing deficiencies in forest statistics will be remedied before long.

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India is a Multi-lingual Nation —Not a Multi-national State

G S Bhargava

THE latest political craze in the country is for bi-lingual or multi-lingual States. Indian leaders have changed positions on the subject so often and so drastically that a student of Indian politics is apt to feel like Alice in Wonderland.

Between the formation of the Andhra State and the appointment of the States Reorganisation Commission, the linguistic idea was propagated with varying emphasis. When the S R C, by and large, accepted the principle of language States—Bombay and Punjab were the only exceptions—the leaders of the ruling party and the Government seemed to agree that there was nothing wrong in linguistic re-demarcation of State boundaries.

Then the Prime Minister suddenly put forward a nebulous idea of zonal regrouping of the new States. Even before the Home Minister, Shri G B Pant, had developed the theme and given it flesh and blood, it became the fashion with Congress leaders, Ministers and leader writers in newspapers to acclaim it.

Followed the disturbances in Bombay, Orissa and other places. While a dazed country was recovering from the shock of the unhappy developments, the Chief Ministers of Bihar and West Bengal, who were till then engaged in a bitter feud over a small strip of bi-lingual territory, sprang the biggest surprise of all by proposing the merger of the two States. It has become the fashion since to talk of merger of states. All sorts of combinations have been conceived, among the brainiest being Shri B. Gopala Reddy's idea of the amalgamation of Visal Andhra and Samyukta Maharashtra!

Press correspondents freely suggest that when the bi-lingual idea gathers momentum there will be only five or six large States: the present Bombay State, Vidarbha, Saurashtra, Kutch and Rajasthan forming a Paschim Pradesh, West Bengal, Bihar and Orissa making a Purva Pradesh; the present Madras State joining with Travancore-Cochin and the enlarged Mysore to become a Dakshina Pradesh; U P remaining as it is as Uttar Pradesh; and the present Vindhya Pradesh, Bhopal, Madhya Bharat and the Hindi areas of the present Madhya Pradesh coming together as the new Madhya Pradesh.

It was then hoped that the S R C proposal for a merger of Punjab, PEPSU and Himachal Pradesh would be put through with some safeguards to satisfy the Sikhs. That would have left Visal Andhra in the south, Assam in the east and Jammu and Kashmir in the north as the only 'unattached' States.

Two basic assumptions are at the root of the above way of thinking: first, that the attempt at linguistic reorganisation of States is itself responsible for the recent disorders and internecine strife and secondly that replacing the lid of the Pandora's box, by going in for bi-lingual and multilingual States, will end all troubles. Nobody who is conversant with the origin and growth of the demand for linguistic States will accept either of these assumptions.

Genesis of the Linguistic State Idea

It was in 1905 that the Congress, though indirectly, committed itself to the principle of linguistic States when it lent support to the demand for annulment of the partition of Bengal. Three years later, constitution of a separate Bihar Pradesh Congress—four years in advance of the actual separation of Bihar from Bengal—meant more direct acceptance of the principle that a majority of people speaking one language should be constituted into one State. Formation of two new Congress provincial committees, one for Andhra and another for Sind, in 1917 was the next step.

The Nagpur Congress of 1920 made linguistic redistribution of provinces one of the political objectives of the party. As pointed out by the States Reorganisation Commission, the Report of the Nehru Committee appointed by the All-Parties' Conference in 1928 developed a rationale for linguistic States thus:

"If a province has to educate itself and do its daily work through the medium of its own language, it must necessarily be a linguistic area. If it happens to be a polyglot area, difficulties will continually arise and the media of instruction and work will be two or even more languages. Hence it becomes most desirable for provinces to be regrouped on a linguistic basis. Language as a rule corresponds with a special variety of culture, of traditions and literature. In a linguistic area all these factors will help in the general progress of the province".

Congress Manifesto 1945-46

The Congress manifesto for the 1945-46 elections committed the party to redraw the map of India on a linguistic basis, when returned to power. Even after independence, the Hyderabad Pradesh Congress, notably, pledged itself to the disintegration of the State and the amalgamation of the Telugu, Marathi and Karnatak areas with their respective linguistic regions. In Andhra, the success of the Communists in the 1952 elections was attributed to the demand for a separate Andhra State they had raised. As a counter-blast, in the 1954 re-election, the Congress claimed the constitution of the Andhra State among its achievements. The same year, in Travancore-Cochin, the Congress accepted as a coalition partner, the Travancore Tamil Nad Congress, which had a few months earlier sponsored a violent linguistic agitation. Criminal cases filed against T.T.N.C. leaders were withdrawn by the Congress Government.

In brief, for over 30 years now, Congressmen, individually and on behalf of their party, have been associating themselves with demands and agitations for linguistic States. The Congress leadership and the Government have also realised, as stated by the SRC, that "further deferment of a general reorganisation might lead to more dissatisfaction." Nevertheless, it has been recognised that, besides the linguistic principle, other important factors such as the preservation and strengthening of the unity and security of India and financial, economic and administrative considerations should be taken into account while re-drawing the State boundaries.

Not an End in Itself

In other words, linguistic redistribution of States was not looked upon

as an end in itself but as a means to (1) national unity, (2) economic progress and (3) administrative convenience. To these must be added the vital consideration of achieving a decentralised political set-up, which was one of the points stressed by the Praja-Socialist Party when it pleaded for formation of linguistic States here and now. The SRC also bestowed enough thought and attention upon these ultimate goals and suggested several reforms to be embarked upon simultaneously with State reorganisation. It also made it clear that even after reorganisation, bi-lingual areas would remain, and, therefore, recommended safeguards for linguistic minorities.

For instance, acceptance of Hindi as the **lingua franca** would, as Gandhiji often pointed out, knit the different linguistic States into a united nation. It would militate against linguistic loyalties running riot and leading to separatism. It would, to quote Gandhiji again, make the States "realise their organic relationship with India." Still, Congress leaders who rule out linguistic States on considerations of national unity oppose what they call imposition of Hindi on South India!

That satisfaction of linguistic aspirations will remove the existing antipathy for Hindi in the South goes without saying. Irrational opposition to all things British, including the English language, ended with the transfer of power. Similarly, Andhra, often regarded as a State of linguistic fanatics, is favourably inclined towards Hindi, unlike Tamil Nad!

The SRC recommendations, by and large, accepted the linguistic principle, though while proposing the formation of the new Madhya Pradesh and favouring the retention of unwieldy UP as it is, the Commission has given the go-by to the question of administrative convenience. The economic factor weighed with Shri Fazl Ali when, in a minority report, he recommended continuance of Himachal Pradesh as a separate State. Only in respect of Bombay and Punjab, all the four principles were subordinated to expediency. Without adducing any reason, the demand for a separate Maharashtra State with the city of Bombay as capital was turned down. So too was the idea of a Punjabi State, which was not entertained at all.

Supra-Judicial

Instead of amending the SRC report on these points, the Congress Working Committee, like a supra-judicial body, began tampering with the recommendations with an eye on the next elections. Taking the taluq as unit and on the basis that a majority of people speaking one language should be constituted into one State, it would not be difficult to redraw the State boundaries. Acceptance of a principle for States reorganisation would have taken the wind out of the sails of irrational agitations. People who clamour for acceptance of the principle of linguistic States when it benefits them but fight shy of it when their own State has to cede territory would have then been exposed. Instead of such a principled approach, the Congress High Command made a virtue of being all things to all men, as exemplified by the permutations and combinations tried in the case of Bombay City.

Bilingual Bombay State, bilingual State plus Vidarbha, separate Maharashtra and Gujerat with a City State of Bombay and finally, direct Central administration over Bombay were the alternatives proposed by the Congress leadership. Significantly enough, none of these proposals accepted the linguistic principle. On the other hand, each of them was meant to soften the rejection of that principle. That geographical and economic factors demanded inclusion of Bombay City in Maharashtra did not also appeal to the Congress leadership. They had also overlooked an elementary fact that whosoever controls, economically, the City of Bombay also controls its Maharashtrian hinterland.

Thus, it was the rejection of the linguistic principle, propagated by the Congress for 50 years, which led to the disorders, and not its acceptance. Secondly, the people of Maharashtra, pledged to the idea of linguistic States, were so hurt by the Government's decision that they could not be isolated from the anti-social elements exploiting the situation.

Aloofness of Administration

The democratic rationale behind the demand for linguistic States is, as pointed out by the Praja-Socialist Party's National Executive in a recent resolution on the subject, that such reorganisation of States destroys the barriers between the common man and the administration. Equality of opportunity without which all talk of a "socialist pattern of society" is hypocrisy demands that employment and other opportunities should trickle down to the lower strata of society which will not be possible in a polyglot area.

There is also nothing reprehensible in the movement for linguistic States being an essentially middle class affair. Employment opportunities provide a way out of their present distressed condition for the middle classes and so they naturally plump for smaller and linguistically homogeneous administrative units.

Moreover, multi-lingual States have provided for exploitation of one language group by another. Since there has been no uniform development of the country and since people inhabiting particular areas, like Bengal and Madras, have been, for various reasons, more forward in education and politics, polyglot units have seen their cornering juicy jobs and prize posts. While there should be no premium on reservation of posts on a linguistic basis, it is not also fair that persons speaking a particular language should have a near monopoly of lucrative posts in an area peopled by a different linguistic community. If merit be such an overriding criterion in these matters, there would have been no case for the withdrawal of the British from India.

Therefore, the PSP hit the nail on the head when it declared that the proposals for bi-lingual and multi-lingual States "have not emerged as a result of the wishes of the people but have been brought forward by the leaders of the ruling party to evade the responsibility of solving the conflicting issues of reorganisation of States on the basis of well-defined principles, with due regard for the wishes of the people. The National Executive, therefore, feels convinced that no such move should be entertained before the people concerned have had an opportunity to express their wishes freely on the issue."

To decide the future of bi-lingual areas, the PSP has suggested holding of plebiscite in the areas concerned, a proposal to which the Prime Minister also seems to be agreeable.

Another argument against linguistic reorganisation is that it will militate against economic progress and hamper the smooth execution of development plans. Facts belie this contention. If Andhra is an example, schemes for the exploitation of its rich natural resources which remained in cold storage at the time of the formulation of the

(Continued on page 277)

Israel's Unstable Economy

Hannan Ezekiel

THE two outstanding features of Israel's economy, which I had stressed in my articles in **The Economic Weekly** (December 6 and 20, 1952), were a heavy deficit in the balance of payments and an acute inflationary situation. An examination of economic developments in Israel during subsequent years shows that these two problems continue to plague the economy in spite of the many efforts which have been made to improve the situation.

There has undoubtedly been some improvement in both fields, but they are still far from showing signs of normality, and the stage has been reached when efforts being currently planned to bring about the basic changes in the economy necessary for the long-run solution of these problems are themselves likely to worsen the situation in the immediate future.

Heavy Import Surplus

Israel's foreign trade has been characterised by a heavy import surplus, which over the period, July 1948 to December 1954, amounted to $1,590 million, i.e., 84 per cent of the total imports during the same period. No doubt, the import surplus has tended to decline in recent years; after reaching a peak of $ 333 million (88 per cent of imports) in 1951, it declined to $ 202 million (70 per cent of imports) in 1954. This improvement was brought about by various import cuts, increased exports and a drop in world prices which helped the country in view of the high proportion of imports in its total trade.

The decline in the balance of trade deficit was also brought about partly by an increase in the value of exports, which nearly tripled between 1949 and 1954 reaching $ 88 million in that year. This increase in exports was made possible by greater local production and was stimulated by Governmental deflationary measures, devaluation of the Israeli pound from $ 4.03 in 1949 to $ 0.56 in 1954, conclusion of bilateral trade agreements, opening of new markets and introduction of a system of export financing which provided loans for the export of industrial and agricultural products, as well as foreign currency for the import of raw materials entering into export products. The increasing proportion of industrial products in exports and the diversification of industrial products exported—both these reflect the efforts that are being made to industrialise the country and the special attention that is being paid to the solution of the balance of payments problem.

Unbalanced Character

The financing of the balance of trade deficit indicates the unbalanced character of Israel's economy. The deficit of $1,590 million from July 1948 to December 1954 was covered by contributions of world Jewry, imports of private capital in kind, liquidation of sterling balances and foreign securities, German reparations payments, grants by foreign Governments, United States Export Import Bank loans, independence bond and development bond issues sold mainly in the United States and commercial credits and other net capital inflows.

The German Reparations payments, mentioned above, form part of the total of $ 821 million agreed to be paid over a twelve-year period out of which, however, $ 107 million are to be paid to Jewish organisations outside Israel. By the end of 1954, Israel had received $ 120 millions. This pattern of the financing of the balance of trade deficit indicates that the country still has an artificial economy, whose future cannot be bright unless the factors that lie at the root of this situation are tackled.

The balance of payments problem is intimately linked with the inflationary situation, both reflecting the basic weakness of the economy. By 1954, the wholesale price index had risen to 270 and the cost of living index to 233 (1943 = 100), though the rate of increase had declined considerably in 1953 and 1954, as compared with 1952 when the upward trend came acutely into evidence. The principal factors that contributed to the price rise in 1952 and thereafter were: discontinuation of rationing, lifting of price controls and limiting of subsidies to a few staple commodities only, continuation of investment at a high level, reductions in import surpluses in an attempt to reduce the balance of trade deficits, the linking of wages to the cost of living index and of profits to the value of merchandise rather than to efficiency and productivity, and devaluation of the Israeli pound. The last must be considered an important factor, since, though carried out in stages and though there were multiple exchange rates for some time, the total devaluation must be considered very drastic indeed as it reduced the value of the Israeli pound from $ 4.03 to 0.56. While devaluation was meant to bring Israeli prices into line with world prices so as to reduce imports and expand exports, the inflationary effects it had to that extent reduced its favourable effects on the balance of trade.

Two Main Features

The two main features of the economy with which the major problems discussed above appeared to be linked in 1952 were the high level of immigration into the country and the Arab-Israeli tension. It is now clear that these two factors can still be held responsible for the perpetuation of two problems, the solution of which is essential to the achievement of stability in Israel. The total population of Israel increased from 1,174,000 at the end of 1949 to 1,719,000 at the end of 1954. The Jewish population rose from only 650,000 in May 1948 to 1,526,000 at the end of 1954. Of this rise, about four-fifths was due to immigration and one-fifth to natural increase. There was, no doubt, considerable emigration of the non-Jewish population and also a small volume of Jewish emigration; but it is clear that the problem constituted by immigration in particular and population growth in a newly-founded State in the circumstances of Israel is bound to be highly intractable. The only source of consolation is that the volume of immigration has fallen sharply from 173,900 in 1951 to 17,500 in 1954.

The absorption of immigrants proved to be a major task; it required an estimated investment of about 3000 per immigrant. Many of the earlier immigrants could be settled in abandoned Arab villages, but even in the earlier years, many had to be accommodated in Government-built housing units and in the future the problem will become more difficult from that point of view. The major proportion of the immigrants have been town-dwellers, but to maintain

the balance of the economy, about one-fifth had to be settled in rural areas. Even otherwise a large number of the immigrants were business men or professional people and found it difficult to adjust themselves to conditions prevailing in Israel.

Arab-Israeli tension has prevented the country from reducing its relatively high level of defence expenditure and from concentrating its attention on problems of economic development carried on in co-operation with its neighbours. It has also meant the giving of high priority to projects which otherwise could have been deferred to a later period.

Tackling Basic Weaknesses

In order to tackle the basic weaknesses of the economy, Government has been making every effort to increase production, both agricultural and industrial. This creates new problems in its turn. For, expanding agricultural and industrial output is dependent on a high level of investment in both sectors, which, however, affects adversely both the balance of payments and the inflationary situation.

A development plan, covering a period of seven years from 1954 to 1960, has been prepared. It is a co-ordinated programme for the development of agriculture, irrigation, electricity, quarrying, transport, communications and housing. The schemes have been all selected with an eye to their effcts on the balance of payments. "The plans presented", according to the Ministry of Finance, "will contribute to this purpose directly or indirectly; directly, by earning currency through exports or by saving currency now spent for imports; indirectly, by creating the necessary conditions for the development of the primary productive sectors of the economy".

Only if . . .

This plan will require 765 million in foreign exchange; and over the period, Israel is likely to require 210 million for debt payments and 735 million for the consumption deficit. The Plan presumes 2 million people as the population in 1960. This is the problem which faces Israel now. The impact on the foreign exchange problem and on the price situation of such a programme will be adverse in the immediate future. Yet the programme is absolutely essential if Israel is to achieve stability. Only if foreign assistance in the shape of grants and loans is available in adequate measure will Israel succeed in its attempt.

TABLE I

Israel's National Income, 1950 – 53

Item	1950	1951	1952	1953
National income (millions of Israeli pounds) ..	337	528	765	1,050
Cost of living index ..	100	109	171	219
National income in 1950 prices (millions of Israeli pounds) ..	337	484	447	479
Average population (thousands) ..	1,267	1,494	1,606	1,650
Average per capita income in 1950 prices (Israeli pounds) ..	266	324	278	290
Distribution of National Income (percentage of total)				
Agriculture ..	9.5	7.3	11.1	10.5
Industry and handicrafts ..	24.2	23.4	26.7	26.7
Building and public works ..	11.9	10.3	6.8	5.7
Transport and communications			7.2	
Services ..	54.4	59.0	(16.9)	46.2
Commerce and finance ..			(19.4)	
Government ..			(11.8)	10.9

TABLE II

Population of Israel

('000)

Year	Total Population	Number of Jews	Natural increase of Jews	Jewish Immigration	Jewish Emigration
1948	—	758.7	13.2*	101.8†	1.0†
1949	1,173.9	1,013.9	20.8*	239.1	7.2
1950	1,370.1	1,203.0	29.0	169.4	9.5
1951	1,577.8	1,404.4	34.5	173.9	10.1
1952	1,629.5	1,450.2	35.1	23.4	10.5
1953	1,669.4	1,483.6	35.0	10.3	8.0‡
1954	1,718.8	1,526.0	31.4	17.5	6.0‡

* Excluding war casualties

† 15 May 1948 to 31 December 1949

‡ Estimated

TABLE III

Israel: Number Gainfully Employed in Major Branches of the Economy, 1949, 1951 and 1953.

('000)

Branch	1949	1951	1953
Agriculture ..	47	70	85
Industry and handicrafts ..	80	119	121
Construction and public works ..	28	48	39
Transport and communications ..	24	35	41
Trade and finance ..	61	85	99
Professional services ..	30	40	50
Civil service ..	40	58	60
Other branches ..	30	50	56
TOTAL ..	340	505	550

The State Bank of India

Speech by the Chairman, Dr. John Matthai, at the First Annual General Meeting of the Shareholders held in Bombay on 29th February 1956

THE following is the full text of the Speech of the Chairman, Dr. John Matthai, at the First Annual General Meeting of the Shareholders held in Bombay, on February 29, 1956:

I have much pleasure in welcoming you to the first Annual General Meeting of the Shareholders of the State Bank of India.

2. I would like at the outset to dwell briefly on the genesis of the State Bank and the objects Government had in view in forming it so as to be able to assess the results that have been achieved in the first six months of our working. On the 20th December 1954, the Finance Minister announced in the Lok Sabha the decision of the Government of India to assume effective control over the Imperial Bank of India as a first step towards the setting up of a State Bank of India. This decision was taken by Government on the recommendations of the Committee of Direction of the All-India Rural Credit Survey, which had suggested among other measures, the creation of "one strong integrated State-partnered commercial banking institution with an effective machinery of branches spread over the whole country for stimulating banking development by providing vastly extended remittance facilities for co-operative and other banks and following a policy which would be in effective consonance with national policies adopted by Government without departing from the canons of sound business." Following this announcement, the State Bank of India Act was passed by Parliament in May 1955.

3. On the 1st July 1955 the State Bank of India came into being and the undertaking of the Imperial Bank of India, which was formed in 1921 by the amalgamation of the three Presidency Banks, was transferred to the new institution with the exception of the assets and liabilities of foreign branches to which a reference will be made later in my speech. The process of transfer from the Imperial Bank to its successor Bank was completed smoothly and it is a matter of gratification that the good work put in by all concerned and the satisfactory arrangements made have enabled the change-over to take place without any dislocation or difficulties either within the Bank or in the general economic life of the country. It will be agreed that, with the establishment of the State Bank, a new chapter has commenced in the history of banking in India.

Central and Local Boards

4. The Bank started to function under the direction of a Central Board and three Local Boards at Bombay, Calcutta and Madras, initially appointed by Government, consisting of men of outstanding ability and experience in various fields of economic activity. The Central Board has had a variety of difficult problems to face during the initial period and I would like to take this opportunity of expressing my appreciation of the help and co-operation the Directors have extended to me in handling them.

Foreign Offices and Foreign Exchange

5. In regard to the transfer of the assets and liabilities of the undertaking of the Imperial Bank to the State Bank, as contemplated by the State Bank of India Act, it was felt that, while there would be no difficulty about the transfer in India, it was doubtful whether such "vesting" would be recognised and given effect to in foreign countries. As a precautionary measure, it was therefore decided, on legal advice, to provide for the continued existence of the Imperial Bank as a corporate entity beyond the "appointed day" to enable it to make over its assets and liabilities at its foreign branches to the State Bank. Accordingly, the State Bank of India Act was amended by an Ordinance on the 23rd June 1955 which was later passed into an Act of parliament on the 21st September 1955. The present position is that the Imperial Bank of India is nominally in existence for the purpose of enabling the transfer of assets and liabilities in London, Burma, Ceylon and Pakistan to be effected. While the bulk of these assets and liabilities have already been transferred to the State Bank, there are still a few legal formalities to be completed for effecting the transfer completely and as soon as these are finalised, the Imperial Bank as a corporate entity will cease to exist.

6. While on the subject of our foreign branches, I would mention that these continue to serve a useful and important purpose and we have during the past six months examined the question of opening new branches in foreign countries with the object of fostering Indian trade and expanding our activities, particularly in the field of foreign exchange to which we attach much importance. For diverse reasons, our progress in the matter of further expanding foreign exchange business has been slow, but in view of the great expansion in India's foreign trade, which will result from the Second Five Year Plan, it is our intention to adopt a more vigorous drive towards attracting what we consider to be our legitimate share of this important sphere of banking business.

Branches in Pakistan

7. In so far as our eight branches in Pakistan are concerned, the Pakistan Authorities have informed us that, in accordance with their policy not to allow any foreign bank to open branches in the interior of the country, the State Bank of India will be allowed to operate in port towns only. The position now is that, while our branches at Karachi, Chittagong and Naraingunge may be allowed to continue permanently and those at Lahore and Dacca up to the 30th June 1959, our branches at Hyderabad (Sind), Mirpurkhas and Lyallpur will not be allowed to function beyond the 30th June 1956. Arrangements will therefore be made to close these three branches as required by the Pakistan Authorities. While on the subject of Pakistan Branches, I would like to say that no loss has been suffered by us as a result of the devaluation of the Pakistan rupee which took place in August last.

Branch Expansion and Rural Credit

8. I now pass on to deal with the question of the expansion of banking facilities in rural areas which is one of the main objectives before us towards furthering the banking development of the country. Arising from the recommendations of the

Rural Banking Enquiry Committee, 1950, the Imperial Bank of India had, in consultation with the Reserve Bank of India, agreed to open 114 branches (both new and Treasury Pay Offices to be converted) during the period 1st July 1951 to the 30th June 1956. Up to the 30th June 1955, 63 offices had been opened by the Bank and since that date a further 20 offices have been established, leaving 31 centres where branches are still to be opened. The State Bank has a statutory obligation to open 400 new branches during the first five years of its existence or such extended period as the Central Government may specify in this behalf. The places where such additional branches are to be established have to be determined by the Central Government in consultation with us and the Reserve Bank. As a first step in this process, 100 places have been selected which are confined mostly to district treasury and the relatively more important sub-treasury centres; it is obviously not possible to include every centre which requires banking facilities in the initial list. These 100 centres, together with the 31 centres left over, will be covered in the first programme and thereafter a further list will be drawn up.

9. It must be stated that the Imperial Bank experienced considerable difficulty in securing suitable premises and, in some cases, where accommodation was available in the local treasury buildings, there was inordinate delay in effecting the necessary alterations and additions to make them suitable for the Bank. The Reserve Bank gave the Imperial Bank the requisite assistance in several cases of this nature, but even so the progress was slow for reasons beyond control. In the present phase of the expansion programme and with the assistance of the Reserve Bank, we are intensifying our efforts to open branches as expeditiously as possible. The Reserve Bank of India have been requested to ask the various State Governments to instruct the District Authorities to give all possible asistance to the Bank in securing accommodation for the office and, where necessary, for the members of the staff at the new centres where it is proposed to open branches. I need hardly add that arrangements are being made by us to recruit and train the staff, both supervising and clerical, required for the phased opening of branches.

10. One of the chief reasons which prevented the Imperial Bank from pursuing a more vigorous policy of expansion was that, as a private shareholders' bank, it could not afford the heavy expenditure involved in opening new branches which were likely to prove unremunerative. This position has changed in the new context, as provision has been made in the Act for meeting the losses beyond an agreed figure, on unremunerative branches, from an "Integration and Development Fund" into which are paid the dividends due to the Reserve Bank on its holding of 55% of the total issued capital in the State Bank.

11. An essential part of the development of the rural credit programme is the availability of adequate facilities for storage, warehousing and marketing of agricultural produce, in which the country has been lacking. The Government of India are shortly setting up an All-India Central Warehousing Corporation and State Warehousing Corporations which a view to affording facilities for storage of commodities. An organised system with effective State participation will then come into existence, in which we, along with other interested institutional agencies, will be required to play our legitimate part. I welcome this move in the larger interests of the country and, from our own point of view, I have no doubt that this will increase our ability to make advances against suitable security to the small producer in rural areas.

Remittance Facilities

12. Passing now to the question of providing extended remittance facilities for co-operative and other banks, which was one of the objects Government had in view in setting up the State Bank of India, we have, as agents of the Reserve Bank, agreed to liberalise the existing remittance facilities available to scheduled banks (and State co-operative banks who enjoy similar facilities) by permitting free transfer facilities twice (instead of once) a week, with effect from the 1st November 1955. This matter will be reviewed during the year with the object of considering in what directions remittance and other ancillary facilities to scheduled banks could be further liberalised without imposing any undue burden on our working.

Interest Rates and Collection Charges

13. The State Bank's schedule of charges for the negotiation and collection of bills and interest rates on advances have been fixed in relation to its operating cost and the comparative rates charged by other banks. These rates are necessarily subject to review from time to time in the light of prevailing business and monetary conditions. The transformation of the Bank into a State Bank does not by itself justify relaxing the basis on which the rates are fixed. In any action which the Bank may be called upon to take in the matter, apart from the normal considerations governing the problem, it is necessary to take account also of the obligation placed on it to develop banking in rural areas and the mounting cost of its establishment charges on account of the successive Bank awards.

14. Another matter which affects banks generally and which requires careful consideration is the gradually increasing burden of interest paid for attracting deposits. I understand that an attempt was made in 1954 to reach an agreement amongst banks in the matter of fixing ceilings on deposit rates. Unfortunately, this did not succeed with the result that each bank now pursues its own policy in this highly competitive field. I cannot but view with concern the present trend amongst banks to offer increasingly higher rates of interest for deposits and consider that this is unhealthy competition which should be discouraged. A voluntary agreement among banks appears to be the solution, but if this is not possible because of the diversity in their size and standing, the alternative is for Government to consider suitable action for regulating deposit rates.

Bill Market Scheme

15. At this point, I feel I must make a reference to the helpful role played by the Reserve Bank of India through their bill market scheme inaugurated in 1952, by which cash was provided to banks against commercial bills, in terms of Section 17 (4) (c) of the Reserve Bank of India Act. The scheme has been of considerable assistance to banks including ourselves during the busy season. When the scheme was introduced, the Reserve Bank agreed to charge interest at ½ per cent below the Bank Rate as a concessionary measure to popularise this method of finance and also to bear a part of the cost of the stamp duty incurred by banks in converting demand bills into usance bills. The Reserve Bank recently announced that, as the scheme is now well established and as the resources of banks have now materially changed, advances under the scheme will be made at 3¼ per cent instead of 3 per cent and the concession of bearing a portion of the stamp duty will be withdrawn, with effect from the 1st March 1956. Although this step will result in some increase in the cost of our borrowings under the scheme, I consider that, under existing monetary conditions, it is a move in the right direction.

State-Associated Banks

16. The subject of the amalgamation of State-associated banks with the State Bank of India has been receiving our attention. While the broad outlines of the policy to be followed in this regard must await future developments, we are exploring, in consultation with the Reserve Bank, the feasibility of taking over some of the minor State-associated banks. We have made a beginning in this regard and have set arrangements in train for an investigation of a few selected institutions with a view to making a fair and reasonable appraisement of their position and the problems that will have to be faced before integration takes place.

Small-Scale Industries

17. The Second Five Year Plan accords high priority to the development of village and small-scale industries. Government are providing greater credit facilities to these industries under the State Aid to Industries Acts by liberalising the conditions for distribution of loans. While Government assistance would go some way, the bulk of the credit finance would have to be provided by institutional agencies operating in the field, whose support is likely to prove of more permanent value to the industries concerned. While the State Bank does not differentiate between small-scale and large-scale industries for purposes of providing credit, we feel that more positive efforts should be made to ascertain the credit requirements of small-scale industries and to devise methods by which substantial assistance could be made available to them so as to place them on a firm footing.

18. Small industries run by co-operative societies naturally look to the co-operative credit organisation for assistance. Small industries requiring working capital for short periods and able to provide readily realisable security are normally helped by commercial banks. Those which require long-term capital on fixed security have usually to approach the State Financial Corporations. The credit requirements of small industries cannot however be adequately satisfied unless a scheme is evolved for co-ordinating in an effective manner the activities of the above credit agencies. The initiative for planning such a co-ordinated scheme has been taken up by the State Bank. In this connection, we have had exploratory discussions with the representatives of the Reserve Bank of India and various institutional agencies. A 'pilot' scheme for providing credit to small-scale industries at certain centres in the three Circles of the Bank has recently been drawn up and arrangements are now in progress to work the scheme. In the light of the experience so gained, a general scheme for providing credit in a co-ordinated manner by the State Bank and the institutional agencies concerned will be drawn up and extended to various centres in the country. With a view to facilitating the work of the various institutional agencies, who have no branch organisation, we are arranging for the services of our branch agents to be placed at their disposal in the matter of compiling and furnishing opinions and confidential reports on the worth of prospective borrowers and generally assisting such credit agencies in their operational activities in the centre where they are not represented.

Section 31 (3) of the State Bank of India Act

19. Before passing on to a consideration of the accounts and other matters of interest, I would like to refer briefly to Section 31 (3) of the State Bank of India Act which prohibits Directors of the Bank, even if they are merely ordinary shareholders in companies borrowing from us, from being present at any meeting of the Executive Committee of the Central Board (or the Local Board) when advances for such companies are being considered. This restriction often results in the want of a quorum for the meeting when the majority of the Bank's Directors are "interested" in a particular company (although their interest may be merely that of a shareholder), thus necessitating the postponement of consideration of such proposals. It will be agreed that this is not satisfactory from the point of view of the Bank or its constituents and it is expected that Government will take early steps to remove the present disability which is hampering the expeditious conduct of the Bank's business.

Balance-Sheet and Profit and Loss Account

20. Turning now to the accounts, although the State Bank has been in existence only for the past six months, I propose to compare the figures of our first Balance Sheet as at the 31st December 1955 with the corresponding figures of the Imperial Bank of India as at the 31st December 1954 and similarly the Profit and Loss Account figures for the last half-year with the figures for the corresponding period in the previous year. Thus, it will be seen from our Balance Sheet that our Fixed Deposit, Savings Bank, Current and other Accounts stood at about Rs. 226 crores as compared with Rs. 231 crores at which this item appeared a year previously. Although there is a decrease of Rs. 5 crores over the year, the present position must be considered satisfactory if the downward trend in our deposits which started early in the year soon after the Government's announcement of their decision to assume effective control over the Bank is taken into account. Our deposits in India fell from Rs. 203 crores in January 1955 to Rs. 184 crores in June 1955 and this drop of Rs. 19 crores can only be explained by the initial apprehension in the minds of the public regarding the future policy of the Bank and the continuance of its commercial character in its altered status. I am glad to say, however, that any fears entertained in this regard have proved entirely groundless as is evidenced by the steady increase in our deposits in India during the past six months, which reached the figure of Rs. 202 crores at the end of December 1955, thus almost regaining the level of January 1955.

21. On the other side of the Balance Sheet, our total advances have shown satisfactory improvement and at about Rs. 107 crores are some Rs. 5 crores higher than a year previously. Amongst our assets, investments at Rs. 116 crores were some Rs. 8 crores up on the year. While a substantial portion of our investments portfolio consists of short-dated Government securities and Treasury Bills, we have, consistently with our enlarged responsibilities, participated in and taken up State Financial Corporation Shares and Land Mortgage Bank Debentures in suitable lots. It is needless for me to state that our Investments appear in our Balance Sheet at a figure lower than their market value. Of the remain-

ing assets, cash in hand and with other banks stood at around Rs. 29 crores which represents a little over 13% of our total deposits as compared with the 15% cash ratio which last year's Balance Sheet disclosed.

22. I come now to our trading results from which it will be found that, after allowing for interest paid, our gross profits for the half-year at over Rs. 351 lakhs are approximately Rs. 40 lakhs better than those of the corresponding period last year, as against which our charges are up by a like amount of Rs. 40 lakhs. The principal increase in charges is in respect of Establishment which cost us some Rs. 35 lakhs more than in the corresponding period of 1954. Of this, Rs. 23 lakhs have gone to the clerical, cash department and subordinate staffs and represent for the most part increases in salaries, allowances, etc., arising out of the adjustments made in implementing the Gajendragadkar Award, which was published in August 1955. In the result, our net profit for the last half-year, at approximately Rs. 68 lakhs, is about the same as that for the corresponding period in the previous year.

Dividend

23. The dividend has been declared by the State Bank at the same rate as was done by the Imperial Bank in June 1955 and the previous years, viz., 16% per annum. This on the purchase price represents a net return of about 4.5%. By far the largest part of the sum distributed as dividends is payable to the Reserve Bank. Although, in terms of the notification issued by the Reserve Bank, it was laid down that the new shares of the State Bank would be issued to those shareholders who applied for such shares, in lieu of the compensation payable to them, at a price of Rs. 350/- for each share of Rs. 100/-, only a small proportion of the old shareholders opted for the new shares, with the result that the Reserve Bank of India are at present holding a major portion of the State Bank shares. It follows, therefore, that the private shareholders who benefit from the dividend payable by the State Bank form only a very small minority and the matter consequently is one which affects the investing public to a small extent only.

24. At this stage, it is appropriate to refer to a suggestion which has been made that a note be incorporated on the Bank's share certificate to the effect that the share was issued at the rate of Rs. 350/-. The matter was given full consideration and it was, however, generally felt that, while there was nothing in law to preclude the inclusion of such a note, it was most unusual for a share certificate to mention anything more than the nominal amount of the share. Apart from the fact that this suggestion may not meet with the approval of all the shareholders, there are practical and technical difficulties involved which prevent its wholesale adoption. As the issue price of Rs. 350/- was announced by the Reserve Bank by a special notification, it was considered unnecessary to make a note on the share certificate as suggested. The shareholder's natural desire to see that the price of Rs. 350/- at which the share had been acquired is taken into account in determining the rate of the dividend has already been duly fulfilled by the State Bank declaring its dividend at the rate of Rs. 8 per share for the half-year which is the equivalent of 16% per annum.

Industrial Disputes and Awards

25. As you are aware, the banking industry has been passing through a difficult time during the past 8 years with disputes between banks and their employees dragging on from one Award to another without reaching a final solution. Arising out of the modifications made by Government in the Labour Appellate Tribunal's decision, which was implemented by banks in November 1954, the Bank Award Commission was appointed by Government to conduct a fact-finding enquiry, which submitted its recommendations in July 1955. This Award, known as the Gajendragadkar Award, confirmed the decisions of the Labour Appellate Tribunal, with certain modifications and was accepted in toto by Government. Parliament have also given their approval to the Award by passing the Industrial Disputes (Banking Companies) Decision Act, 1955. The banks have accepted the terms of the Award and have interpreted them in a liberal manner, although their impact on certain institutions was considered to be onerous. The employees have taken objection to certain cuts that have been imposed upon them by the application of the Award and have, without resorting to the constitutional remedies provided in the Act, indulged not only in demonstrations but in various forms of direct action, which disrupted normal banking business in a number of centres, particularly in Calcutta. As a result of the intervention of the Chief Minister of West Bengal, to whose sympathetic and untiring efforts I would like to pay a special tribute, the employees in Calcutta agreed to complete the annual closing of accounts and also work overtime to clear arrears. This has been done and conditions have since returned to normal in the affected centres.

26. In regard to acts of indiscipline committed by employees, the State Bank had to take action, in consultation with other banks, by issuing charge sheets. These, however, have not been proceeded with so far in the hope that better relations will hereafter be established between the banks and their employees. It is necessary for me to utter a warning that no institution, whether public or private, can possibly survive if respect for constituted authority is absent or gross indiscipline prevails. While it is impossible to overlook or condone acts of indiscipline committed by employees in violation of the laws, which is tantamount to flouting Parliament's authority, there can be no objection whatever to employees following approved trade union methods to ventilate their legitimate grievances and safeguard their rights and to work for the amelioration of their conditions of service. In fact, a move in these directions would lead to the creation of an effective machinery for solving labour problems by means of mutual consultations and to the establishment of healthier relations which will be for the benefit of the parties concerned and the country as a whole. Now that the unhappy events of the recent past are over and normal work is proceeding, it is a matter for consideration, if satisfactory conditions for smooth working of banks hereafter can be ensured, whether further avenues should not be explored to remove any undue hardships to the employees.

27. Personally, I have great faith in direct and friendly talks across the table with the leaders of the Staff Unions and in exchanging ideas frankly with them with a view to arriving at an amicable settlement wherever possible. I have already made a beginning in this regard and have met office-bearers of the Unions in Calcutta, Bombay and Madras. The talks I have had have been useful and I am confident that this approach will contribute to a clearer understanding of the problems and a closer appreciation of the realities which have to be faced by both parties. I make an earnest appeal to all concerned to co-operate in finding a satisfactory solution to this problem and, for my own part, I would be prepared to do my best so that the unpleasant chapter of strained relations between banks and their employees is finally closed.

Tribute to the Staff

28. Before I conclude, I must pay a warm tribute to the Supervising Staff of the Bank for their loyal and devoted service during an exceptionally difficult period. Apart from the many transitional problems, which arose from the change-over to the Bank's new status, the difficulties due to disputes with our employees placed upon the Supervising Staff a heavy load of responsibility. I am grateful to them not merely for the work done by them but for the spirit in which they have done it. I would like also, in spite of the unfortunate happenings to which I have referred, to add a word of appreciation regarding the work done by the clerical and other staffs. I know the bulk of them are loyal and normally discharge their duties faithfully and competently, and I shall be failing in my duty if I do not acknowledge the good work they have done during the period under review.

29. My thanks are specially due to the Managing Director, Mr. S. K. Handoo, whose experience and knowledge of banking problems and whose administrative ability have been of the greatest value to us. I wish to place on record my deep appreciation of the energy and zeal with which he has applied himself to the discharge of his responsibilities as the first Managing Director of the State Bank of India.

(Continued from page 270)

first Five-Year Plan because it was then a part of Madras, have since been taken up. Once the linguistic demand is conceded, it heightens national loyalty and breeds a healthy competitive spirit in developmental matters.

Multi-lingual, not multi-national

The contention that linguistic States jeopardise national unity is equally fallacious. Even according to the SRC proposals, the number of States in the Indian Union would have been reduced by eleven from 27 to 16. That would have been a step towards unity, not disunity. Secondly, no lover of India accepts the Communist theory that linguistic communities are "sub-nationalities." In this connection, it is necessary to quote the following from Acharya Narendra Deva's lucid exposition of the problem in his draft Policy Statement of the PSP.: "India is a multilingual nation, misconceived as a multi-national State by Indian Communists. Ethnologically, culturally and historically there are much closer ties between different lingual units in India than those between different lingual groups of Switzerland which is acknowledged as a nation by all competent authorities. There is no comparison between the socio-cultural structures of India and the Soviet Union and, therefore, the analogy of the Soviet Union is not applicable to India. So the problem of cultural autonomy of different linguistic groups of India is not a problem of international character. It is essentially a problem of redistribution of States to ensure equal cultural autonomy to all, commensurate with their stature and requirements of national development."

From the foregoing, it will be evident that the idea of multi-lingual States at this stage is nothing short of escapism. The important fact recognised by the Nehru Committee nearly 30 years ago that in a polyglot area "difficulties will continually arise and the media of instruction and work will be two or even more languages," is now sought to be overlooked.

Ten or twenty years hence, after Hindi really becomes the lingua franca of the country, following introduction of a common Roman script for all the languages, including Hindi, if two or more States are sought to be merged, it would be a step towards unity. Today, it is covering up a volcano to avoid the unseemly sight of molten lava inundating the country. It is escapism par excellence.

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Capital: Output Ratios in Indian Industry

George Rosen

The author, who is from the Massachusetts Institute of Technology, is currently examining certain aspects of the development of industries in India.

IN the discussion of both the First and Second Five Year Plans, the capital : output ratio has inevitably been of major interest to economists concerned with the Plans, since the estimate of this ratio is a determinant of the overall investment requirements of the Plans.[1] For the first Five-Year Plan a ratio of about 3.0 was assumed. That is, for an increase in national income of one rupee, an investment of 3 rupees would be required. This ratio was largely and inevitably based on the experience of other countries which had industrialized. In fact the actual ratio during the first Five-Year Plan proved to be much lower—about 2.3. This reflected the great increase in agricultural output during this period, and the relatively low capital : output ratio that existed in agriculture.

This same ratio of 2.3 is assumed to continue during the second Five-Year Plan, although there has been a shift in investment plans and projected output increases from agriculture to manufacturing industry. In both the public and private sectors of factory industry it is planned to invest approximately Rs 1,300 crores to achieve an increase of 540 crores in the income derived from factory establishments—or a ratio of 2.4. There has been a good deal of discussion among economists whether these assumed ratios are too low—that is whether the Plan is too optimistic with respect to its investment programme.

During the past six months I have been studying growth in Indian industry for the specific purposes of computing fixed capital : output ratios for certain industries, and to estimate trends in the use of capital (machinery) and labour in those industries. The three industries studied up to now are the cement, paper and iron and steel industries; and it is planned to make similar studies for the cotton textile, sugar, and engineering industries. The three industries examined up to now are considered to be relatively capital intensive—i.e. to require a large investment to expand output.

Two methods were used to compute the estimates of the capital: output ratios. The first was to relate changes, over time, in the gross block item on the balance sheets of the companies in the industry, to changes in their output estimated at capacity, after corrections were made for changes in the prices of machinery and output. The second was to use engineering data of actual estimates of the costs of constructing a new plant or expanding an existing one. From these data various ratios were computed. The relevant ratio to use for the Five-Year Plan is the one that relates changes in investment to changes in income derived from the greater output (i.e to net value added). This is called the **marginal** capital : net value added ratio and estimates the additional fixed capital required to increase the income derived from a given industry by one rupee.

It should be stressed that the results are quite tentative at this stage of the research, with the existing data, and with the complicated series of computations and adjustments that are gone through before a ratio is computed. Nevertheless, they are offered since they give what appear to be reasonable orders of magnitude, and because they may be of value in the present period of planning. For the cement industry the **marginal** fixed capital : value added ratio is about 3.0-3.5; for the pulp and paper industry it is about 3.5-4.0; and for the basic iron and steel industry (steel works and rolling mills) it is also about 3.5-4.0. This means that for the cement industry an investment in plant and machinery of about 3.3 rupees is required to increase the net income from greater output by 1 rupee; and in the paper and in iron and steel industries the investment required is about 3.8 rupees to do the same. Working capital requirements for this greater output were not considered. If they were added to the fixed capital the ratios would obviously be larger.

Of the total planned investment of Rs 1,300 crores in factory industry in the second Plan, these three industries will absorb almost 50 per cent (the investment in fixed plant alone in the iron and steel industry will approach 500 crores). With the ratios indicated for these industries, and with the expansion planned for the engineering and chemical industries, which are also supposedly capital intensive, it is unlikely that the ratio for all manufacturing will in fact be as low as the 2.4 ratio that the Plan assumes**.

Various other tentative conclusions with respect to the use of capital and labour in these three industries also emerge from my studies, and these may be of value in the present discussion of the Five-Year Plan.

First, unlike the United States, there is no positive relationship between the size of the average fixed capital: output ratio in those industries and the size of the firm†. In the United States this positive relationship was explained partly by the fact that the larger firms are able to purchase more labour-saving machinery. In fact, in India, if any relationship was found it would support the opposite conclusion—that the larger firms have lower capital: output ratios than the smaller firms. In these three industries the possibilities of variations in the actual product-making machinery are not great. However, in the raw material handling, transporting, loading and unloading, and in packing, it is possible to substitute machinery for labour readily. The lower capital: output ratio for the

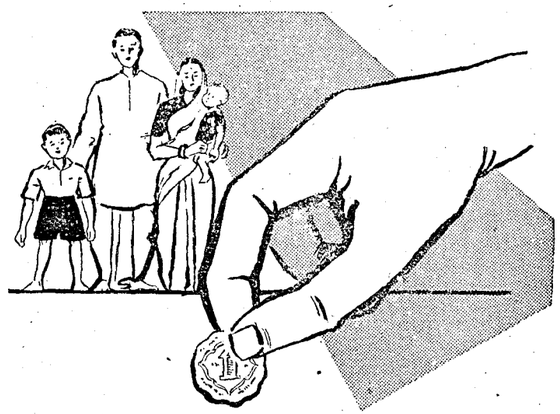
*The ratios given in the first two paragraphs have been computed from the Draft Outline of the Second Five Year Plan. Also an unpublished memorandum of W. Malenbaum on the Plan was of value in computing the overall ratios given in these paragraphs.

** This passes no judgment on the overall ratio in the Plan, which may be more correct It is significant that in an as yet unpublished study of capital:output ratios in the USSR during the 1928-37 Plan period both and overall ratio and a ratio for manufacturing within a range of 2.2 to 3.0 were computed. See Eckstein and Gutmann "Capital and Output in the Soviet Union, 1928-37" (mimeographed.)

† Creamer, D—"Capital and Output Trends in Manufacturing Industries, 1880-1948", pp. 62-63. Average Capital:Output Ratio 's the relation between fixed capital and value of output at any time.

larger firms support the notion that both the large and small firms in India use similar plant and equipment. The larger one has certain advantages of size which permit it to achieve greater output with a smaller investment (for example a larger machine may cost less per unit of output than a small one). However, the subsidiary operations mentioned have been done in a similar manner—primarily by using labour—by both large and small firms. The larger firm had not in the past invested more money for the mechanization of those operations. This reflected the past cheapness of labour and dearness of capital in India to both large and small firms. Therefore it had not paid to substitute machinery for labour where it had been possible to use labour.

My studies however indicate a current trend to the greater mechanization of operations in India. While this is of lesser importance in older plants, the plants that are being expanded and the new plants being constructed are increasingly mechanizing those operations—raw material handling, moving, loading and unloading, and packing materials—in which machinery can be substituted for labour. This trend, and it is only a trend, reflects in part the overemployment of labour that occurred during the war. While this was of minor importance when wages were very low and workers could be easily dismissed, the rise in money wages since the war and the increasing difficulty of reducing the labour force have made for greater mechanization with expanded output. Furthermore the necessity for provision of housing, etc., and the increasing legal and union rigidities in the conditions of employment, make for greater mechanization both to reduce costs and to reduce potential future difficulties. Meanwhile the cost of capital in the form of interest rates has remained low in India for large, well established firms and it is possible, with the government's accelerated depreciation policy, to write-off the value of additional plant and equipment within a relatively short period of time. At the same time, where the Government is constructing plants, it is building the most modern, capital-intensive plants. It has invested as much as it believes desirable in those plants without limiting itself with respect to capital supplied for that purpose. The result is that private firms, to compete, are forced to machanize their operations. The combined effect of these tendencies is to raise the capital:output ratio and the capital requirements in manufacturing. With the overall shortage of capital resources indicated in the Draft Outline of the Second Plan, together with the major problem of unemployment of labour, it may be that government policy has gone too far in raising the cost of labour, and in keeping the cost of capital low both to the large private plant owner and for its own plants. Some change of this policy might lead to greater employment of labour in factory industry (especially in the peripheral operations) and to greater conservation of the apparently limited capital resources, during the next Plan period. As the rate of capital accumulation grows and unemployment is decreased it may prove increasingly economical to adopt policies resulting in a greater use of more capital intensive techniques.



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DA 55/164

A Century of Indian Patents

INVENTORS, with the exception of manufacturers of patent medicines, have not been known to be money makers in this country. The general economic climate of the country has not favoured inventions, particularly of the type which helps industrial technique and the application of which in industry can bring such money returns as to warrant its protection by a patent. It will, therefore, come as a surprise to many that a Patents Act has been on the Indian Statute Book ever since 1856, though naturally it has undergone many modifications and a Bill to amend and consolidate the law relating to patent is now pending before Parliament. The centenary of the first Indian Patents Act is being celebrated in Calcutta in a big way with an exhibition of patented articles, registered designs and other products of Indian manufacture in order to stimulate public interest in inventions and to indicate the development and improvements in particular industries during the past 100 years.

What patents could do and have done are illustrated by another centenary which is being celebrated in Britain this year, viz. that of Sir Henry Bessemer's invention of a process for converting pig iron into steel. The Bessemer process revolutionised the manufacture of steel and greatly influenced the development of structural and other forms of engineering. That the invention brought Bessemer more than a million pounds in royalties in his life time is the least part of it. But it is significant in the present context for when young Bessemer took up the study of steel, he did so without the benefit of national laboratories, and it so happened, without the sponsorship of any giant corporation. The study led him into a protracted experiments that cost a great deal but finally to a success that justified the labour and the expense.

That is how patents came in. By providing monetary inducement in the shape of assuring the fruit that invention might yield in manufacturing industry, it enabled inventors to become money makers in their own rights.

Industrial revolution was heralded in the sphere of industry by a spate of inventions. But barring fundamental discoveries like that of steam engines or electricity, it was all a matter of applying established scientific principles in the field of industry. Often one invention puts such a premium on another that results of scientific research today have ceased to be erratic; they are no longer happy accidents or unpredictable. Industrial research has become an organised affair; it is big business in which returns have become determinate by and large and have come to bear a proportion to the cost or investment involved that is on a par with returns obtainable in other fields of investments. In this progress of technology from a point where inventions were largely a matter of chance and individual effort to organised industrial research, the possibility of making profits from inventions by making the latter a proprietary right, if though for a limited period, has played an important part. When the commercial possibility of exploitation of inventions, which led to and followed the industrial revolution, came to be established, it became evident that legal protection to the inventor could be an effective method of stimulating inventions. Hence the early recognition of patent rights and the commercial exploitation of inventions through the system of patents recognised and protected by law.

The system of patents, however, helped invention in another way. It was not enough that the inventor should be assured of the financial returns obtained from the commercial use of his invention and that no one should be allowed to deprive him of such returns. In order to avoid duplication of effort and guide enquiry into fields other than those that had already been explored, the legal institution of patents became a fruitful means of propagating knowledge about technology and for giving a purposive direction to inventive efforts. So patents not only safeguard the interest of the inventor; they tell the inventor what has already been done so that he may turn his attention from the known to the unknown. The second part of the services of patent will continue even when a changing economic set up eliminates the right of commercial exploitation as a factor of overwhelming importance in stimulating inventions.

In this respect, however, we have come nearly to a parting of ways. The legal protection of patents has become such a complex and cumbrous affair that specifications, rules and regulations framed for the purpose are increasingly becoming obstacles instead of being a help to the dissemination of knowledge to prospective inventors. The latter have increasingly to turn from Patents office records to scienfic journals and specialised publications!

Over the century, the Indian Patents system has undergone many modifications. In fact, the first Indian Patents Act passed in 1856 was repealed in the very next year at the instance of the Directors of the East India Company. The principal aim of the Act was to grant certain exclusive privileges to inventors as a measure of encouragement to new ideas. The law provided that a letter patent would be granted to any person who filed a specification of his invention in writing, describing the nature of the invention and in what manner it was to be put to use. Thereupon, Government would grant the sole and exclusive privilege of making, selling and using the invention in India and of authorising others to do so for a term of 14 years. In the case of an importer, the privilege ceased unless the invention was used within two years from the date of application.

Though the 1856 Act was repealed in 1857, subsequently an Act of 1859 re-enacted its provisions with some modifications. The addition made was that the inventor was to be permitted to file a memorandum, pointing out any error, defect or insufficiency in the specification and disclaiming any part of the invention, or file an amended specification. An important modification was that nonutility of an invention was made a bar against the grant of a patent. Later, this Act was amended by the Patterns and Designs Protection Act, 1872, extending the benefits of legal protection to the inventor of new patterns and designs, and the duration of the privilege was three years. There was another amendment in 1883, which introduced a provision for the protection of inventions shown in exhibitions in India.

In 1888, all previous Acts were repealed by the adoption of the Inventions and Designs Act—divided into two parts, one for inventions and the other for designs. The Act provided the structure on which the present law is based. The next revision of the patents law came in 1911, when many important changes were introduced. Although the 1911 Act has

since been amended several times, it continues to be the law governing the protection of inventions in India. For the first time, the Act provided for the creation of a Patent Office under the charge of a Controller of Patents and Designs. An important feature was that it provided for the scrutiny of the specification of an invention by an examiner of patents before the grant of a patent.

By an amendment in 1930, the term of a patent was extended from 14 to 16 years. It was also provided that a secret patent may be granted to an inventor of any improvement in instruments or munitions of war, provided he assigned to the Central Government all the benefit of the invention and of the patent. An important amendment of the 1911 Act, made in 1950, on the recommendation of the Patents Enquiry Committee (1948), was the one relating to the grant of licence to those wishing to undertake the commercial exploitation of a particular patent.

It was provided that if after 3 years of granting the patent, any person interested were to apply for the grant of a licence on grounds such as that the patented invention had not been commercially worked even though it was possible to do so or that such commercial working was prevented or hindered by the import of the patented article or that the demand for the patented article was not adequately met in India, the Controller of Designs might grant a licence to such person and might also direct that the existing licences should be revoked and that the patentee should forfeit any right he might have had. By the emending Acts of 1952 and 1953, it was further laid down that while granting licences in respect of a substance capable of being used as food, medicine, insecticide etc., the Controller of Patents should see that the food, medicine etc. were available to the public at the lowest possible prices, consistently with the patentee deriving a reasonable benefit. (How the poor Controller of Patents was to enforce price control also need not be asked.)

The Indian Patents Act grants four kinds of patents. First there is the ordinary patent. This is free from any special condition or privilege attached to it and has the date of filing as the date of the patent. Next is the patent of addition. This is granted to the proprietor of a substantive patent for any improvement in or modification of the invention which forms the subject matter of the previous grant. Third is the patent claiming 'priority'. Such a patent can be obtained by virtue of a reciprocal arrangement between India on one side and certain countries like Australia, Canada, Ceylon, New Zealand, Pakistan, the States of Eire, the United Kingdom and the Union of South Africa on the other. Under this arrangement any person who files an application for a patent in any of these countries can claim that the patent that may be granted to him in India should bear the date of his foreign application. The application filed under this arrangement is thus given a 'priority' over others. The same holds true for Indian applicants when they file in any of these foreign countries.

Lastly, there is the secret patent. This may be obtained for any invention relating to instruments or munitions of war, if the Central Government considers that it is advisable to keep the invention secret. Inventions in respect of secret patents are assigned to the Central Government.

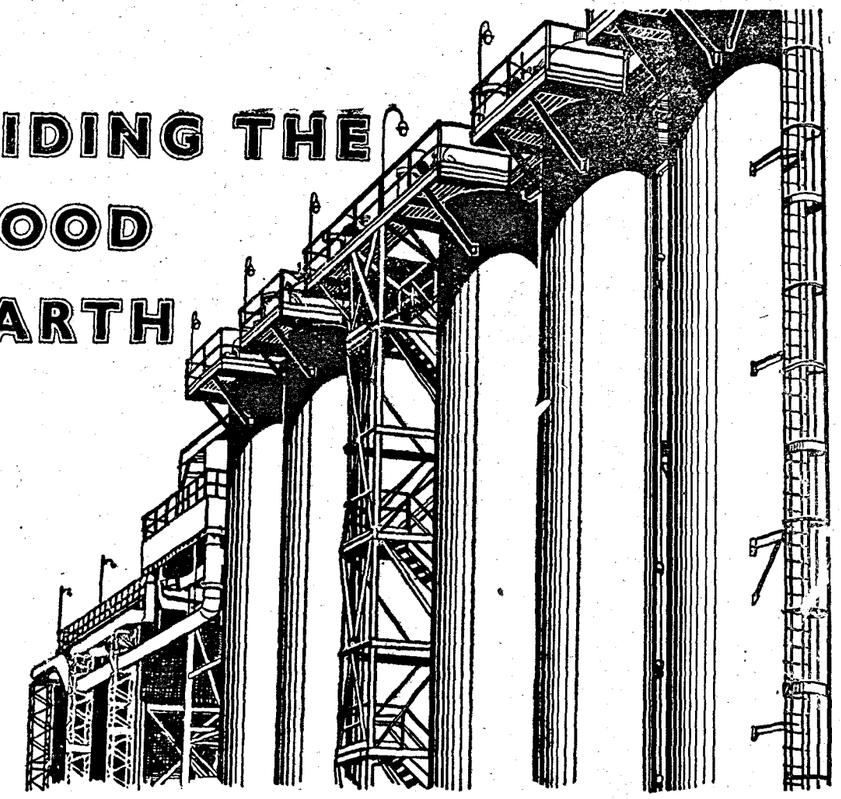
What led the then Government of India to have a patent Act as early as 1856 was not a sudden flowing of inventive skill in the country on the eve of the mutiny and the clamour on the part of the inventors to have their inventions 'protected' but the in-flow of patented goods and manufactures in the shape of imports and the need felt by the exporters abroad to have their wares protected against imitation or copying. Even in the latest Annual Report of the Patent Office which is for the year 1954, of the total applications for patents numbering 2,497, only 403 are from Indians; the rest are foreign or from "other residents in India". The number of applications have more than doubled compared to what it was before the war. But the percentage of Indian applicants does not seem to have changed at all. It is a sad commentary in our Patents Acts that the protection they offer to foreign patentees is so elaborate and so well guarded that developments in many fields, e.g., chemical industries, have been seriously inhibited in consequence.

The largest number of applications is from UK, which has reciprocal arrangements with India, the next being USA. The breakdown for the year 1954 is given in the table alongside.

What sorts of patents do Indians take up? Well, there is a tide in the applications for patents as in other things. In each of the last three years, problems relating to the sugar industry such as purification of sugar-cane juices, preparation of fructose and of sulphur from sulphates accounted for a large number of applications. Chemical industries have lately come to the forefront; 37 per cent of the total applications during 1954 related to this field. Metallurgy is largely neglected; so is electrical engineering. But along with the chemicals, Indian inventors are showing some interest in pharmaceutical products also. The reports of the Patent Office are usually monotonous and curiously enough there are not many patents taken up by Indians in the textile industries, unlike in sugar. But in some years, there is a refreshing change as in the report for 1952 which says "There was an appreciable number of Indian inventions concerned with such very widely different things as Hindi and Telugu typewriters, boats, insecticide sprayers, motor car steering, animal driven mechanisms, cycle rickshaws, petrol engines driven on kerosene oil and bank cheque protectors."

Among the souvenirs of the centenary celebration, we have been promised a symposium which, we hope, will bring out the role that patents have played in the field of inventions. In a country where application of science in industry still remains to be organised and circumstances as well as choice have left it to the public sector, the incentive to invention has necessarily to take a form different from what the Patents office can give. Even so, the recognition given in the form of registration of patents is not to be lightly thrown aside. Its effectiveness, however, can be greatly increased by awards in lieu of commercial benefits from the exploitation of inventions the prospects for which have never been very bright in the past and must be pretty dim in the future.

U K	855
Other Commonwealth	35
Switzerland	233
Germany	167
Netherlands	113
France	83
Italy	38
Sweden	37
U S A	354
Japan	27
Total (including others)	2,497



The Sindri Fertilizer Factory is the largest and most modern of its kind in Asia. Built at a cost of Rs. 23 crores this giant scheme includes gas ammonia and sulphate plants, a 90,000 storage silo, a power house and 12 miles of railway track. Apart from large quantities of other materials, no less than 12,000 tons of STEEL went towards the construction of this project which is designed to produce 350,000 tons of ammonium sulphate annually for India's agriculture. The enriched soil will yield 875,000 tons of extra food for the country each year—a valuable contribution from a new enterprise.



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IIX 47

Kaldor: The Expenditure Tax

MR KALDOR is an economist; he believes in incentive and saving and risk bearing. He is also a Socialist; he believes in equality. His present book* is an attempt to reconcile the two, to provide a direct tax which will make the rich less better-off without preventing them performing their economic functions of saving, investing and risk-taking.

Mr. Kaldor is at his best in his criticism of the present system of income-taxation. It is true that 'income' as it is defined for income-tax is a quite inadequate philosophic concept. Indeed, it is really not a concept at all, only a congeries of items which have been held at one time or another to constitute income. The saving in expenditure one makes by owning a house is treated differently from the income one has to lay out to rent a house. The man who is skilled at bridge-building pays tax on his earnings; the man who is merely good at bridge does not. If one works for what one gets paid by somebody else, one pays tax; if one is merely given the money, one does not. Above all, capital gains are not income, although in an expanding economy, in the long run and on the whole, every reasonably prudent property owner will make capital gains. For each of these anomalies, as Mr. Kaldor admits, there are quite good reasons. But their total effect is that the money a man has to live on, and the money on which he is taxed, are two quite different quantities; and that this difference discriminates particularly sharply against some of society's most valuable people, the abler members of the managerial and professional classes, who in effect, and over a life time, pay a considerably higher rate of tax than the property-holding, and particularly the business classes.

The inadequate—perhaps inevitably inadequate—definition of income combines with very high marginal rates of tax to produce a whole series of socially undesirable consequences. Far too much of the community's best talent is devoted to tax avoidance. Every incentive is given to property-holders to live on capital. Particularly, they get their capital gains free of tax, yet they will pay a very high tax at death; obviously the temptation is to spend them as they come in. Finally, high marginal rates are a severe discouragement to risk-bearing. If there is a loss, the individual loses, but if there is a profit, the State takes most of it away; and most people are always more afraid of loss than eager for gain.

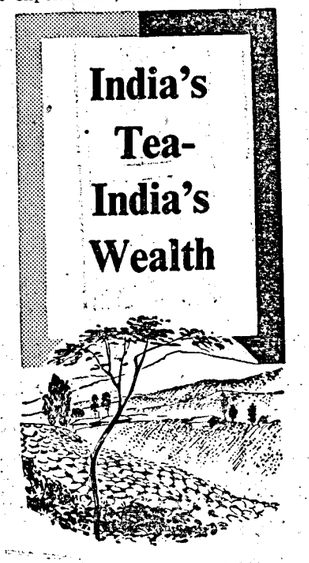
Mr. Kaldor's answer is a tax on expenditure. He claims no originality in principle for his proposal. On the contrary he shows that it has the most distinguished of ancestry. And it certainly meets most of the difficulties he has put forward. Saving would be exempt, therefore saving would be encouraged, which is precisely the end every country in the world is today trying to achieve. The inequity which is the result of certain sorts of money which can be used for spending being taxed while other sorts are not is overcome; a man would be taxed on all his expenditure, whatever its source. Moreover, he would be able to make his decisions on what risks he would take unaffected by any consideration of tax, since he would pay no tax until he came to spend his gains.

The technical difficulties of the tax can, as Mr. Kaldor contends, be very easily exaggerated. It is not suited for the population as a whole, only for the better-off; it is a substitute for super-tax rather than income-tax. But once that is accepted, so that the number of assessments to be investigated is limited, it is not impossible to discover what expenditure has been, if it is taken not as an addition of the various amounts spent, but as the difference between assets at the beginning of the year plus receipts and assets at the end of the year.

One may accept all that. One may positively welcome Mr. Kaldor's plea for moderation in the progression of the tax. One may yet have some doubts whether the tax is suitable for India, where the income tax department has much plain evasion of tax to catch before it can take on any further administrative burdens (though Mr. Kaldor might legitimately argue that his tax would make evasion easier to catch) and where living on capital is not yet the major social phenomenon as it is in England.

M. Z.

*An Expenditure Tax by Nicholas Kaldor. Allen & Unwin Ltd., London. Pages 249. Price 18s net.



Vote Against SRC

Increasingly it becomes obvious that, in opposing the formation of linguistic States, Congress reveals deplorable lack of contact with the people. It was argued in these columns that Congress should seek a fresh mandate from the people before creating bilingual or regional group States and it was also emphasised that Congress would lose if it fought the election on the issue of linguistic States.

Within this month, municipal elections have been held in the Bally, Kanchrapara, Gobardanga, Kamarhatty and Dum Dum suburbs of Calcutta. Excepting Gobardanga, all these are industrial suburbs. In all these municipal elections, Congress has lost seats to Communists, but mainly to Independent candidates who had the support of all non-Communist leftist parties. Merger or union of West Bengal and Bihar was the main issue on which these municipal elections were fought. In all these elections, the vote was overwhelmingly against the Congress policy on linguistic States.

Around Bombay Markets

The Budget was No Secret

Thursday, Afternoon

THOUGH the Finance Minister presented his budget proposals late on Wednesday evening, the market knew fully since Monday all the important proposals which had a bearing on the stock market. A leakage of budget of this magnitude is most disturbing and perhaps capable of unseating a Government in another country.

Marketwise the advance information resulted in minimising fluctuations in the post-budget session. Leading speculators who had made heavy short sales halted further decline and technically the market has found itself in an oversold position.

How fully the market was prepared for the budget would be evident to anyone who cared to compare the pre-budget session closing rates with the rates at the end of the budget session. Movements had been erratic as usual when the budget proposals were a matter of speculation but in the last two days before the budget, the rates got so finely adjusted that when the budget proposals were finally out, there was little change. The only exception was in the case of tea, relief in export duty on which had not leaked out.

The Finance Minister, in his first budget of the second Plan, has chosen to hit hard the joint-stock companies. The cumulative effect of all his proposals would be to hold back development of industries through joint stock enterprise. As if income tax and corporation tax are not enough, now we will have an extra super tax on percentage of dividend distribution over 6 per cent of paid up capital. When companies declare a high rate of dividend, it is generally an index of high efficiency. The high rate of dividend can also be misleading because the total capital invested in the enterprise is often much more than paid up capital as it includes reserves and loans. But the budget proposal only recognises paid up capital for this purpose which is wrong. The burden of dividend tax, therefore, is that it is a penalty for the more efficient and soundly managed concerns.

Secondly, hitherto ploughing back of profits was encouraged through a rebate of one anna on undistributed profits. Henceforth there will be no rebate and, as shown above, dividends will now be taxed. This means in effect a sharp increase in corporation tax.

The dividend tax is also unfair because lately Government is insisting on new equity capital being issued at a premium and such premium is not now taken into consideration because only paid up capital is taken into account. The exemption means 4½ per cent when the premium on new equity capital is taken into account.

The proposal to tax bonus share issue at the rate of two annas in a rupee is made against the considered views of the Taxation Enquiry Commission. How can the Finance Minister declare that the Commission's report is his guide and yet go contrary to it? This tax obviously means double taxation for the capitalised reserves were already taxed.

By a new provision, all undistributed profits on liquidation of companies are also to be taxed.

Would this indicate that in the establishment of the socialistic pattern, the Government view the joint stock form of enterprise both undesirable and unnecessary and that the latter could perhaps be gradually taxed out of existence? It would be for the Government to set such doubts at rest.

New corporate taxes are likely to affect adversely the psychology of the investing public in view of the fact that incentives for risk capital are being withdrawn. This new taxation is expected to bring in a return of about Rs 9 crores but it is generally believed that the Finance Minister has under-estimated the yield.

As a result of the taxation on dividends, there will be a tendency on the part of the investing public as well as professional operators to look at the incidence of this taxation for each company, in the light of their prevailing dividends. The Tata Iron and Steel Company will have to pay about Rs 13 lakhs on this count, Indian Iron about Rs. 2.75 lakhs, Bombay Dyeing about Rs. 65,000, Century about Rs 3 lakhs, Kohinoor Mills Rs 2 lakhs, Svadeshi Mills Rs 25,000, ACC about Rs 6 lakhs, Bombay Burma Rs 6 lakhs, National Rayon Rs 83,000 and Premier Construction about Rs 1 lakh. There will be no liability in the case of Scindia Co as the maximum dividend which can be disbursed by the company without attracting this new tax comes to Rs 1.3 while the dividend which is being paid amounts to only 8 annas.

The question now is whether the current level of prices discounts all the bearish factors for the time being. Judged by the behaviour of the market, it appears the bearish factors have been adequately discounted, the technical position of the market is healthier than it has been in the last few months; thus the scope for any further material fall looks remote. It is possible that steels will, in view of the withdrawal of the one anna rebate for undistributed profits, suffer more than other industrials. As bulls have suffered heavy reverses during the past few weeks, the market may also take time to stabilise. It is not unlikely however that nervousness may subside and steady conditions might return in course of time. Investors should now use discrimination and pick out the shares of those companies which will have a relatively small taxation liability. The effects of deficit financing should also be discernible pretty soon and this will have a steadying effect.

Textiles are likely to keep steadier in view of better results for the past year. Steels are somewhat subdued. The miscellaneous section has steadied at lower levels. Banks, Insurance and Electric are mostly neglected. In the gilt-edged section, the 3 per cent conversion Loan has been allowed to drift lower to Rs 77-8 while other dated loans have ruled steady.

The bullion market had ruled firm during the initial stages on apprehensions of steep increase in taxation but later on, prices retreated sharply on active unloading as these fears did not materialise. Moreover, reports of arrivals of silver from Kalimpong also induced weakness with the result that silver lost ground by Rs 3 to Rs 173-12 from the highest level. Gold also met long liquidation and rates eased off by more than Rs 2 to Rs 99-2.

Around Calcutta Markets

Budget Reactions

Thursday Evening

AFTER the thunderings of Amritsar, the central budget was a tame affair. Fresh taxation proposals are quite heavy. But fluctuations in equities since the presentation of the budget would seem to indicate that investors were prepared for more onerous burdens. This explains why equities have not declined since the presentation of the budget. Technical reasons explain why equities are not responding favourably to the budget proposals.

On the budget day, the stock exchange committee lifted all restrictions on forward trading. From Thursday, Clive Street again started functioning two hours daily. But neither during the budget session nor to-day was the volume of business large. Indeed, trading during the budget session was the most inactive in recent years. There are two reasons which explain this comparative inactivity.

Margin Trading

Though forward trading facilities have been restored fully, the stock exchange authorities here have introduced certain precautionary measures to prevent a recurrence of a payments crisis. Brokers are now required to deposit margins on business exceeding Rs 5 lakhs. This is a device to check speculative activity, and should be welcomed. But it will be appreciated that a margin system of trading will inevitably restrict the stock market turnover.

Even without this technical factor, it is doubtful whether Clive Street would have responded to even a more liberal budget. It is true that the payments crisis has somehow been overcome. But the wound has not yet healed. Many brokers have not received their dues from their clients. So the members are reluctant to entertain business on behalf of their clients. Those clients who have suffered losses are naturally unwilling as well as unable to do fresh business. So the volume of business remains poor.

Tax Proposals

This is the technical background against which the budget proposals should be reviewed. Though New Delhi has not yet imposed a ceiling on individual incomes, the proposed upward readjustment on super-tax over Rs 70,000 is liable to the interpretation that the Government is gradually implementing such a policy. This budget proposal, by itself, is not likely to have any appreciable adverse effect on equities. But it is arguable that it is another discouragement to initiative.

So far as equities are concerned, the proposal under which companies distributing dividend in excess of six per cent will have to pay graduated super-tax will have an adverse effect. This cannot be denied. But the harmful effects of this proposal can be over-emphasised. Most of the companies, it is true, pay more than six per cent, as dividend. But this is not likely to affect dividend payments to any considerable extent.

Bonus Shares

By and large, this is the main budget proposal which is halting the upward trend in equities. It is clear that companies will have to bear additional tax liabilities if they choose to pay more than six per cent as dividend. This may encourage increased ploughing back of profits which is the main intention of this proposal. If it does, it should strengthen the financial position of companies, and ultimately benefit shareholders. But this is too academic an issue to enthuse speculators.

Ploughing back of profits is good for the companies and shareholders concerned. But profits are ploughed back only to be used later. Ploughed-back profits can be used only by capitalising reserves. This is where the tax on bonus shares enters the picture. This proposal should be considered in connection with the withdrawal of the existing rebate of one anna on undistributed profits. One of the budget proposals will mean some form of indirect limitation on dividend payments. By another proposal, ploughed-back profits will get no rebate. By yet another proposal, bonus shares will be taxed.

Hesitant Trend

These implications of the budget proposals are reflected in the indecisive trend in equities. Though the indirect limitation on dividend should encourage bonus issues, it is not without significance that the shares of those companies which are expected to issue bonus shares have been adversely affected by the budget. This is understandable because of the proposal to tax bonus issues. Even so, it is more than likely that the shares of those companies which are contemplating issue of bonus shares will gradually move up.

There are two reasons why Tea shares have not moved up since the budget. One is that Clive Street expected more relief for the harassed industry. There is not much in this argument as the export duty is now adjusted to tea auction prices. But the main reason why Tea shares are not moving up is that tea companies, which pay fat dividends, will be affected most by the indirect limitation on dividend. There are not many tea companies which are contemplating issues of bonus shares. So, even this inducement, despite the proposed tax on bonus issues, will not be in operation in relation to Tea shares.

Outlook

Miscellaneous and Engineering shares remain relatively steady. These groups are as much affected by budget proposals as any other groups of shares. But there are not many companies in these groups which contemplate issuing bonus shares. These groups are steady mainly because of the growing belief that, as heavy industries develop, secondary engineering industries should have more scope for expansion. Incidentally, the rolling stock programme of the Railway budget is a "bullish" factor for these industries.

Tax proposals have had their immediate impact on stock markets. Consequences of the recent payments crisis may prolong hesitancy in equities. But, sooner rather than later, the budget provisions for deficit financing will have a salutary effect on stock markets. There is not likely to be any immediate boom in equities. But the tax proposals, included in the budget, do not warrant any undue pessimism. Moderate optimism is, on the contrary, not unjustified because of the incidental consequences of higher deficit financing.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1402.85	1406.82	1379.07	1241.99
2. Rupee Coin	105.03	104.61	106.59	103.65
3. Deposits				
a) Central Government's	66.51	64.55	54.01	51.86
b) Banks'	55.16	54.12	65.23	48.36
c) Other Governments'	16.12	13.06	18.47	22.68
d) Others'	15.27	15.69	17.10	34.31
4. Foreign Securities	667.15	667.15	667.06	663.15
5. Balances held abroad	67.66	71.11	67.04	65.50
6. Rupee Securities	603.22	603.22	588.36	447.73
7. Investments	49.28	49.39	51.17	66.99
8. Loans and advances to Governments	3.60	3.84	1.79	0.91
Scheduled Banks				
1. Demand liabilities (net)	624.64	621.89	648.14	580.74
2. Time Liabilities	416.89	413.50	411.08	371.37
3. Cash on hand	36.31	34.93	36.28	32.06
4. Borrowings from Reserve Bank	38.65	39.46	27.54	9.02
of which against Usance Bills	18.72	19.41	15.25	4.97
5. Advances and Bills discounted	646.79	641.00	617.25	549.67
of which State Bank's	120.82	119.43	110.08	115.52
6. Invst. in Govt. Sec.	377.44	378.99	381.60	354.33
of which State Bank's	106.95	106.77	107.31	100.41
Cheque Clearance	166 00	148.31	111.27	134.00

†For Reserve Bank and Cheque Clearance week ended 24-2-56. Scheduled Banks week ended 17-2-56.

Bombay Money Rates	24-2-56	17-2-56	27-1-56	25-2-55
Inter-Bank Call Rate	3	$3\frac{1}{8}$	3	$2\frac{7}{8}$
3 months deposits	$3\frac{1}{16}$	$3\frac{1}{8}$	3	3
6 months deposits	$3\frac{3}{16}$	$3\frac{1}{16}$	3	3

Bombay Bullion — In Rupees and Annas

	1-3-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	99-15	99-7	95-2	92-4
Forward	99-4	97-13	95-5	92-8
Silver (per 100 tolas)				
Spot	173-5	174-10	174-6	166-4
Forward	173-13	175-10	175-8	166-9

WORKING OF COTTON MILLS

September, 1955

Number of Mills which during the month

State	Remained closed	Worked one shift	Worked two shifts	Worked three shifts	Total no. of Mills
Andhra	—	3	3	1	7
Bomgay	9	9	65	97	180
Bihar	1	—	1	—	2
Madhya Pradesh	—	1	6	4	11
Madras	2	2	32	46	82
Orissa	—	1	—	1	2
Punjab	1	—	—	2	3
Uttar Pradesh	6	2	4	10	22
West Bengal	3	—	7	16	26
Hyderabad	1	—	1	4	6
Madhya Bharat	1	1	10	4	16
Mysore	—	—	5	4	9
P E P S U	—	—	—	1	1
Rajasthan	2	—	2	3	7
Saurashtra	1	1	8	—	10
Travancore-Cochin	—	—	2	8	10
Ajmer	—	—	3	1	4
Bhopal	—	—	—	1	1
Delhi	—	—	—	3	3
Kutch	—	1	—	—	1
Pondicherry	—	1	2	—	3
Total	27	22	151	206	406
„ (Sept. 1954)	27	25	172	176	400

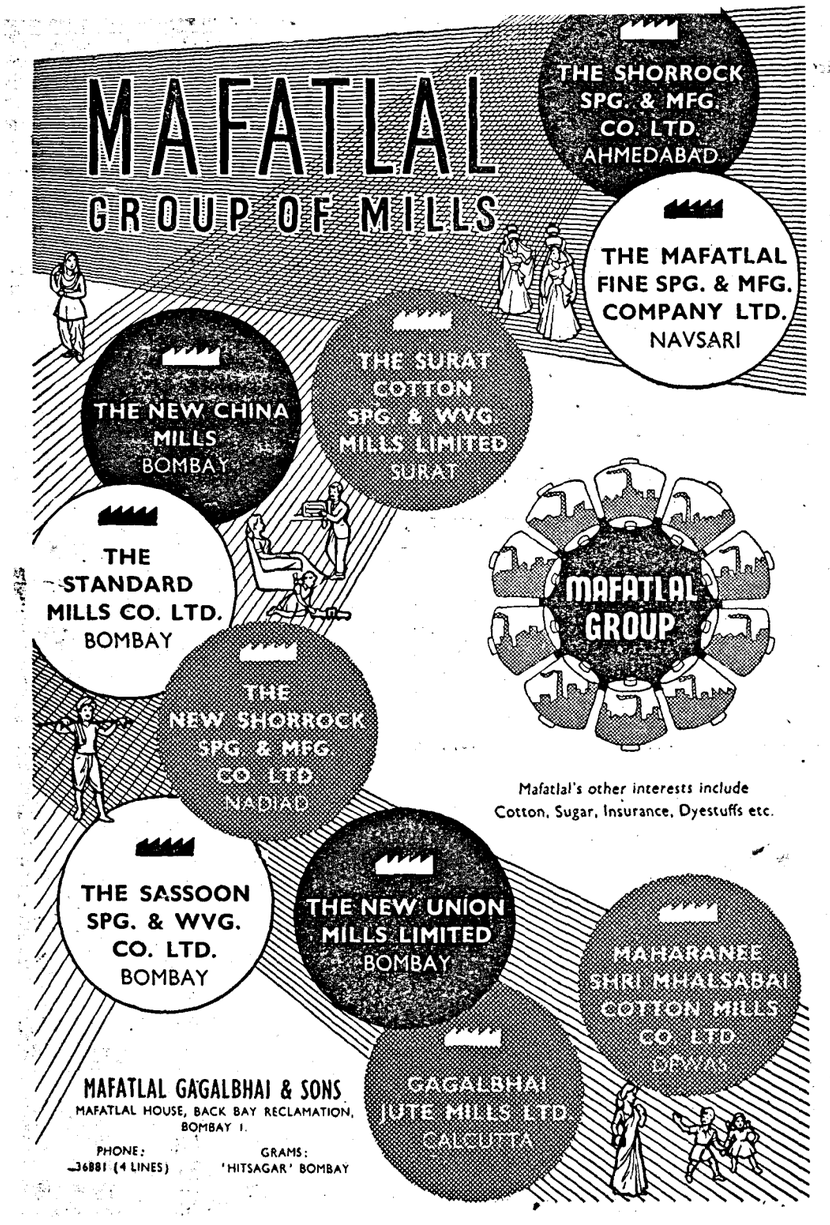
EMPLOYMENT IN COTTON MILL INDUSTRY

State	Total on rolls	Average Daily number of workers employed			
		First Shift	Second Shift	Third Shift	Total
1949	803.0	431.2	252.2	52.2	734.6
1950	755.5	402.3	234.0	40.2	676.5
1951	785.1	415.6	250.0	48.9	714.5
1952	808.2	423.9	258.2	58.6	740.6
1953	801.8	421.9	258.4	63.7	744.0
1954	797.5	416.2	258.8	66.1	741.2
1954 :					
Sept.	802.3	416.9	260.7	68.0	745.0
Oct.	793.1	414.7	259.8	67.3	741.8
Nov.	808.4	421.7	264.3	67.6	753.6
Dec.	810.5	424.4	264.4	68.4	757.2
1955 :					
March	806.3	416.9	259.4	69.7	746.0
April	808.9	413.2	257.7	74.3	745.2
May	797.2	399.1	247.3	69.0	715.4
June	882.9	413.1	252.1	69.1	734.3
July	893.3	417.3	259.9	76.1	753.4
Aug.	864.2	411.7	261.3	79.6	752.6
Sept.	900.0	432.0	271.0	849.	788.0

Source : Indian Labour Gazette

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Military Pacts in Asia

NEW DELHI's foreign policy has the support of the people. Though the Communists remain opposed to India's link with the Commonwealth, they are now less critical of Pandit Nehru's foreign policy. Moscow's overtures to New Delhi have created an embarassing situation for CPI. PSP accepts **Panch Shila.** It endorses Bandung. It has also become less critical of New Delhi's foreign policy. But Mr Selwyn Lloyd's visit to India and the meeting of SEADO Council at Karachi are likely to remind both PSP and the Communists that there are some aspects of India's foreign policy which they disapprove. It would be surprising if the Karachi meeting, Mr Lloyd's emphatic defence of Britain's attitude to regional military pacts and the behaviour of the delegates of Australia and New Zealand to the Karachi Conference do not inspire PSP and the Communists to revive their hostility to India's acceptance of Commonwealth membership.

India is opposed to military pacts. She is more opposed to SEADO and the Baghdad Pact. Her stronger opposition to the latter regional military alliances is based on two reasons. One is that these two pacts bring, through Pakistan's membership in these alliances, the "cold war" to her doorstep. Her second objection is that both these regional military pacts include countries which do not belong to these regions. Within the country, the Karachi session of the SEADO Council has had two major reactions. India, a member of the Commonwealth, disapproves SEADO and the Baghdad Pact. But Commonwealth countries, such as Britain, Australia, New Zealand and Pakistan, are active SEADO members. Britain and Pakistan are also members of the Baghdad Pact. What is the use or justification, it is arguable, of maintaining the Commonwealth link if the major Commonwealth countries pursue policies which are considered by New Delhi to be prejudicial to India's interests? There is something in this argument. But it cannot be stretched too far. Certain common bonds unite the countries of the Commonwealth. But the Commonwealth does not force its decisions on its members. Britain has as much right to differ from some aspects of India's foreign policy as India is free to disagree with some features of Britain's foreign policy.

Certain intriguing problems are posed by the Karachi Conference. SEADO and Baghdad Pact are emphatic reminders of some of the failures of India's foreign policy. India's opposition, it is argued, has not prevented the creation or gradual fortification of SEADO and the Baghdad Pact. It is not openly suggested that SEADO and the Baghdad Pact involve military and economic encirclement of India. But Pakistan's membership of both these alliances have certain military implications which cannot be ignored. Alarmists will not miss the implications of Pakistan's insistence on the creation of a permanent SEADO command on the lines of NATO. Nor will they ignore the reported support of Thailand and Australia to such demands by Pakistan. Admittedly, Pakistan's membership of SEADO and the Baghdad Pact has certain political and military consequences which should not be minimised. But political realists will note Mr Selwyn Lloyd's guarded comment that

military aid to Pakistan has been provided mainly through her bilateral arrangement with America, and not through SEADO and the Baghdad Pact.

Political realists have joined amateur diplomats in demanding a different approach by New Delhi to problems created by SEADO and the Baghdad Pact. It is argued that India will have to be diplomatic in a world where power diplomacy prevails. There are ways, it is suggested, in which India can retrieve her position instead of continuing her futile opposition to regional pacts in Asia. She can emulate Russia in offering her participation in SEADO and the Baghdad Pact. When Russia found that she could not prevent the creation of NATO, she offered her participation in that organisation. This offer was rejected by the Western Powers. Russia has since made propaganda capital out of this event. She has argued, and not without some show of logic, that the rejection of Russia's offer indicates the aggressive nature and purpose of NATO. If it is New Delhi's intention to imitate some of Moscow's diplomatic devices, India could even propose a formula for Asia which Russia subsequently advanced in relation to Europe. India could suggest that her participation in SEADO and the Baghdad Pact should be accompanied by the formation of an all-Asian security system, similar to Russia's proposal for a European security pact, in which certain non-Asian countries, like Britain and New Zealand, who have interests in this region could become members.

These are intriguing suggestions. But these proposals ignore two basic facts. One is that India's foreign policy is based on **Panch Shila**, and not on containing Communism through regional military alliances. In Bandung, India has an arrangement through which she can further the cause of peace and amity among Asian and African nations on the basis of **Panch Shila**. She has no aggressive designs, nor does she fear any aggression. Participation in SEADO and the Baghdad Pact would be a violation of one of her basic assumptions of foreign policy that regional military alliances tend to perpetuate tension, if not to provoke aggression.

India's opposition to regional military alliances in Asia may not have prevented the establishment of SEADO and the Baghdad Pact. New Delhi's denouncement of a foreign policy based exclusively on security may not have had any impression on Washington. But recent developments should be welcomed in New Delhi. It was not without significance that Sir Anthony Eden thought it necessary to emphasise before the Canadian Parliament and the British House of Commons, in defence of the joint communique signed by him and the American President, that the Baghdad Pact was as much concerned with economic improvement as with the defence of the countries concerned. To placate Pakistan, SEADO countries may agree to hold joint military manoeuvres in that part of the Arabian Sea which lies between the Delta of the Indus and the Gulf of Oman. But New Delhi will note with satisfaction M Pineau's forthright comment that manoeuvres in the Gulf of Oman are poor alternatives to Moscow's gestures of economic co-operation to Asia. From the speeches delivered during the first open session of the SEADO Council, it is evident that, apart from America and Australia, other SEADO countries are aware of this elementary fact.

Poverty is the main problem of Asia. Elimination of poverty is an essential condition of peace and stability in this region. Countries in this region will welcome economic aid and co-operation from the Western Powers. No regional military alliances are needed to ensure such economic help. Developments in west Asia emphasise that region's hostility to the Baghdad Pact. Apart from Thailand and Pakistan, no other South-east Asian country is a member of SEADO. In one of his speeches in New Delhi, Mr Selwyn Lloyd admitted that the time had come when the Western Powers should place less emphasis on security. M Pineau, France's Socialist Foreign Minister, is convinced that world peace can best be secured through economic help and co-operation. India can flatter herself that she is making new converts to her foreign policy of peace through plenty.

The Role of State Bank

WE all knew that the State Bank was going to be a potent instrument in the hands of the Government for bringing about some of the changes vaguely described as inspired by the Avadi spirit. But since the transformation of the Bank was carried out at the instance of the Committee of Direction of the All India Rural Credit Survey—at least this was the immediate occasion for it, though nationalisation of the Imperial Bank had been in the air for years—lazy minds had the excuse of associating this change primarily with the task of what may be conveniently called "institutionalising rural credit". They had also their doubts, naturally. How could a bank which was the largest institution financing commercial credit in the country, with added responsibilities imposed on it of continuing to act as a bankers' bank to a certain extent even after a couple of decades of central banking, be transformed overnight into the principal agency for supplying the bulk of agricultural credit in the country? Now the State Bank cannot do that; even a cursory glance at the State Bank Act will give the answer why. It has to pursue the canons of sound business and of commercial banking. What it can do is to open a number of branches and extend banking facilities where none exist today Its progress in that direction will be watched with interest, and reviewed in a subsequent paragraph.

The State Bank actually has to do a lot more than look after agricultural credit. It is good that while speaking at the first Annual Meeting of the Bank, the Chairman, Dr John Matthai, allowed himself the freedom of surveying the entire field of its present and future operations. Not only did he present a comprehensive survey of the existing field, but he also looked into the future. Many things are brought out in the course of this survey which had probably never appeared in quite the same light before and had not been grasped adequately even by those who are knowledgeable in banking and related matters. To begin with there remains a yawning gap in the structure of rural credit which is still to be filled by the Reserve Bank; that progress in filling this gap has been slow, is much to be regretted. The State Governments seem to have assumed that a ready-made organisation for providing rural credit should soon be in operation for they have drastically curtailed their Tacavi loans this year. Leaving aside rural credit for which the initiative does not seem to rest with the State Bank, developments in various other directions are suggested by Dr Matthai which merit careful consideration. The State Bank, for instance, has already taken the initiative in co-ordinating the supply of credit for small-scale industries. This should prove immensely fruitful. Several agencies extend credit to small industries — commercial banks supply working capital to such of them as are able to furnish acceptable security. State Finance Corporations are there to supply long-term capital on fixed securities. But since industries require both long-term and working capital and as the essential first step for financing is proper assessment of their creditworthiness, the task that the State Bank has taken upon itself is of the highest importance.

Then there is the foreign exchange business. The Imperial Bank had a department of foreign exchange, and through unexpected circumstances, the State Bank has to undertake foreign exchange business of considerable magnitude as a result of its Pakistan branches coming under foreign territory. Its progress in the matter of further expanding foreign exchange business has been slow, but there is more than a hint that it need not be slow indefinitely. When Dr Matthai said that "It is our intention to adopt a more vigorous drive towards attracting what we consider to be our legitimate share of this important sphere of banking business", does he have in mind the possibility that the State Bank will some day fulfil the functions of an Indian Exchange Bank, the establishment of which, with the blessings, if not the sponsorship of the Reserve Bank, had been proposed in the past and which proposal is believed to have been accepted and has only been awaiting implementation?

Different people will react to different points in Dr Matthai's speech, each according to his own immediate interest and inclination. But since immediate problems come up uppermost, perhaps the part of his speech that will command most attention at the moment is the one relating to his plea for restraining deposit rates.

Dr Matthai has lent his weight to the suggestion for a ceiling on deposit rates which was discussed in these columns a fortnight ago. A voluntary agrement among banks appears to be the solution, he said, "but if this is not possible because of the diversity in their size and standing, the alternative is for Government to consider suitable action for regulating deposit rates". Naturally, therefore, Dr Matthai is against a general upward revision of rates for advances which some of the banks are contemplating. He makes a reservation in the case of his own Bank, however, "because of the obligation placed on it to develop banking in rural areas and the mounting cost of its establishment charges on account of the successive Bank Awards". The special fund that has been created under the Act to meet the deficits of such uneconomic branches can compensate the State Bank for losses only "beyond an agreed figure".

This particular question apart, the weight of his opinion in favour of a downward rather than an upward adjustment of the money rates deserves careful attention from the Reserve Bank, which has so long been watching the scramble for funds among the banks as a mere spectator. That the same rate of 3¼ per cent (now 3½) is being offered both for deposits on call and for term deposits for 1 to 12 months has led to an extremely anamolous position—not only is money being drawn from current account into call loans, but time deposits on maturity are also being diverted in the same direction. If a survey of call money were carried out, it would not be surprising if the supply of call money were found to have increased more than that of demand and time deposits. This has naturally made the position of the banks extremely vulnerable. It has not proved possible so far for the banks to agree to put a ceiling on deposit rates. Dr Matthai recognises this. Hence the case he makes out for intervention is unanswerable.

Another thing that will attract most attention in Dr Matthai's speech is his reference to the subject of amalgamation of the State-associated banks with the State Bank. The Committee of Direction of the All-India Rural Credit Survey, on whose recommendation the State Bank was formed, had recommended that the Imperial Bank of India should be amalgamated with ten major State-associatted and a number of minor banks for this purpose. The State Bank was formed, however, only by taking over the Imperial Bank. It appears that the object of doing so was to avoid the delay that would result if amalgamation did to precede the formation of the State Bank, and the possibility of disorganisation if this was carried out in a hurry. With the establishment of the State Bank in its present form, the question of amalgamating other banks can be settled in consultation with it.

The feasibility of taking over some of the minor State banks, we are told, is now being explored. "The State Bank," Dr Matthai said, "have set arrangements in train for an investigation of a few selected institutions with a view to making a fair and reasonable appraisement of their position and the problems that will have to be faced before integration takes place". This sets the pattern that will be followed in connection with the others. Evidently, there will be no scope for accusing the State Bank of lack of caution in this respect. Presumably, also, the taking over of the smaller State-associated banks will give the State Bank the necessary experience for the amalgamation of the larger State-associated banks in due course, with the minimum disorganisation.

One of the principal objects, with which the State Bank was formed, was to expand banking facilities throughout the country as rapidly as possible and, in particular, to convert non-banking treasuries in the districts into banking treasuries. During the first six months of its existence, 20 new branches were set up, leaving 31 centres at which branches are still to be started according to the programme of expansion imposed on the Imperial Bank. The State Bank is itself expected to open 400 new branches during the first five years of its existence, and the pace of activity in this regard will undoubtedly have to be speeded up if the target is to be achieved. Apart from the 31 centres selected earlier, 100 new places have been selected for new branches. These are "confined mostly to district treasury and the more important sub-treasury centres."

Dr. Matthai has not indicated how far this opening of new branches has so far assisted the Bank to provide more agricultural credit. It appears, however, that a substantial move in that direction will have to await the establishment of warehouses for the storage of commodities. The certificates issued by the warehouses would enable the Bank, without undue risk, to advance credit against the security of agricultural produce. But as the Government of India have yet to set up the All-India Warehousing Corporation and State Warehousing Corporations, it will be some time before any results can be expected. Meanwhile, the main contribution of the State Bank will be confined to extension of remittance facilities which, in their turn, will enable the rural credit organisation to widen its activities.

To enable the State Bank to accomplish the wide range of tasks that have been allotted to it, the first thing it had to do was to put its own house in order. The staff had to be reorganised, pay scales revised and employee relations put on a stable footing. This has now been done. The confidence with which Dr Matthai approaches the problem, the reliance he is prepared to put on mutual consultation and the generosity with which he offers to discuss cases of hardship bear ample testimony to all that. The bank can now look forward to accomplishing the tasks set for it with the full support of the Government and the people.

Weekly Notes

What Happened to Cement?

THERE must be something very much wrong with the control and distribution of cement; otherwise, why should the producers have to explain to the public that the invitation of offers for the import of cement from soft currency areas is not a punitive measure to check and bring down the internal prices of cement in this country? That import should be called for is not at all surprising. The demand for cement has greatly increased on account of the large development programmes that the country has taken on hand though both the installed capacity and the production of the cement industry have greatly increased too, ever since the end of the war. There is no question about the tremendous increase of production of cement or of the installed capacity of the industry. According to the Directorate of Industrial Statistics, installed capacity nearly doubled between 1946 and 1951; it went up from a monthly average of 316.3 thousand tons (annual capacity 3.8 million tons) in 1951 to 395.3 thousand tons in September 1955, while production more than doubled between 1946 and 1951, and went up from a monthly average of 266.3 thousand tons in 1951 to 391 thousand in November 1955, the latest month for which official figures are available. But demand has gone up too. There was immediately after the war a heavy backlog of building and repairs to be put through; by all accounts, house building has attracted the largest amount of private investment in recent years, and besides, cement is an essential component of every development project, of which construction accounts for a large percentage of the investment.

The fact of cement shortage is so well-known and it is so wide-spread that it can hardly be denied, though the degree of shortage may vary greatly from State to State and it may be easier to get cement for some purposes than for others. But how far this shortage, at least the acuteness of it, measured by the black market premium, is a result of demand overtaking supply and how far that of faulty distribution and marketing, for which Government is primarily responsible, no one can say for certain. It is high time that an enquiry were instituted into the demand and supply of this all-important building material.

The public are naturally puzzled for what they pay for cement is not the ex-factory price. Transport costs, particularly when transhipment at more than one point and change of gauge is involved, load up the price so much. But nothing can be more fantastic than the suggestion that cement prices in India are higher. The price of cement is controlled on the basis of actual cost and though the new units had to be given a slightly higher price on account of their increased capital cost, when the Tariff Commission last examined the case, it was not their finding that cement prices were high in India. On the contrary, at the time, export demand was so keen, and export prices were so much more attractive, that issue of limited export quotas was suggested for the new units to cover their losses on internal sales. As a matter of fact, India has been exporting some quantity of cement, though small, mostly to Pakistan, Ceylon and Middle-East countries, though in the six months to September 1955, the latest period for which figures are available, such exports seem to have gone down from 42,586 tons in the six months to September 1954 to 25,057 tons.

The Ministry of Commerce and Industry reported for 1954-55 as follows:

"There were practically no imports of cement during the year except for a small quantity from East Pakistan into Assam. The export market is being developed gradually, exports being allowed mainly from the factories in South India and Western India, where the supply position is comparatively easy. The total exports during the year amounted to 75,600 tons (up to the end of September 1954 only) as against 64,600 tons in 1953". The report for 1955-56, not yet received, should be able to say why the Ministry had gradually to reverse this process.

To repeat, shortage is undeniable but how far it is being accentuated by the present system of distribution it is very necessary to enquire, particularly when substantial imports are being planned for. If the imported cement also gets into the same distribution bottleneck, we will not derive the maximum value for our foreign exchange expenditure; nor would we be able to expedite development as well as we could have done, if the distribution of this basic building material were smoother and more efficient.

CORRECTION: In the table 'Budget of the Government of India 1956-57' which appeared on page 263 in the last issue, IV Capital Receipts for 1954-55, was wrongly printed as 175.8. It should read as 215.7.

French Socialists

MANY will echo M Pineau's confession that the Western Powers' foreign policy has been marred by "enormous errors". M Pineau is in "profound disagreement" with a foreign policy that places "too much emphasis on security". This has been the major "error" of the foreign policy of the Western Powers. Both Britain and France, America's NATO partners, have been in disagreement with Washington's policy of containing Communism by building "positions of strength". This has not only prolonged the "cold war", such a policy has meant that the diplomatic initiative has always been with Moscow. While the Western Powers, under America's instigation, have been pre-occupied with ringing the globe with military bases, Russia has consistently been pleading for peace through co-existence. Washington may have resented this propaganda initiative by Moscow, but has done nothing to regain the initiative. M Pineau's denouncement of Western diplomacy will be widely shared.

What is more surprising is that, even after the "summit conference" at Geneva, the Western Powers hav not learnt the lesson. Immediately as it became evident that the Western Powers were eager to reach an understanding with Russia to ban atomic warfare, in their mutual as well as in the world's interests, Moscow re-oriented its foreign policy on the implications of peaceful co-existence. Almost a year has passed. But the Western Powers' foreign policy is still based on pre-Geneva assumptions and circumstances. While Russia talks of peace and of economic problems of Asia, the Western Powers are now assembled in Karachi to attend the SEADO conference. France is a SEADO Power. M Pineau, France's Foreign Minister, will participate in the Karachi talks. One would like to know whether he would have the courage to remind the Karachi conference of the need for "a new approach to co-existence and East-West relations".

Morocco

EVEN as France's decision to recognise the independence of Morocco is to be welcomed, there will be doubts about the future relations between the metropolitan Power and its former colonial possession. Sultan Ben Yousef has got all he wanted. There is agreement about the sovereign legislative power of the Sultan. He will have control over the Army. Administration will be in Moroccan hands. France will hereafter be represented by a High Commissioner. France hopes that this gesture will induce Morocco to accept unity with France through "the permanent bonds of a freely accepted interdependence". France's strategic diplomatic, political, economic and cultural rights and interests are to be assured. French settlers will enjoy a status "proportionate to the important contribution which they have made and will continue to make to Morocco's well-being".

France has not been unwise in restoring Sultan Ben Yousef, as well as in negotiating with the Sultan. On his restoration, the Sultan assured the politically conscious elements in Morocco that he would function as a Constitutional Monarch under a democratic regime. Simultaneously, he assured the French settlers that their rights and interests would be protected. Both Istiqlal and the Democratic Independent Party are in agreement with the Sultan in his policy of rid-

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ding Morocco of French domination. But neither Istiqlal nor DIP is likely to accept any reservation on Moroccan independence. By negotiating with the Sultan, France has got terms which she could not obtain from either Istiqlal or DIP.

Two problems remain to be solved. Morocco's nationalist elements will hope that the Sultan will implement his pledge to institute a democratic regime under which he will act as a Constitutional Monarch. This is primarily a challenge to the Sultan's statesmanship. But the Sultan's undertaking to protect the rights and privileges of the French colons may create trouble. Their legitimate rights and interests must be ensured. But if France wants to create a relationship between her and her former dependencies similar to that which prevails between Britain and other Commonwealth countries, France and the French colons must realise that political independence without economic sovereignty is shadow without substance. This poses a challenge to French colons. But the situation in Tunisia and in Algeria deepens suspicions whether they are willing or prepared to convert the challenge into an opportunity.

An Episode in West Asian History

SIR Winston Churchill has made more than one attempt to make history. Many of his later efforts have failed as miserably as his earlier efforts during the first world war. Despite his mistakes, Sir Winston remains a great statesman. T E Lawrence has other claims to history than that of Lawrence of Arabia. Whether General Glubb's reputation as a military commander will survive his dismissal as Glubb Pasha of Jordan is an inconsequential issue arising out of developments in Jordan. It will perhaps depend on the "Glubb girls" and the deportment of the soldiers whom he trained up. What is significant is that King Hussein has ousted Britain from her last stronghold in west Asia.

Establishment of Jordan as a British protectorate has a torturous history. It was a creation of Sir Winston, aided and abetted by Lawrence of Arabia, aimed against Turkey's domination of west Asia. Jordan's role changed with the developing situation in west Asia. Britain helped and financed Jordan to raise the best-equipped Army in west Asia. As relations between Britain and Egypt deteriorated, as Egypt sought to replace Turkey as the leader of the Muslim world, Amman the capital of Jordan, which became independent after the second world war, was fortified by Britain as a challenge to Cairo.

London has now lost the diplomatic battle in west Asia. It would be wrong to assume that the Arab-Israeli dispute has hastened Jordan's diplomatic rebuff to Britain. This dispute is a minor issue in the estranged relations between Britain and Jordan. Differences between London and Amman have arisen because of Britain's changed historical role in west Asia. Since Britain, at the instance of America, agreed to build a northern tier of defence in west Asia under the Baghdad Pact, Egypt has been trying to form a southern tier of friendly countries. Syria and Saudi Arabia had already aligned themselves with Egypt in her opposition to the Baghdad Pact. Recent developments underline Jordan's sympathy with Egypt, Syria and Saudi Arabia in their united opposition to the Baghdad Pact, with its headquarters at Ankara. Events in west Asia will cast a shadow over Karachi, where the SEADO conference is now in session.

Indian Forest Statistics: Corrigenda

REMEMBER the forest statistics, to which attention had been drawn in these columns some weeks ago? The Directorate of Economics and Statistics have issued a correction slip, slashing down the employment figures. The Directorate have now discovered that employment figures are not 'additive'. The correction is a surgical operation. So instead of 44 plus 91 or 135 millions being employed in forestry and forest industries directly and indirectly in 1951-52, the figure for employment for 1951-52 is now revised to 120 plus 250 or 370 thousand. The operation involved is broadly that of dividing the earlier figures by the number of working days in a year.

Actually what had happened was that figures of daily employment had been converted into annual employment in terms of man-days which is the method of reporting employment according to international forestry convention. Employment is recorded in the detailed tables as on the first day of each month. So the conversion backwards of the 'annual' figure of employment is not a straigtforward matter of division by 360 or 300, whatever the number of working days that may be assumed for the purpose.

How do these revised statistics of employment, direct and indirect, in forestry and forest industries compare with those given in the 1951 Census under livelihood categories? No direct comparison is possible, of course, for the Census does not give the statistics of employment as such, but only the numbers of those who are dependent for their livelihood on various occupations. The occupations relating to forestry and forest industries are four-fold:

1 Forestry and collection of products,

2 Wood & wood products other than furniture and fixtures,

3 Furniture and fixtures, and

4 Paper and paper boards.

The total number of people dependent for their livelihood under these four heads is given as 1.36 million. This is smaller than the number who would be dependent on forests for their livelihood according to the forest statistics, but not so much smaller as to make a comparison altogether impossible. Taking the daily average employed directly and indirectly in forestry and forest industries at 370 thousand and taking the average size of their families at 4.9 (which is the average size of the rural families in the 1951 census) the total would come to about 1.8 million as against 1.36 million given in the 1951 census broken down:

(Figures in '000)

	Employers	Employees	Independent Workers	Total
Forestry & collection of products ..	6	89	157	252
Wood & wood products other than furniture & fixtures ..	27	192	822	1041
Furniture & fixtures ..	2	9	23	34
Paper & paper boards ..	1	24	6	31
	36	314	1008	1358

Off the Record

Progress of Pottery as a Handicraft

PRAJAPATI Sahakari Utpadak Mandal (Potters Industrial Co-operative, Kumbharwada, Dharavi, Bombay) have made immense strides since they held their last exhibition of pottery and earthenware at the Convocation Hall in March 1953. Reviewing the earlier exhibition it had been commented in these columns:

"If a handicraft is to be revived or rather, an existing one is to be revitalised and made more remunerative for those who ply it than it is today, the lines followed by the Prajapati Sahakari Utpadak Mandal at Kumbharwada certainly merit careful study. The wide variety of forms that the deft fingers of the potter moulds from clay are only the beginning of an adventure which, if it is to be fruitful and not to lead to a blind alley, must finally result in products which fulfil a real need, preferably a common need, that is existing rather than one which has to be created. In other words, if the handicraft is to survive, quality and saleability at competitive prices, which most pottery do not have today, are to be given prior consideration. Otherwise, potters would be just on the margin of subsistence instead of thriving and making good money." (March 21, 1953, p. 319).

After seeing the exhibition which the potters cooperative held last week at the Victoria Gardens, one may say that not only the lines followed by them merit careful study but that they deserve to be emulated widely by all those who are trying to encourage or organise handicrafts. The potters of Kumbharwada were organised into an industrial cooperative as early as 1949. Shrimati Prabha Shah and her sister, Malati Javeri have worked indefatigably for all these years and under their energetic and wise guidance, this group of potters has come up. In fact, in the last two years they have come up so well, and gained such popularity, that had not Prabha and Malati put their foot down, their patient work for all these years would have gone up in smoke! Their very success had invited disaster from two directions, which had to be resisted. Government publicity was one. People have to be told how good the Five Year Plan is and how much is being done for the small scale and cottage industries and therefore anything, the Sindri Factory, D V C, a well run community project or well conducted potters cooperative, is exposed to the glare of publicity and all that this means. VIPs pour in and the iterinery drawn up by the External Affairs Ministry for all important visitors can never leave them out. To take the visitors around and explain to them what is being done becomes a whole-time job. Who are to do it? The few good workers that are there are all needed to do the work—they cannot be spared for showing round the visitors and blowing their trumpets.

The other danger of the success and publicity is that the products are in such great demand. The Cottage Industries emporia that are being opened up want pottery turned out by the Prajapati Sahakari Mandal to be displayed; discriminating socialites want them to decorate their drawing rooms. The organisers are working patiently to improve the quality of their pottery and turn out new products. They have a lot of problems to grapple with and have still to solve the problem of standardisation and they are just not in a position to meet this demand. They have to work hard to stop this demand being met, for demand has a way of calling forth supply and premature publicity, well earned or not, for particular handicrafts, often brings into existence a class of middlemen who readily come forward to supply the wares. Enterprising handicraftsmen, instead of developing their craft and producing better things, succumb to the temptation of taking orders which they cannot possibly supply themselves and farming out these orders among other craftsmen who may not be so clever or enterprising and living on their commission which, unfortunately, promises a better living in the circumstances than the practice of the craft itself. So, Prajapati Sahakari Mandal have to be firm and have to tell the impatient buyers politely that the society is not yet in a position to supply large orders. At the last exhibition, the organisers had to be quite rude to importunate collectors of fancy wares.

For sales and marketing, the society has now got its own shop in Crawford Market. But you will not find all the products displayed at the exhibition on the racks of this small shop; in fact, a casual visit will disappoint you altogether; the shop has often little to sell. This is partly deliberate for the society does not believe in selling all its wares through its own shop. On the contrary, it wants that if the products prove popular, they should be sold widely through all sorts of shops, cottage industries emporia as well as commercial retail stores.

Against this general setting has to be viewed the progress made which is in two directions—in the direction of improvement of techniques of production and that of the variety and range of products. As regards the first, the most striking achievement is a simple one viz. an improved potters wheel, a number of which were actually being worked at the exhibition site and which naturally collected quite a crowd. This is a simple adoption of the bicycle chain and free wheel. The idea was borrowed from an old master potter of Baroda who had been using the device successfully but considerable improvement was made in Bombay by the addition of ball bearing and the wheel itself is much stronger and better balanced, being cast in cement. The bicycle chain and free wheel device has been successfully adopted in the potters colony at Jhargram in one of the community projects in West Bengal also but there they use the cycle chain as well as the brake. Kumbharwada potters, however, find that the roller bearing gives such a balanced movement of the wheel that the brake is not necessary.

In designing of pottery, the conflict between the functional and the ornamental has yet to be completely resolved . In a way, it is bound to remain like that, for what else is a craft but a continuous quest for combining beauty with utility? A great deal of improvement has been effected however and the emphasis on the functional, in the designing of ash trays, to the deficiency of which pointed attention had been drawn two years ago in these columns, is specially noticeable. In fact, this is noticeable in greater or smaller degree in the entire range of products. An interesting experiment in assimilating decoration to

function is in a special range of products, which are designed in two separate pieces joined together, e.g. surais (water pots) and others where the outer cover is ornamental and yet serves the function of protecting and decorating the container inside. Where enamel colours are used, this is an advantage, because though these colours are water-proof, direct contact with moisture rather dulls the colours and this is avoided by having an outer piece.

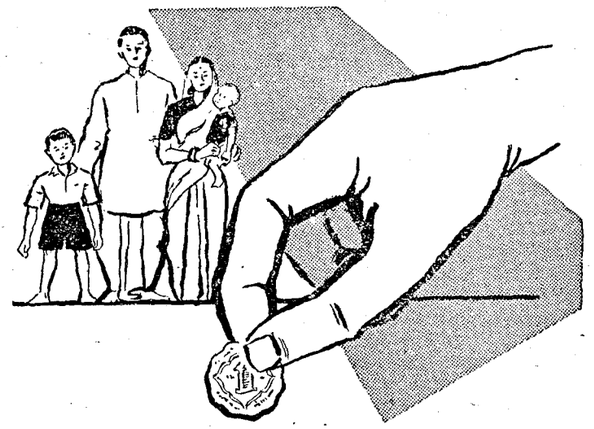
An altogether new range of products with immense possibilities has been made possible by the use of metallic ores as colouring material which are put on the clay before it is burnt.

Talking of designs, the exotic was much less conspicuous and hardly ever protruding in the last exhibition, compared to the first, much of it has been so well assimilated, but it is still there. Romanticism cannot do away with the exotic altogether and the revival of an old craft often gains inspiration from the exotic, at least in the earlier stages. Another point to be noticed about the designs is the feeling for the material, which the potters have in plenty, and which enables them to discard shapes and forms which are just not right. Some of the trays, particularly the smaller ones, have a touch of the metallic which the designers, informed as they are by the feeling of the materail which they handle, will soon get rid of.

Of the technical devices which were thought of in the earlier stages, one was the possibility of improving the kilns or of using the simpler type of modern kilns. Experience, however, has not fulfilled these earlier expectations. But with the external economies to which Dharavi has access and which made possible the designing of a potters wheel with ball bearings, who knows, some day, someone will not hit on the right thing?

In the use of different types of raw materials, again the society has made considerable progress. A complete range of white clay pottery bears ample testimony to it. So does the range of red ochre ones. This, however, brings in problems of transport and organisation. Clay has now to be brought from places as far apart as Kutch and Orissa.

Finally, one more word about the functional. The organisers of the exhibition demonstrated how well-made pottery finds a place in modern households. In the model kitchen, these pots and pans naturally find their place. The beauty of it is that they do not look out of place in the sitting room either which was put up in one of the stalls, where most of the decorations consisted of handicarft products, matting for wall, cane and bamboo furniture with liberal use of straw mats and jute tapestries, which served to bring out the soothing effect of the red ochre and the dull white of the clay pieces.



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DA 55/164

Letters to the Editor

Hypergamy in India

MY essay "Regional Differences in Customs and Village Institutions" (**Economic Weekly**, Feb. 18, 1956, pp. 215 ff.) has resulted in my receiving from a Bengali friend a very interesting letter on Kulin hypergamy. I will quote relevant extracts from the letter: "**Kulins came down by marrying below their status**, and it was a point of honour for my lineage (who formed a separate sect by themselves, Kap, as the founder broke away from his father and even performed the father's **shraddha** while the latter was alive) to secure Kulin bridegrooms for our girls. To this end they made grants of lineage land to the grooms, who, on marriage, left their natal families and joined us as **ghar jamais**—it was **infra dig** for a girl of my lineage to go to her affinal home on marriage.

"A Kulin came down in status by contracting such a marriage. But he did it because he wanted land. In order to save his face, however, things were arranged in such a way that he was 'captured' by the bride's people, and taken away against his will. The groom was whisked away in a fast boat in which there were drummers, priests, and all the other essentials of a marriage. There was also a party of lathials (fighters carrying long bamboo sticks and cane wicker-work shields) in the boat to complete the simulation of capture. The groom's party gave chase in another boat, which also carried several lathials. But it kept a respectable distance from the other boat till the completion of the marriage rites was announced by the blowing of conch-shells.

"This probably led to a preponderance of women over men among Kulins which in turn resulted in polygyny and old maids". (Bold mine).

My correspondent is a non-Kulin Brahmin as may be guessed from his letter, and I am grateful to him for bringing the above facts to my notice. But I wonder whether the situation he has described was widespread—my guess is that it was either the custom of his lineage or was at best confined to a few wealthy lineages in East Bengal. For instance, Risley's description of Kulin hypergamy is quite different. He reports the existence of "several middle-aged Kulins who were known to have had more than a hundred wives each, and to have spent their lives on a round of visits to their mothers-in-law. For each wife they had received a handsome bride-groom-price diminishing in amount with the number of wives they had at the time of the marriage; they made what they could out of each periodical visit and they asked no questions about the children". (See H. H. Risley, **The People of India**, Calcutta, 1915, Second Edition, pp. 166-7.)

It is likely that the type of alliance my friend has described would be monogamous—the groom stayed with his wife's folk and owed his livelihood to them. And the **lathials** were there to see that he didn't try to marry again. In the situation described by Risley on the other hand, the man stayed with his natal kin* and only went for short periods to his numerous affines.

In all cases of hypergamy, the women of the top group have a hard time. They have to choose from a very limited circle of men for whom there is severe competition, and the laws of demand and supply therefore come into operation.

(2) There is a 'blind spot' in the village hypergamy of north India which I may mention here. As I said in my essay, a village always receives girls in marriage from certain other villages which it regards as inferior, and it in turn gives its girls to superior villages. But, very rarely, it happens that a superior recipient village has given a daughter to another village which is regarded as inferior by the first village in the series. To put it in a simpler way: superior village B takes girls from village A and has given a girl in marriage to C from which A has received a bride.

The breaking of the hypergamous chain in this way results in an anamoly. But such instances are extremely rare and they remain unknown because of the great distances involved and the differences in the spread of marriage ties. A few of the villages constantly supplying or taking wives are well-known to all, but there is no formal list in anyone's mind and the list can always be extended. (I owe this information to the kindness of Dr. McKim Marriott).

(3) Regarding Nair hypergamy I would like to add that the majority of marriages are endogamous and only a few are hypergamous.

M N Srinivas

M S University,
Baroda
Feb. 28, 1956.

*Because he kept his Kulin rank unsullied by not marrying a non-Kulin girl—Ed.

National Institute

I have read with pleasure and profit your comments in your latest issue on the desirability of starting a National Institute of Social Sciences in India. I looked once more at your issue of October 15, 1955 to fortify my faith in the project. It is an excellent idea indeed, and does one's heart good to know that it "is finding increasing support in quarters that matter". My own impression would, however, tally with what you have printed in bold letters, viz., "And the tragedy of it is that there is no awareness at all of this problem in the country (the frittering away of the energies of the few first-rate social scientists in the country) either at the Governmental level or, what is even worse, at the academic level". Surely, you must be knowing better what these quarters that matter are. If these be the government or foreign foundations then, in my view, it would be better to ring the curtain down on Fundamental Social Research before the actors put on their grease-paint and the pit is filled. By definition, government is instrumentalist; it wants results and quick results. And the foreign foundations, as we know them, cannot but be empiricist. They want to help us in a concrete, visible way and show results to the authorities at home. So the academic bodies remain. They all want research but they are mostly busy in making it impossible. Their best intentions are frustrated by coaxing the powers that be to grant money, and when money is made available, by stupid administrative details. By the time that the project gets going, the original fine frenzy has turned into lassitude. Yet, one senses a general awareness of the need of social research in the air. Only, it is yet too general, too vague, in short, wishy-washy, fuzzy-wuzzy. So which are the quarters that matter?

And then this matter of Funda-

mental Social Research. In the natural sciences, the Fundamental appears to be the mathematical. In Economics, it is also tending to become the same, whatever may be the reasons thereof. But in Jurisprudence, Sociology, Anthropology, Psychology, or for the matter of that, History, what is the Fundamental? Mathematical treatment of the inter-relations? Or merely, the statistical? Or is it the philosophical, in the wider sense? My own feeling is that in those fields with which I have had some acquaintance, Fundamental Research should, at this stage, mean critical thinking, a critique, if you like, of their basic assumptions. These may be tested empirically by research projects. Do you really think that critiques will grow in the set-up of a National Institute? Testing may be done there, but what are we going to test? And who are going to lay down the basic issues? Again, how?

I hope you will not misunderstand me. I am all for a National Institute of Fundamental Social Research. I am only anxious to know how your mind works in the matter of its functioning.

D P Mukerji

Muslim University,
Aligarh
28-2-1956.



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Official Papers

World Trade in the Recent Past

Yearbook of International Trade Statistics, 1954: United Nations, September, 1955 Pp 556 Price $ 5.00 (US)
Available from Oxford Book & Stationery Co., Scindia House, New Delhi.

THIS massive collection of trade statistics is the fifth of the annual publications on the subject by the United Nations. Its primary object is to bring together on as uniform a basis as possible the import-export data for as many countries of the world as possible, with a view to facilitating comparative studies of the structure and trends of foreign trade. Those who have tried to arrange foreign trade statistics on a rational basis for any country or group of countries will appreciate the enormous and careful work that goes into the preparation of such a volume. And considering the fact that the U N Statistical Office has to get the primary data from many countries before processing them, it is indeed an achievement to have brought out the figures for 1954 so soon after that year.

The Yearbook contains detailed trade statistics for 100 countries, which account for about 98 per cent of world trade. As one would expect, "world" in this context means mainly the non-communist world—i.e. excluding Albania, Bulgaria, China (mainland), Czechoslovakia, Eastern Germany, Hungary, North Korea, Poland, Rumania and the U S S R. Presumably, the trade of these countries constitutes but a small proportion of the aggregate. It is however not quite clear whether the Yearbook, when it claims that 98 per cent of world trade in 1954 is covered, implies that the communist countries accounted for no more than 2 per cent of world trade.

Apart from an increase in the number of countries covered, the Yearbook also presents three new tables, the share of world trade by regions and countries (in U S dollars), indices of unit values and quantum of exports. Absolute figures and price/quantum indices are also given for each of the countries separately. But in the country tables, values are expressed in national currencies; and the method chosen for working out the indices varies from country to country. This makes it impossible to compare directly the data in the world tables with those appearing in the schedules for the countries. Nevertheless, those that have the courage, and patience and ability to work it out can do so, since the ratios used for converting national currencies into U S dollars are also given.

The Yearbook is apparently not everbody's meat. One has to have a taste for figures, and an ability to isolate the essentials in order to relish the fare supplied in this volume. For the most part, this Yearbook, like its predecessors, is meant for research workers and economic historians rather than the layman or the economic administrator. Piecing together the several stories that the figures may be made to yield is a job requiring both time and proficiency in arranging and interpreting a large mass of figures. Investment of time and effort on this task would not be entirely fruitless; at the very least, it would lead to formulation of questions in answering which the administrators and policy-makers could well be significantly involved.

Even from a cursory glance at the tables, certain interesting facts emerge. The value of world exports (f o b) went up from a little over $ 20 billion in 1938 to nearly $ 53 billion in 1948 and over $ 76 billion in 1954. This enormous increase in the value of exports was in part due to an increase in prices; the unit value (price) index of exports (base 1950—100) rose from 47 in 1938 to 115 in 1948, and came down to 111 in 1954 (in terms of dollar prices). Which means, in other words, that much of the increase in export earnings between 1938 and 1948 was a result of increasing prices rather than of an increasing quantity of exports. Since 1948, the increase in quantity has more than offset the decline in international prices. This difference between trends in the war and post-war periods is all to be expected; what is significant is that the price-fall should have been so small and the quantity-increase so large.

This is in respect of the world as a whole. Over the same period, the fortunes of the different regions varied a great deal. For instance, North America (comprising Canada, Newfoundland and U S A) benefited not only from a doubling in the volume of its exports between 1938 and 1948 but also from a more than hundred per cent increase in the unit-value of exports. Continental West Europe, on the other hand, experienced a sharp decline in its exports, so that much of the benefit from the higher unit-price in 1948 was lost. The Sterling Area's export earnings in 1948 were larger than in 1938, due more to the increase in unit-values of exports than to the rise in volume. That these divergent trends should have manifested themselves as the "dollar gap", necessitating major adjustments subsequent to 1948, is obvious.

Comparison of the 1948 indicators with those of 1954 gives some idea of the magnitude of the effort put in by various countries to close the dollar gap. The volume of exports of continental West Europe, for instance, increased by more than 250 per cent, though not all of this is attributable to an increase in direct exports to the North American region. Sterling Area's export trade increased by over a third. Because of the relatively large rise in its exports, continental Europe found its external trade position much more comfortable than did the Sterling Area in 1954, despite the fact that the export price index for the former fell more sharply than for the latter. With the reappearance of inflationary forces in 1955, it is not surprising that the Sterling Area, especially the U K, was faced with a balance of payments crisis.

All of this is by way of illustrating the points that arise from a rough and ready study of the trade statistics contained in the first few tables relating to world aggregates. The position in respect of each country in 1948 and the subsequent changes that have occurred since in respect of foreign trade of each country could be worked out in detail from the country tables, and considerable instruction and amusement may be derived by trying to relate these changes to variations in the domestic and foreign policies of the different countries. It is indeed the scope which the Yearbook offers for such analysis that constitutes its raison d'etre.

One point may be raised in conclusion. The world tables show the aggregate imports (cif) and the aggregate exports (fob) for the years 1937, 1938, 1948, 1950 through 1954. For each of these years, the value of imports is in excess of the value of exports. Considering that exports for the "world", as here defined, is, or should be, the same thing as the imports of the world, this difference can only be due to c i f valuation of imports as against f o b valuation of exports. In other words, the import values include the cost of transporting from one country to another and the cost of insurance of goods in transit. One is not certain if this fully explains the difference between the two aggregates. If it does, the changes from year to year in this margin could well be the subject of further analysis, in terms of changes in freight and insurance rates, types of goods transported, changes in methods and directions of transport etc. It is, of course, irrational to expect the Yearbook to go into these details. But a couple of paragraphs on the factors contributing to this difference would have been of great help. Considering that the tradition of these Yearbooks is to improve continuously both the data and the explanations therein, one might expect that the next volume will have a few words to say on this point.

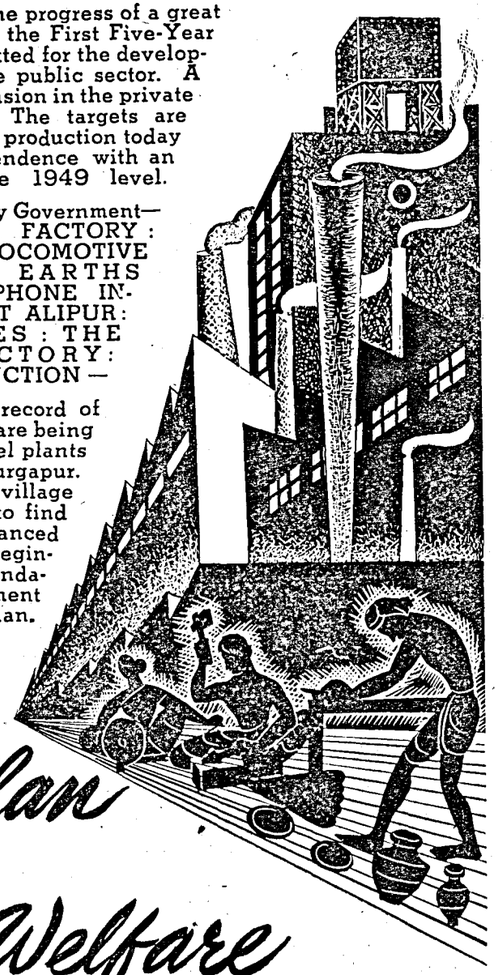
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already show an impressive record of achievement. Arrangements are being completed for three great steel plants at Rourkela, Bhilai and Durgapur. Small scale cottage and village industries are being assisted to find their due place in a balanced industrial structure. These beginnings would form a strong foundation for Industrial Development under the Second Five-Year Plan.



The People's Plan FOR THE People's Welfare

DA 55/204

Small-Scale Industry and Its Place In Economic Development

162482

Amlan Datta

FIRST, a word of terminological clarification. The expression "small-scale industry" says nothing about the size of an industry; it refers only to the size of the firms which constitute the industry. An industry may be as large as possible; convention dictates that it would still be called a small-scale industry if it is composed of small firms.

There is a belief that economic development leads inexorably towards larger-scale industry. Actual development does not, however, follow so simple a pattern. It is a fact of experience that after specialisation has made some progress within a particular firm, there is not infrequently a tendency towards some of the specialised processes detaching themselves from the parent firm. In course of time the parent firm comes to be surrounded by a variety of other firms, each concentrating on some by-product or on some particular commodity for which the parent firm has a demand. From economic development one could argue to expansion of market, and from expansion of market to division of labour or increased specialisation: but from increased specialisation one could not argue in any self-evident manner to large-scale industry in the modern sense of that term, for specialisation may be carried within the four walls of a single productive unit or outside it. In certain cases, there are, indeed, special technical factors which make for large units of production and some of these cases are very important. But, by and large, there is no technological inevitability about the growth of large-scale industry.

We should, however, be careful and make certain distinctions. Three such distinctions are specially important.

Non-Technological Factors

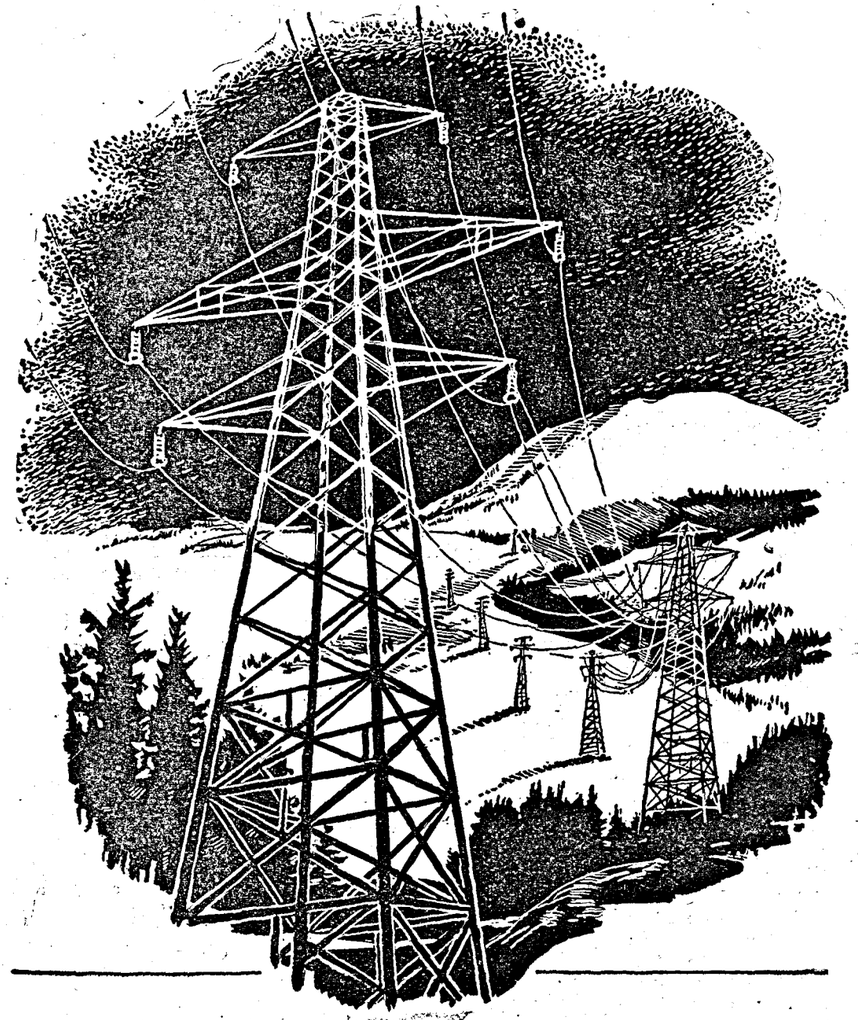
First, while small-scale industry may be compatible with technological efficiency, there are factors other than technology which in practice often determine the size of the firm. A clear understanding of the nature of these other factors may help us to create conditions, if we so desire, which will be favourable to the functioning of small-scale industry. A large firm has often certain commercial, as distinct from technological, advantages. It has advantages, for example, in obtaining credit, in buying its raw materials and selling its finished products. A large firm can also make provision for organising research, which a small firm cannot. It follows that small firms are likely to show best results when they are surrounded by supporting institutions, such as cooperatives and other specialised agencies, which provide them with those same facilities of credit, marketing, and research which large firms enjoy by virtue of their size. Alternatively, small firms may live dependently on big firms and financial institutions, which provide them with credit and other facilities.

Japanese Experience

The experience of Japan illustrates these points. What lends distinction to the case of Japan is that what was achieved in that country was not merely a revival of the traditional cottage industry about which so much is heard in some of the poorer countries with an old civilisation, but an adaptation of small-scale industry to the production of those new commodities which an industrial society requires. In 1939, small shops (defined as manufacturing and processing establishments with less than fifty workers) represented more than half of all industrial employment in Japan. As E. P. Reubens points out, "In the technologic operation alone, the Japanese have shown themselves very ingenious at adapting their system of small-scale production to the lines in which they have special advantages.... many a small shop found that the operation of a single-machine-unit could be at least as efficient as the operation of a long line of such units, if there was no concatenation between them." (E. P. Reubens: Small-Scale Industry in Japan. **Quarterly Journal of Economics**, August, 1947) But as the same author is careful to point out, "there is an important distinction to be drawn here between technological efficiency and commercial success". While in such industries as food-processing the small plants often could operate quite independently, in other industries, such as metal-working, the little shops were obviously dependent on the larger establishments for their raw material as well as for a part at least of their equipment, markets and financing. The system that developed in Japan resembled in many respects the 'putting out' system, marked by the dependence of craftsmen on private merchants, which was so common in some of the Western countries before the industrial revolution. In a modern economy, small-scale industry can hardly serve as an element of a democratic society unless, we repeat, it is placed within an adequate framework of cooperative institutions and public agencies, which take charge of its commercial and financial problems and feed it with a continuous flow of necessary knowledge and research.

Large-Scale and Large Industry

We come now to a second distinction. Though the technological advantages of large-scale industry have sometimes been exaggerated, there are certain definite advantages in favour of a large number of firms herding together. The advantages of large-scale industry are not the same as the advantages of large industry: this, indeed, is the reason why we started by drawing a distinction between small-scale industry and small industry. The advantages of a large industry, and particularly, of the herding together of a number of firms, sometimes belonging to different industries in the same locality, are conveniently summed up under the title of "increasing returns", in a slightly unorthodox sense of that term. The law of increasing returns is generally explained by modern economists in terms of the "indivisibility" of factors. With increase in the scale of 'output' of an individual firm, an indivisible factor may come to be more and more fully utilised, and the resulting economies are reflected in "increasing returns". When a scale of output is established which is sufficient for the full utilisation of the indivisible factor in question,



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further expansion of output will no longer yield "increasing returns", and a phase of "diminishing returns" ensues. Now, just as there is capital investment within a firm, so also there is basic social capital invested within any particular locality, for example, in the form of public utilities, of which the benefits accrue to all the industries within that locality. Up to a certain point, an increase in the number of industries operating within a locality may result in this basic social capital being more and more fully utilised. Instead of thinking of public utilities, we could also think of a local labour market which will be established if there is a sufficiently large number of firms operating within the given locality and of which the advantages will be enjoyed by all these firms collectively, or, again of the services of certain ancillary industries which will be forthcoming if there is a sufficiently large demand for such services. Beyond a certain point, further concentration of industries within any locality will, no doubt, lead to diminishing social returns, but up to a point the advantages may be considerable.

Small-Scale and Dispersion of Industries

This leads up to a third distinction. An argument for small-scale industry is not necessarily an argument for dispersion of industries, though the ideals which incline us towards the one may be similar to those that incline us towards the other. The distinction is of practical importance. Sometimes it is assumed that conditions favourable to small-scale industry are also conditions favourable to dispersion of industry, allowance being, of course, made for the fact that not all small-scale industries are "foot-loose". The relation between the two is, however, rather more complicated. There are indeed certain factors, to which we shall draw attention at a later stage, which encourage the one as well as the other. But it is important to realise that, to a certain extent, the two pull in different directions. When firms herd together there may be a greater possibility of maintaining small production units without diseconomy than when they are widely dispersed. This should be clear from our preceding discussion. The splitting up of productive processes into independent productive units is easier when these units operate in close proximity to each other. In the absence of such proximity, a large firm will find it more profitable to produce certain commodities itself, which otherwise it would have been content to be supplied by an outside firm. As Sargent Florence points out "a localisation of many medium or smaller plants offers similar economies to those found within a single large plant (e.g., juxtaposition between auxiliary services and the main process)". (P. S. Florence: **Investment, Location and Size of Plant.**) To the extent that this is true, a certain degree of crowding of industries encourages the development of small productive units, and dispersion of industries, instead of working in the direction of small-scale industry works in the opposite direction.

However, there are factors which are favourable to dispersion and to small-scale industry alike.

Factors Favouring Dispersion

As Lewis Mumford and others have never tired of pointing out, the "second industrial revolution" based on electricity works in favour of small workshops, and, at the same time, encourages dispersion of centres of production. The arguments in favour of this thesis are so well known that it is hardly necessary to reproduce them at length. "The efficiency of small units worked by electric motors utilising current either from local turbines or from a central power plant has given small-scale industry a new lease of life." (Lewis Mumford: **Technics and Civilisation**). Sources of industrially utilisable electric power are far more widely dispersed than the older source of power connected with coal, and coal is, in any case, incomparably more difficult to transport over long distances than electricity. The "weight-losing" principle which determined the concentration of major industries around the chief coal mines operates today in an entirely different technological environment. The same tendency towards dispersal of centres of industry is strengthened by the complete reorganisation of the system of communication that has been brought about by electricity. The introduction of telephone, for example, makes it possible to combine centralised direction with a far greater dispersion of units of production than would have been possible otherwise. No doubt, the old pattern of industrial concentration cannot be scrapped all on a sudden, so that the past has its pull on the present: but countries which are newly developing today have a comparatively free field to plan in this respect.

Immobility of Labour

A second factor favouring dispersal of industries is the territorial immobility of labour. It has long been known that within a country labour tends to be far less mobile than capital. This is true even of the industrially developed countries like Britain, as Lord Beveridge has clearly pointed out. So long as the transport of heavy raw materials presented the principal difficulty, labour as well as capital had to be moved to the sources of raw material, particularly, of coal and iron. Only those who are unacquainted with economic history minimise the hardship to labour presented by this process. In England, the enclosure movement, and a whole range of inhuman legislation, combined to keep up a sufficient supply of labour at the crucial industrial centres. In the U S S R a whole series of compulsions had to be adopted to the same end, with forced collectivisation providing the background. It is doubtful whether a rapid supply of labour at a few industrial centres can at all be guaranteed today, without reducing the whole trade union movement to a position of subservience to the government and without introducing dictatorial methods extending beyond the industrial sphere. On the other hand, if industries are more widely and judiciously dispersed, if, in other words, industry meets labour at least half way, instead of labour having to meet industry the whole way, large masses of people will be spared untold hardships. This is quite apart from the fact that a policy of dispersal of industry will make possible a more adequate utilisation of the surplus agricultural labour force in the **underdeveloped** countries.

The question of the utilisation of the surplus rural population brings us to our next point. In countries like India, with a long tradition of highly artistic products of cottage industry, there seems to exist a considerable fund of local and traditional skill which, with minor adaptation, can still be utilised under modern conditions. In all such cases, it is a waste of resources to try to fit the artisan to an entirely new environment in which his inherited skill is of no value at all. But if such waste is to be avoided, care has to be taken to allow new forms of industrial

organisation to evolve out of the old, mostly, perhaps, where they had been before.

Dispersion of Industry to Encourage Rural Investment

Finally, spreading industry over the countryside seems to be desirable for encouraging habits of investment in rural areas. This is of particular importance in the underdeveloped countries. In such countries, rapid economic growth is hardly possible, unless, at the same time as measures are adopted for agricultural improvement, methods can be found for mobilising rural savings. This can be done in several ways. In Japan, in the early years of industrialisation, no tax yielded larger revenue to the government than the land tax. In Russia, collective farms are, as Nurkse has pointed out, "collective" in more than one sense. They have served as instruments through which the State has collected compulsory levies from the peasantry. Under such circumstances, the theory that industrialisation takes place on the basis of the exploitation of the villages by the towns gains plausibility. Certainly, the more democratic way will be to spread investment opportunities all over the country in such a manner that reliance on forced mobilisation of rural savings is minimised, and an environment is created in which peasants develop spontaneous habits of thrift and investment. Perhaps there is here something to be learnt from countries like Denmark.

Conclusion: Bunched Dispersal

What is the upshot of the various trends of arguments sketched above? These arguments, taken in their totality, seem to point towards a certain compromise which we venture to present as follows:

(a) There are some industries which can only be large-scale, if serious diseconomy is to be avoided;

(b) But there are other industries which can be organised on a small scale, without serious technological inefficiency;

(c) These industries ought to be dispersed in bunches, as far as possible, every bunch consisting of certain interdependent firms, account being taken also of locally available under-employed labour and skill;

(d) These small-scale industries should themselves be surrounded by cooperatives and public agencies so as to relieve them of their weakness as commercial units, and assist them in research and in other ways.

The picture of bunched dispersal of industries presented above seems to be in accord with the aims of community development projects, with agro-industrial townships lying at the centre of sizable rural areas to which they are organically related.

There is one final observation that one would like to add. Bunched dispersion of enterprise is impossible without bunched dispersion of enterprising people. In all industrial societies, there is a tendency towards the rural area being drained of talents. Talents tend to gravitate towards the cities, partly because the cities offer more spectacular risks and more glittering prizes. There are solid as well as superficial considerations which decide the flow towards city life. And once the flow starts, the very drain of the village has a cumulative effect of dragging down rural standards progressively, until perhaps a reaction arises. The success of an arrangement such as indicated above will depend in no small part on the extent to which small-scale industries can attract enlightened "entrepreneurs", in the Schumpeterian sense of the word. Without the imagination and boldness to experiment and innovate, small-scale industry will languish in a developing economy; and whether such imagination will actually be displayed will depend on the quality of the people who actually interest themselves in such industry.

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State Budgets

A STRIKING feature about the State budgets for 1956-57 which have been out in recent weeks—those of West Bengal, Madras, Bombay, Bihar, Uttar Pradesh, Madhya Pradesh, Andhra and Hyderabad—is that though the States concerned emphasise the importance of stepping up resources to meet the increasing demands under the Second Plan, and in most of them expenditure is increasing more rapidly than revenue, only three budgets viz. those of Madras, Andhra and Bihar, propose additional taxation. With the exception of Bombay, which has had the good fortune of realising a small surplus, all the other States have emerged with deficits, though of varying magnitude. Three States, Uttar Pradesh, Madhya Pradesh and West Bengal admit the need for raising tax yields. Thus the West Bengal Finance Minister has stated that in the next five years he intends to raise the tax yield by Rs 12.1 crores through such measures as 'entry' tax on tea, extension of coverage of sales tax etc. His counterpart in Madhya Pradesh has stated that additional taxation is expected to bring in Rs 12 crores in the next five years. In UP, the rates of existing taxes, including sales tax, would be raised; but it is not known how and when. Hyderabad, however, is completely silent on fresh taxation. The States do not appear to be in a hurry to levy fresh imposts with the general elections before them.

Large Deficit for West Bengal

Although there is a large deficit on revenue account, the West Bengal budget contains no fresh taxation proposals. The estimates for 1956-57 disclose an over-all deficit of Rs 16.89 crores, of which deficits on revenue and capital accounts amount to Rs 14.19 crores and Rs 2.70 crores respectively. As against this, the current year ends with a revenue deficit of Rs 15.09 crores and a surplus of Rs 12.45 crores outside the revenue account, resulting in an overall deficit of Rs 2.64 crores.

The capital budget provides for an expenditure of Rs 25.62 crores as against Rs 14.42 crores in 1955-56. (RE). The bulk of the budgeted outlay is on DVC, amounting to Rs 11.67 crores. Capital outlay under the second Plan would be Rs 153 crores, and the budget provision under this head is placed at Rs 35.27 crores.

Surplus for Bombay

Bombay has had a succession of surplus budgets in the last four years, though the surplus is of a small order. Estimates for 1956-57 show a surplus of Rs 23 lakhs—estimated revenue receipts and revenue expenditure amounting, respectively, to Rs 78.10 crores and Rs 77.86 crores. The revised estimates for 1955-56 show a bigger surplus of Rs 83 lakhs, against the anticipated surplus of Rs 22.37 lakhs. This larger surplus is not due to buoyancy of revenue—for there has been a fall in receipts to the extent of Rs 39 lakhs—but to shortfall in expenditure by Rs 99 lakhs. There are no fresh taxation proposals for the budget year.

Madhya Pradesh and UP

Madhya Pradesh has a deficit budget for 1956-57, the third year in succession. There is a revenue deficit of Rs 3.82 crores, the anticipated expenditure for the year at Rs 34.75 crores exceeding revenue receipts of Rs 30.93 crores. The State proposes to meet half of the deficit by additional taxation; however, as mentioned earlier, no tax measures have been announced.

The UP is budgeting for a deficit on revenue account of Rs 9.55 crores, with receipts estimated at Rs 85.35 crores and expenditure at Rs 94.91 crores. The revised estimates for 1955-56, however, show a balance against the anticipated deficit of Rs 5.5 crores.

Capital expenditure in UP during the budget year is placed at Rs 42.98 crores against Rs 29.44 crores in the current year. The overall deficit for the year is expected to be of the order of Rs 1.48 crores.

New Taxes for Bihar

Hyderabad has emerged with a deficit for the fourth year in succession, the revenue deficit having risen by Rs 1.1 crores over that in 1955-56. The estimates for 1956-57 disclose a deficit of Rs 4.3 crores —revenue being placed at Rs 26.04 crores and expenditure at Rs 30.37 crores. The revised estimates for 1955-56 show that both revenue and expenditure have dropped from the original budget estimates—the former from Rs 30.62 crores to Rs 24.75 crores and the latter from Rs 32.83 crores to Rs 27.9 crores. But the deficit has been larger than anticipated viz. 3.21 crores, due to the greater fall in revenue receipts. The Finance Minister has not, however, proposed fresh taxation to cover the deficit.

The Bihar budget for 1956-57 shows a revenue deficit of Rs 29.47 crores, receipts and expenditure being placed at Rs 66.75 crores and Rs 96.23 crores respectively. The Finance Minister has proposed to adopt three fresh taxation measures, viz. levy of a cess of one anna in the rupee on rent, a tax of annas three per gallon of diesel fuel and

STATE BUDGETS— REVENUE ACCOUNT

(Rs Crores)

	1954-55 (Acs)			1955-56 (RE)			1956-57 (BE)		
	Revenue	Expenditure	Surplus (+) or Deficit (—)	Revenue	Expenditure	Surplus (+) or Deficit (—)	Revenue	Expenditure	Surplus (+) or Deficit (—)
Madras	—	—	—	52.68	54.88	—2.20	60.77	62.43	— 1.65
U P	78.19	77.58	+0.61	85.97	85.97	—	85.36	94.91	— 9.55
Bombay	79.43	71.49	+7.93	79.72	78.89	+0.83	78.10	77.87	+ 0.23
Andhra	19.82	25.00	—5.17	22.39	26.37	—3.97	23.71	26.95	— 3.24
M Pradesh	—	—	—	—	—	—	30.93	34.75	— 3.82
Bihar	—	—	—	—	—	—	66.75	96.23	—29.47
Hyderabad	—	—	—	26.04	30.37	—4.3	24.75	27.96	— 3.21
West Bengal	42.65	49.15	—6.50	50.69	65.78	—15.09	49.36	63.55	—14.19

levy of a multipoint sales tax at low rates, in place of the present higher single-point tax.

Andhra Tax Proposals

Right since its inception in 1953, Andhra has been faced with deficit budgets, though the size of the deficit showed an appreciable decline from Rs 5.17 crores in 1954-55 to Rs 3.97 crores in 1955-56 (RE). The estimates for 1956-57 bring the deficit further down to Rs 3.24 crores, receipts and revenue expenditure being placed at Rs 23.71 crores and Rs 26.95 crores respectively. The revised estimates for the current year, however, show an increase in the deficit i.e. from Rs 3.66 crores in the budget to Rs 3.98 crores (revised)—revenue and expenditure being placed at Rs 22.39 crores and Rs 26.37 crores respectively.

The Finance Minister has proposed to raise Rs 2.16 crores by new taxation, which includes

(i) levy of full assessment on inam lands (Rs 46 lakhs);

(ii) additional single point tax on mill-made cloth and precious stones (Rs 50 lakhs);

(iii) purchase tax on unmanufactured tobacco and sales tax on cheaper varieties of manufactured tobacco (Rs 60 lakhs);

(iv) surcharge on land revenue on a graded scale (Rs 45 lakhs); and

(v) revision of the rates of court fees and suit valuation fees (Rs 15 lakhs).

Despite the new tax proposals, the year is expected to close with a deficit.

Madras is also faced again with a deficit budget, the estimates for 1956-57 disclosing a deficit of Rs 3.11 crores at the existing level of taxation—with revenue at Rs 59.33 crores and expenditure at Rs 62.44 crores. Rs 1.45 crores proposed to be raised by additional taxation are expected to reduce the gap to Rs 1.66 crores. The new tax measures proposed by the Finance Minister include

(a) enhancement of the tax on diesel oil from 1½ as. to 4 as. a gallon—Rs 30 lakhs;

(b) additional sales tax of one anna in the rupee on sugar at any suitable point—Rs 40 lakhs;

(c) 30 per cent increase in the electricity rates in hydro-electric areas for bulk consumers and licencees—Rs 45 lakhs; and

(d) assessment of inam lands on ryotwari basis in lieu of quit rent—Rs 30 lakhs.

The one tax relief that is proposed in the budget is the exemption of palm gur from sales tax at all points.

We have tried to bring together above the bare figures of revenue and expenditure, together with such tax proposals as have been made by some of the State Governments. Thes figures, however, tell us very little. State Governments all show deficits, but what do these deficits mean? By 1955-56, they had used up all their reserves; so there is very little left in either their cash balances or investment reserves which could be drawn down any further. So these deficits have to be made good, in some way or other, by the Centre. But how far Central assistance in the form of grants and loans (for which data are available from the Central budget) will go to make these deficits cannot be known; so until, Reserve Bank publishes its study of the State budgets in a couple of months, it will not be possible to make out anything really sensible of the State budgets.

This is, by all counts, a very unsatisfactory state of affairs, since no consolidated data of the State finances would be available when the budget of the Government of India is discussed by Parliament. Much hard work has been put in by the Reserve Bank in recent years to reduce these budget statements into an intelligible account. This involves an enormous amount of reclassification but even so, much is left to be desired. For instance, even the Reserve Bank, with its resources, is unable to give a breakdown of the development expenditure in terms of those which are in the Plan and those outside the Plan which the States undertake either because of the pressure of local circumstances or to satisfy their own whims. Since this is a matter of standing dispute between the Centre and the States and comes up every now and again, it is surprising that such gaps should be left in our knowledge of facts. In the past it had been left to the Planning Commision to throw some light on the performance of the States in the matter of development in its Progress Reports, but for reasons which are hard to guess, no such report has come out for a very, very long time. Members of Parliament who are really interested in following financial developments in the country and the progress of the Plan may usefully take up this question and try to put an end to the present unsatisfactory state of affairs.

MARTIN BURN LIMITED

NOTICE

THE Tenth Ordinary General Meeting of the Shareholders of Martin Burn Ltd. will be held on Wednesday, 28th March, 1956 at 12 noon at the Registered Office of the Company, 12, Mission Row, Calcutta, to transact the following business :—

(1) To receive and adopt the Directors' Report and Audited Balance Sheet and Profit and Loss Account for the year ended 30th September, 1955.

(2) To declare a Dividend and Cash Bonus.

(3) To elect Directors.

(4) To appoint Auditors for the current year and to fix their remuneration.

The Ordinary Share Registers of the Company will be closed from 21st to 28th March, 1956, both days inclusive.

By Order of the Board,
A. G. Gidley
Secretary.

CALCUTTA,
5th March, 1956.

NOTE—The Dividend and Cash Bonus, if sanctioned, will be paid on or after 23rd April, 1956 to those Shareholders so entitled whose names appear in the Company's books on the 28th March, 1956 or to their mandatees. No application for dividend warrants will be necessary.

The Tax Proposals

THE budget presented by Shri Chintaman Deshmukh last year had shown clearly the type of the proposals that could be expected in ensuing years. It was apparent that stimulation of private industrial investment through specific tax incentives would be combined with a rising general level of taxation whose object would be to provide the State with the increasing revenues it needed for an expanding public sector, and to reduce existing inequalities of income and wealth still further.

Last year's proposals were determined wholly by the Matthai Commission's proposals. This year, the emphasis has shifted slightly, for two reasons. First, the major recommendations of the Commission had already been implemented last year. Second, the Commission had been thinking in terms of a much smaller Plan for the second five-year period than had ultimately found acceptance. The need for a major tax effort was accepted on all hands.

This year's proposals also provide evidence of the determination of the Finance Minister to close all loopholes in the tax system making for legal evasion and to check illegal evasion as well, by the acquisition of the necessary powers for the purpose.

The aim of raising the revenue resources of Government is made effective through changes in both direct and indirect taxes. "The only changes I propose in personal taxation", says the Finance Minister, "is a slight adjustment upwards of the super-tax payable on incomes above Rs. 70,000. With this adjustment, the rate of tax on the highest slab of income, that is, above Rs. 1,50,000 will be 91.9 per cent against the present figure of 88.6 per cent". What Shri Deshmukh has actually done is to split the two slabs of Rs. 20,000 each above Rs. 60,000 into two equal parts, making the upper slab in each case pay 1|2 anna more than the rate at present applicable to the whole and further to split the slab of 50,000 above a hundred thousand into two, the lower of 20,000 and the upper of 30,000, with the same increase on the latter slab. Since this makes the rate on this slab of 30,000, 9-1|2 annas in the rupee, which is at present the rate on the balance of income above 1,50,000, the rate on the balance is now raised to 10 annas. The effect of these changes are shown in Table I. It should be noted that these changes not only raise the maximum rate of super-tax applicable to the last slab of income, but also raise the rates on alternate slabs from Rs. 70.000 upwards. These rates are, of course, in addition to the income tax and the surcharge of one-twentieth on that and the surcharge of one-twentieth on super-tax which together take the rate applicable on the part of income above Rs. 1,50,000 per annum to the high level of 91.9 per cent. A glance at the table indicates the direction in which future changes are likely. A re-arrangement of slabs and rates are possible between the present third and fourth slab as a rationalisation to smooth the progression at that point!

The most important proposal perhaps is the withdrawal of the rebate of one anna in the rupee on undistributed profits at present granted to companies other than those coming under Section 23-A of the Income Tax Act. This proposal need not be taken to imply that the incentive to keep dividends low and thus expand corporate savings is now removed. That would have been undoubtedly undesirable in the present circumstances. It could be argued that the higher mobility would make them more desirable in the context of limitations on the expansion of the organised consumer goods industries which would be making higher profits and the need for investment in specified industries. But against this, would be the certainty of obtaining the savings at all.

Taken in the context of another proposal made by Shri Deshmukh, however, this discussion becomes academic for the incentive not to distribute profits in the form of high dividends still remains and has, if anything, been enhanced. This other proposal is the one levying a special super-tax on dividends distributed by a company in excess of 6 per cent of the paid-up capital. The rates of this tax are two annas in the rupee on the amount of dividends in excess of 6 per cent but not more than 10 per cent and 3 annas in the rupee on the excess over 10 per cent. For this purpose, the paid-up capital will include bonus capital but exclude preference capital and dividends "on preference shares will not be taken into account for determining the amount of excess dividends to be subjected to this extra super-tax". This last provision seems to be necessary to make the new scheme administratively feasible, but there is a danger in it which the Finance Minister does not seem to have noticed. New Preference shares with higher dividends or participating in additional profits may provide a way of legally evading the new tax.

The rates of special super-tax applicable to the excess paid in dividends above 6 per cent being higher than the original rebate on undistributed profits, the incentive not to distribute profits has, in fact, been increased. An incentive to do something desirable may be given by providing a benefit to those who do it or a penalty to those who do not. It is the latter method which Shri Chintaman has now resorted to. The net effect will be to bring more revenue to the Government while providing the necessary differential in favour of savings and industrial investment. One may also think of it as an indirect "ceiling on dividends" which is less harsh than the direct method and yet yield revenue.

The proposal to levy an extra super-tax at the rate of 2 annas in the rupee on the face value of bonus shares may be considered either as a supplement to the super-tax on excess dividends discussed above or as an independent measure. Considered independently, the tax provides a new source of revenue affecting the class of persons who may be considered to be in a position to pay at that stage. It also implies a tax recouping the Government in part for the benefit which it has hitherto given to the companies in the form of a differential tax in favour of undistributed profits.

The tax is supplementary to the excess dividends super-tax in so far as the permissible dividend is calculated on paid-up capital, inclusive of bonus shares. Those companies that would like to declare high dividends on their present paid-up capital would, therefore, have a stimulus to issue bonus shares so as to reduce the apparent rate of dividend and thus not attract the tax. The tax on bonus shares will detract from the advantages of taking this step to some extent. That is why the Finance Minister said that, "such a tax is an integral part of the scheme". The question is whether it will act as a sufficient deterrent in the face of the immense tax savings

likely every year from the reduction of the apparent dividend rate that would follow the issue of bonus shares. The market angle is not being considered here.

The Finance Minister has also provided a relief which will reduce the deterrent effect of the tax on bonus shares in certain cases. The Finance Ministry's Memorandum explaining the proposal points out that the "extra super-tax on excess dividends and bonus issues taken together will not exceed an amount calculated at 4 annas in the rupee on the total income of a company".

There are other important proposals for direct taxation, but their primary purpose does not appear to be to obtain more revenue as such, though that will no doubt result. These may now be considered. The first is the tax on registered partnership firms. The Finance Minister has now proposed that a small tax should be imposed on registered firms as such at the rate of nine pies per rupee up to Rs. 75,000, one anna up to Rs. 1,50,000 and one anna six pies for incomes above this figure. To understand the significance of this tax it should be noted that the "partners of the firm will get abatement on their proportionate shares of this tax for the purpose of income tax, but not for super-tax". Small partnerships with incomes below Rs. 40,000 are exempt from this tax. This proposal has the object of reducing the advantage which registered partnership firms enjoy over unregistered partnerships on the one hand and over companies on the other. It will no doubt provide additional revenue—estimated at one crore of rupees in 1956-57.

The proposal to increase the penal super-tax payable by a Section 23-A company dealing wholly or mainly in investments from four annas to eight annas in the rupee is somewhat confusing. It will no doubt tend to increase the distribution of dividends by such companies in spite of the special super-tax on excess dividends, but this is in fact what is intended up to a point. "The flat rate of four annas is low", it is explained, "for purely investment companies which do not need to have any large reserves and the shareholders may prefer the company to pay this super-tax at a comparatively low rate rather than themselves pay super-tax at higher rates which they will have to if the profits are distributed to them as dividends." It is clear from this that the intention is to eliminate one source of legal evasion.

With regard to foreign companies, the tax payable by a foreign firm operating through a branch has been raised from 53 per cent to 62 per cent, which is the same as that paid by a subsidiary Indian company which remits the whole of its profits as dividends to its foreign parent company. The form through which a foreign company operates in India will, therefore, no longer make any difference to its tax liability.

Another proposal affecting non-residents is to restore the flat rate of super-tax payable by them as an option to the rate appropriate to their world income to 3 annas. With the insertion of the new lower slab of super-tax in 1955 attracting a rate of one anna, the flat rate had also automatically fallen to one anna. The previous rate has now been restored. The Taxation Enquiry Commission had recommended a flat rate of 2 annas for this purpose.

With the introduction of the development rebate last year, the initial depreciation allowance in existence since 1946 had become allowable only for items such as buildings, motor cars, equipment, etc and for assets held by persons in the professions. This allowance has now been discontinued, though the development rebate will of course be granted on all items to which it is applicable.

To close an important loophole in the existing law, it is now proposed to disallow in the assessment of a company, any expenses for providing remuneration or amenities or benefits to directors or shareholders which are excessive or unreasonable considering the legitimate business needs of the Company. This will be without prejudice to the assessment of the full remuneration or benefits in the hands of the recipients under the law as it stands.

Other minor provisions increasing tax liability subject to tax the distribution out of profits, whether capitalised or not, on the liquidation of a Company and provide for readjustments of the tax relief given to shareholders on dividends received by them where the Company concerned defaults in the payment of the tax due.

While the proposals discussed above all increase the tax liability in one form or another, whether deliberately to increase revenue, or to close loopholes and eliminate anomalies, there are three proposals which will reduce tax liability. Though undoubtedly of a minor character, they ought to have been noticed to obtain a balanced picture of the current budget proposals.

The first proposal recognises that salaried employees do use conveyances of their own, partly, if not wholly, for the purpose of their employment as it facilitates the performance of their duties and otherwise contributes to their efficiency. It is, therefore, proposed to permit in their assessments the deduction of a reasonable portion of the expense and wear and tear which can be attributed to the use of conveyance on employment purposes as distinct from purely private purposes. Here is a concession which may stimulate the demand in India for cars, motor-cycles and scooters.

By another proposal, it is intended to grant unilateral relief in India for income charged to agricultural income tax in Pakistan which was hitherto taxed as non-agricultural income in India. It is proposed to make this concession effective retrospectively from 1948-49.

By the third proposal, a technical difficulty with regard to the exemption of salaries of certain foreign technicians employed in Government undertakings has been removed.

By the fourth proposal the exemption from tax granted to certain industrial undertakings for the first five years of their existence if established before March 31, 1956 has been extended to cover those established during the next five years also. The limit of the exemption to profits not exceeding six per cent of the paid-up capital continues.

It is clear from the various tax proposals made that apart from a tendency towards a general rise in the level of taxation and the continuance of specific incentives, the intention of the Finance Minister is to close as many loopholes as possible and eliminate inequalities as between different classes of tax payers in similar circumstances. That such rationalisation is in most cases achieved by steps which increase rather than decrease tax liability is what one should expect in the context of the requirements of the second Plan.

TABLE I

PROPOSED CHANGES IN SUPER-TAX

Existing			Proposed		
First	Rs. 20,000	Nil	First	Rs. 20,000	Nil
Next	Rs. 5,000	1 anna	Next	Rs. 5,000	1 anna
Next	Rs. 15,000	3 annas	Next	Rs. 15,000	3 annas
Next	Rs. 10,000	5 annas	Next	Rs. 10,000	5 annas
Next	Rs. 10,000	6 annas	Next	Rs. 10,000	6 annas
Next	Rs. 20,000	7 annas	Next	Rs. 10,000	7 annas
			Next	Rs. 10,000	7½ annas
Next	Rs. 20,000	8 annas	Next	Rs. 10,000	8 annas
			Next	Rs. 10,000	8½ annas
Next	Rs. 50,000	9 annas	Next	Rs. 20,000	9 annas
			Next	Rs. 30,000	9½ annas
Balance of total income 9½ annas			Balance of total income 10 annas		

Around Bombay Markets

Post-Budget Rally

Thursday, Morning

THE performance of the Stock Exchange last week, during which the market had time to digest the budget proposals, is significant in that it reflects the final verdict on the budget which is that it is not in fact so bad. This is broadly borne out by the rally which the market witnessed, though technical factors also helped in that the oversold position led to some bear covering which also accounted for the firmness of rates.

Knowledgeable quarters now feel that the companies that would be hardest hit by the tax on dividend are plantation and mining which were paying dividends of over 30 per cent. Thus, such companies like Shivrajpur, Belapur, Bombay Burma in Bombay, and Bengal Coal and Indian Coppers in Calcutta and United Nilgiris, Mettur Industries, Periakaramalai teas in Madras may have to reduce their dividends to pay for the heavy dividend tax. It is also considered likely that those companies which have a strong reserve position will apply for permission to issue bonus shares, despite the tax on bonus shares. It is needless to mention here that permission will be given to capitalise reserves and issue bonus shares only to such companies as have sufficient reserves accumulated from earned profits. In general, however, companies will try to maintain or pay slightly higher dividends and pay dividend tax to Government by reducing the allocation to reserves. When this aspect of the dividend distribution was brought home to market operators, they took courage and gave sustained buying support.

Immediately after the release of the Budget proposals there was of course a pronounced weakness. This was soon followed by a smart recovery on Thursday evening. Since then there has been continued bear covering which enabled the prices to move up by stages. Other incidental factors which also influenced market sentiment were the declaration of a higher dividend of Rs 25 per share (Rs 12-8 final plus Rs 5 bonus including Rs 7-8 interim) by Bombay Dyeing as against Rs 20 per share last year, the raising of the dividend from Rs 13 to Rs 15 per share by Gokak and the expectation of a higher dividend at around Rs 4 per share by Tata Mills and Rs 12 by Swadeshi Mills.

Although the worst to suffer from the new taxes are the cotton mills which have to bear an additional burden on Rs. 14.5 crores by way of excise duty, mill shares in general have recovered from their early setback and are now ruling distinctly firm, supported by the excellent working results of many of the textile mills. New Great mills registered a sharp jump of more than Rs 35 while Century, Bombay Dyeing, Gokak, Kohinoor, Tata Mills and others ruled firm.

In the miscellaneous section, Bombay Burma attracted sustained investment buying on the strength of their good reserves and expectation of bonus. This company has the further advantage of tax relief on tea. Investment support was also noticed in Digvijay Cement and ACC while expectation of a maiden dividend helped Tata Chemical.

Cotton

Resumption of Forward Trading

WITH the end of the deadlock in cotton in sight, the chances of an early resumption of trading in the August contract have brightened. The Bombay High Court has upheld for the second time the validity of the Forward Markets Commission's action in fixing the clearings in February and May contracts at Rs 700 and Rs 688 per candy respectively. Following the High Court's judgment, the East India Cotton Association effected outward payments in the settlement of the two disputed contracts. The Forward Markets Commission has under consideration certain proposals to amend the by-laws of the Indian Cotton Contract and when these amendments are finalised, permission is expected to be given for the resumption of futures trading in cotton for the August contract.

The spot market at Sewri was moderately active during the week and a large volume of business was done mainly in Vijay cotton. While earlier in the week there was a distinctly rising trend in spot values, the process was reversed towards the close of the week when operators became apprehensive that the authorities might intervene to reguate spot delivery contracts. In the event, they became chary of enlarging their commitments with the consequence that prices of basic styles declined considerably.

In the export section, the latest announcement that the US would start selling its surplus cotton at world parity prices acted as a damper. It was feared that despite the assurance that US would sell its cotton at competitive prices, it would ultimately result in a virtual dumping of U.S. cotton on world cotton markets. It was announced by the U.S. Secretary of Agriculture that the new sales of surplus cotton would start only from August 1, 1956 and this sales programme would be a regular annual feature and might be stepped up gradually to attain a target of 5 million bales of surplus cotton exports in a year.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1418.65	1402.85	1392.36	1265.56
2. Rupee Coin	103.97	105.03	105.38	101.99
3. Deposits				
a) Central Government's	59.56	66.51	52.87	52.61
b) Banks'	49.34	55.16	63.23	46.14
c) Other Governments'	18.02	16.12	14.40	18.64
d) Others'	16.81	15.97	15.79	22.07
4. Foreign Securities	682.15	667.15	652.15	673.15
5. Balances held abroad	53.92	67.66	81.41	58.25
6. Rupee Securities	603.22	603.22	603.26	457.73
7. Investments	47.41	49.28	50.37	55.75
8. Loans and advances to Governments	2.89	3.60	2.52	1.20
Scheduled Banks				
1. Demand liabilities (net)	626.65	624.64	642.43	578.27
2. Time Liabilities	418.08	416.89	409.88	370.62
3. Cash on hand	34.82	36.31	37.32	32.82
4. Borrowings from Reserve Bank	40.82	38.65	29.37	12.81
of which against Usance Bills	21.65	18.72	17.70	6.44
5. Advances and Bills discounted	651.99	646.79	629.74	557.21
of which State Bank's	120.42	120.82	114.47	120.16
6. Invst. in Govt. Sec.	375.26	377.44	381.77	352.31
of which State Bank's	105.11	106.95	107.14	97.64
Cheque Clearance	173 02	160.00	179.08	156.11

†For Reserve Bank and Cheque Clearance week ended 2-3-56. Scheduled Banks week ended 24-2-56.

Bombay Money Rates	2-3-56	24-2-56	3-2-56	4-3-55
Inter-Bank Call Rate	3 1/16	3	2	2 7/8
3 months deposits	3 1/16	3 1/16	3	3
6 months deposits	3 3/16	3 1/16	3	3

Bombay Bullion — In Rupees and Annas

	8-3-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	100-1 1/2	99-15	95-15	92-14
Forward	99-11 1/2	99-4	95-13	91-14
Silver (per 100 tolas)				
Spot	174-7	173-5	175-0	168-0
Forward	174-11	173-13	174-4	168-0

COTTON STATISTICS

MILL CONSUMPTION

(in '000 bales of 400 lbs each)

Description:	Dec '55	Nov '55	Oct '55	Sept '55	Aug '55	Sept '55 to Dec '55
Indian	397.24	352.68	386.0	382.97	362.46	1518.80
Foreign	51.65	42.88	45.94	45.17	41.98	185.64
of which American*	3.35	2.70	3.72	4.40	5.1	14.17
Egyptian	15.97	13.56	13.93	15.04	13.2	58.50
E. African	20.07	16.47	17.95	17.05	15.3	71.53
Sudan†	10.84	9.68	9.94	8.44	8.1	39.01
Pakistan	—	—	—	xx	xx	—
TOTAL	448.89	395.56	431.94	428.14	404.44	1704.44
Consumption in corresponding periods a year ago:						
Indian	363.46	348.93	311.31	328.02	329.4	1351.71
Foreign	59.50	62.11	55.01	60.78	61.9	237.40
TOTAL	422.96	411.04	366.32	388.80	391.3	1589.11

* Includes both United States and Peruvian cotton.
† Includes both Sudan Egyptian and Sudan American
xx Negligible

MILL STOCKS OF COTTON

(in '000 bales of 400 lbs each)

	Dec '55	Nov '55	Oct '55	Sept '55	Aug '55
Indian:					
1955-56	1033.36	1055.21	1125.55	1278.13	1443.4
1954-55	942.26	850.22	861.05	916.00	1010.8
Foreign:					
1955-56	159.22	167.86	169.34	172.30	179.2
1954-55	152.34	161.14	173.90	169.21	200.4

Source : East India Cotton Association

COTTON IMPORTS

(in '000 bales of 392 lbs each)

Source	Nov '55	Oct '55	Sept '55	Aug '55	Sept '55 Nov '55
USA	1	—	1	—	2
East Africa*	7	11	6	32	24
Egypt & Sudan	29	22	21	20	72
Other countries	—	2	2	1	4
TOTAL	37	35	30	58	102
Total imports in corresponding months of the previous year	33	44	28	38	105

*Includes Kenya, Tanganyika and Uganda.
Source : Indian Trade Journal

COTTON EXPORTS

(in bales)

Destination	Exports from 1st Sept. to 1st March 1955-56 (a)	1954-55	1953-54
United Kingdom	41,366	14,214	9,550
Continent	64,664	22,686	16,753
China	34,651	1,409	251
Hongkong	26,338	—	—
Japan	157,571	52,299	42,454
USA	3,195	10,199	10,543
Other foreign countries	2,552	808	1,452
Total all foreign countries	330,337	101,615	81,003
Coast Ports	64,450	62,635	71,165
TOTAL	394,787	164,250	152.168

(a) Excluding Zoda and yellow pickings etc
Source : East India Cotton Association

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

	Group and Sub-Group	Week ending 18-2-56	Week Ago	Month Ago	Year Ago
I	**Food Articles:**	**338.3**	**328.8**	**334.2**	**304.9**
	Cereals	419	399	397	343
	Pulses	359	341	370	236
	Others	228	231	240	264
II	**Industrial Raw Materials:**	**459.8**	**464.9**	**451.1**	**438.8**
	Fibres	466	472	448	492
	Oilseeds	467	467	438	359
	Minerals	444	439	447	411
	Others	411	443	453	482
III	***Semi*-Manufactures:**	**355.5**	**355.7**	**354.4**	**340.8**
	Leather	398	408	424	389
	Mineral Oils	202	202	202	221
	Vegetable Oils	426	425	424	395
	Cotton Yarn	446	445	434	441
	Metals	280	280	280	242
	Oilcakes	342	344	394	307
	Others	364	364	330	337
IV	**Manufactures:**	**375.5**	**375.6**	**374.4**	**376.6**
	Textiles	409	409	407	421
	Jute	416	420	412	480
	Cotton	403	403	403	409
	Rayon & Silk	502	494	486	455
	Woollen	278	278	278	310
	Metal Products	371	371	371	340
	Others	285	285	285	284
V	**Miscellaneous:**	**527.4**	**528.8**	**536.0**	**563.7**
	All Commodities:	**378.7**	**376.1**	**375.7**	**362.3**

INDEX NUMBERS OF SECURITY PRICES

(Base : 1949-50 = 100)

	25-2-56	Week Ago	Month Ago	Year Ago
Industrial Debentures	**101.0**	**101.2**	**101.0**	**100.7**
Electricity	102.8	102.8	102.6	102.1
Jute	97.6	97.6	97.6	98.8
Plantations	99.1	99.1	99.1	99.6
Sugar	96.7	99.0	99.7	99.3
Coal	90.6	90.6	90.6	90.6
General Engineering	100.9	100.9	100.9	100.6
Shipping	102.3	102.3	102.3	100.7
Others	101.0	101.1	101.0	100.8
Preference Shares	**85.9**	**86.8**	**87.1**	**88.1**
Electricity	94.2	94.6	94.7	97.2
Cotton	79.1	79.7	79.8	78.5
Jute	83.9	86.7	86.6	87.7
Coal	90.4	90.1	90.5	91.9
Iron and Steel	86.7	87.5	88.4	89.6
Sugar	85.5	85.5	85.5	82.8
Paper	86.5	86.5	86.5	89.9
Plantations	101.1	101.4	101.2	97.7
Miscellaneous	83.7	84.1	84.5	87.7
Govt. and Semi-Govt.				
Bombay	90.7	90.8	90.6	90.1
Calcutta	91.3	91.3	91.1	90.6
Madras	91.5	91.6	91.4	90.9

Source : Reserve Bank

INDUSTRIAL PRODUCTION

	Units	1955 Nov.	Oct.	Sept.	Aug.	July	June	1954 Oct.	Monthly Average 1954	1953	1952
I Consumer goods											
1) Cotton Textiles	Crore yds	—	43.70	43.50	41.50	44.60	41.80	38.01	41.65	40.65	38.3
2) Woollen Manufactures	lakh lbs	19.64	19.80	20.40	18.72	18.78	17.44	17.34	15.63	16.04	13.82
3) Matches	'000 cases	—	46.00	48.10	52.70	49.00	50.10	43.80	45.0	51.5	51.6
4) Sewing Machines	Nos	8,184	7,510	9,608	9,132	8,536	8,200	3,896	6,683	5,202	4,170
5) Vegetable oil products	'000 tons	19.32	22.16	21.11	22.26	25.69	24.02	17.94	19.23	15.97	15.90
II Raw Materials or Intermediate goods											
1) Cement	'000 tons	391.0	393.1	339.9	373.7	349.2	329.5	372.3	366.5	315.0	294.8
2) Chemicals:											
a) Sulphuric Acid	tons	—	14,525	15,054	14,577	14,337	10,298	14,078	12,573	9,091	8,007
b) Caustic Soda	,,	—	3,009	2,788	2,960	3,232	2,806	2,603	2,442	1,909	1,422
c) Soda Ash	,,	7,402	6,909	6,018	5,367	7,193	6,768	4,338	4,024	4,739	3,694
3) Coal	lakh tons	30.97	30.86	33.78	31.19	29.56	30.75	29.21	30.64	29.87	30.19
4) Cotton Yarn	lakh lbs	—	1,450	1,430	1,370	1,440	1,330	1,225	1,301	1,255	1,208
5) Jute Manufactures	'000 tons	90.5	78.8	87.4	81.4	84.1	85.7	75.1	77.3	72.4	79.3
6) Non-ferrous Metals:											
a) Copper	tons	675	600	590	582	620	620	655	597.6	410.0	506.6
b) Aluminium	,,	—	649.7	618.6	680.5	610.8	613	498.6	407.2	313.2	297.2
c) Lead	,,	168	194	187.3	161.0	206.6	174.1	77.5	149.0	141.2	94.3
d) Antimony	,,	—	58	40.0	40.0	36.0	50	80.0	44.9	10.9	15.1
7) Paints & Varnishes	,,	—	2,854	2,893	3,280	2,676	2,396	2,908	3,068	2,671	2,681
8) Paper & Paper Boards	'000 tons	16.01	15.92	16.24	15.55	15.09	15.08	13.98	12.94	11.64	11.46
9) Iron & Steel:											
a) Pig Iron	'000 tons	138.8	128.2	139.2	148.50	148.2	144.5	151.7	149.4	137.9	140.4
b) Steel ingots & castings	,,	133.7	130.7	135.9	142.80	137.5	133.1	143.2	140.4	125.6	131.5
c) Semi-finished Steel	,,	116.5	105.7	114.0	126.00	119.6	117.5	120.6	121.0	102.5	109.0
d) Finished Steel	,,	105.3	95.3	100.7	105.90	104.3	103.7	102.5	103.6	85.3	91.9
III Capital goods											
1) Machine Tools	'000 Rs.	—	707.6	595.1	601.30	612.7	718.2	414.7	416.9	367.3	369.8
2) Diesel Engines	Nos	840	892	779	821	909	795	640	721	310	354
3) Electric Motors	'000 HP	20.8	24.9	19.4	21.8	16.8	20.7	13.8	15.6	13.5	13.1
4) Power Transformers	'000 KVA	50.8	47.6	46.7	42.9	46.6	47.2	28.6	33.3	25.7	17.9
IV Transport Equipment											
1) Bicycles	'000 Nos	41.79	42.04	45.73	40.21	38.74	42.81	26.97	31.03	22.01	16.41
2) *Automobiles*	Nos	1,998	1,958	1,950	2,061	1,865	2,083	1,276	1,205	1,160	1,274

Source: (i) Directorate of Industrial Statistics
(ii) Indian Trade Journal

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Self-Sufficiency
in
TUBES



On March 7, 1956, the works of the Indian Tube Company were formally opened in Jamshedpur by the Hon'ble Dr. Sri Krishna Sinha, Chief Minister, Bihar

The Tata Iron & Steel Co. Ltd. and Stewarts & Lloyds Limited, the largest producer of steel tubes in Europe, have jointly sponsored this project. A Fretz-Moon Mill with an annual capacity of 12,000 miles of tubes (90,000 tons by weight) at a cost of Rs. 3 crores has been installed. A separate Electric Resistance Weld Mill for the manufacture of some 13,000 tons of high quality precision tubes will be in operation by 1957, and Government's permission is awaited to instal a third mill to make seamless tubes.

When all the three mills are commissioned the country's requirements of practically all varieties of steel tubes should have been met.

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The Problem State

IN Travancore-Cochin, the Congress Ministry, after a year of power, has been forced to submit its resignation owing to difficulties within the party. This is the sixth ministry that has fallen since 1954. Earlier, after the general elections in 1952-53, the Assembly was dissolved and fresh elections were held. Whatever the merits of the dissidents' case may be in this particular instance, the frequency with which the ministries change in Travancore-Cochin is a sad reflection on political affairs in the State. The time has come for a dispassionate examination of the forces that cause the downfall of ministries in such quick succession.

For an agricultural tract, Travancore-Cochin is dangerously over-populated. No political party has tried to face this problem squarely. Even family planning, whose effect can be seen in the very long run, has not made any headway in the State. No political party will actively support it for fear of alienating the powerful Christian community, which constitutes more than 30 per cent of the population. Large-scale emigration is impracticable. The other alternative is industrialisation. Here again, the problem is difficult. From the resources point of view, there are many limiting factors for large-scale industrialisation. There is no detailed survey of resources. Further, better and newer uses will have to be found for the commercial exploitation of the natural resources of the State. Here is an instance of population outstripping resources. Can science come to the rescue? Are there people in the State who can take up this challenge to science?

In education, this State is ahead of others, but the system of education is limited in its scope. It prepares young men for white-collared jobs but does not develop their talents in other and more fruitful directions. The result is frustration, as there is acute and unfair competition for white-collared jobs. No wonder, young men turn cynical and anti-Congress.

This is the atmosphere in the State. No political party has a plan to meet the ever-growing threat of over-population. Nor has any party a programme for the re-organisation of education, so as to develop the varied talents of the people, to meet the threat of over-population. What the State requires is men of science who can find better and new uses for resources in the area for the benefit of the people.

Unfortunately, political life in the State has become purposeless. People are too critical to allow any single party to get a working majority in the Assembly. The only party which has shown some sense of discipline is the Communist party. But how members of this party will behave, when put in power, is to be seen. Perhaps, the Communist party may be gaining ground, as the other parties are discrediting themselves.

Coming to the present crisis, the dissidents' case is the weakest imaginable. No ministry can function for long, if Ministers have to justify to individual members of the party, appointments, promotions and transfers of officers. Most of the charges relate to such things. The only question of policy involved in the dissension is about the behaviour

of the Chief Minister in regard to States reorganisation. Though the Chief Minister has very little to do with the loss of the four talukas in the southernmost part of the State to Madras, the fact that he toyed with the idea of a Dakshina Pradesh State has created uncertainty in the minds of the people as to where exactly he will lead the State. The prestige of the Congress will slump in the event of a merger of the State with Madras or Karnataka. Politically, it was therefore an unwise move on the part of the Chief Minister. But the *right thing* for the party to do in the situation was to give a clear mandate to the Chief Minister.

Experience in Travancore-Cochin suggests that it is not in the interest of parliamentary government that a few should be allowed to negative the wishes of the overwhelming majority in a legislative party. One way of preventing a handful of dissenters within a party from precipitating a ministrial crisis could be to establish a convention that such dessidents would not be admitted to other parties. In this respect, Congress and PSP have been the worst offenders. But in a small State like Travancore-Cochin, with party groupings as they are, the other question is even more important. If stable government by a party with a substantial majority is not possible, does it follow that the State is to be deprived of parliamentary government altogether? Whatever the difficulties, there is no situation which is so desperate that it is beyond the resource of political parties in the legislature to cope with it. To assume an alternative to it, is to retard the growth of parliamentary government.

Whatever the provocation, therefore, it is fatal to assume that President's rule is inevitable in Travancore-Cochin or that it is the only possible solution. One of the factors which has swayed party loyalties in Travancore-Cochin in the past and prevented the parties from assuming full responsibility for the situation is the opportunity which the possibility of President's rule has given to parties to play off one against the other. In the past, on more than one occasion, parties have tried to play for safety and manoeuvred to pass on the responsibility for bringing on President's rule. So today if Travancore-Cochin does have President's rule, the question will be, for how long and how will it affect the fortunes of the different parties in the next election, and which party will come out of it unscathed. The answer to it is not to have President's rule under any circumstances and allow the party leaders to go through all the manoeuvres they are capable of to produce the best possible combination they can. People get the Government which they deserve. Why should Delhi have to come to the rescue? After all, it is the responsibility of the people of Travancore-Cochin to run their own Government. The decision of the Praja Socialists, or of what remains of the party, to take the Lohia line without Lohia, and to abstain rigorously from any electoral or ministerial alliance with any party under any circumstance, does not, by itself, rule out the possibility of a coalition between the other parties.

Constitutional proprieties, it may be suspected, are being interpreted too narrowly in quarters which should know better. There is an important responsibility before the next Government, whoever forms it. For reorganisation of States requires, according to the Constitution, that the wishes of the people involved should be ascertained in advance. Without stretching words beyond the verge of decency, the only way the wishes of the people can be ascertained is through their elected representatives. Taking their stand on the letter of the law, Constitutional Pundits have given their decision that if the President is allowed under the Constitution, to run the Government of the State, he can just as well indicate or ascertain the wishes of the people concerned. This is a dangerous doctrine which even the unstable politics of Travancore cannot render acceptable.

Western Powers' Dilemma

NOT even a year has passed since the "summit Conference" at Geneva among the four Heads of State. But sufficient time has elapsed to emphasise the impact of the "hydrogen stalemate" on the world situation, as well as on the relations between the major NATO partners. Subsequent developments have underlined Moscow's awareness of some of the implications of the decisions reached at the "summit Conference". Moscow's diplomatic initiative, since the Geneva Conference among Heads of State has, belatedly, been acknowledged by the Western Powers. They have shown concern over Russia's gestures to eastern European countries. They have expressed alarm over Moscow's economic overtures to Asia. They are perturbed over the spreading Russian influence in West Asia.

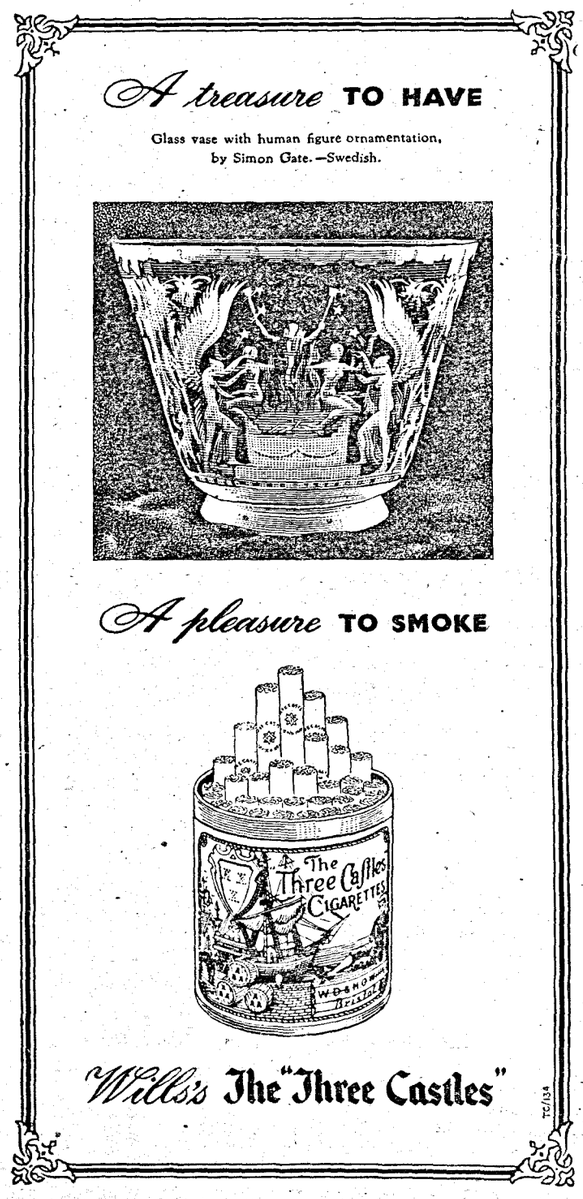
But recent discussions at New Delhi between Pandit Nehru and the Foreign Ministers of the three Western Powers have disclosed certain other equally significant consequences of the "Geneva spirit", which neither Russia nor any of the Western Powers seems to have anticipated. As the "cold war" has become less tense, as the realisation has grown that there is no sane alternative to peaceful co-existence, the conflicting interests among the major NATO allies have come out into the open. These inherent conflicts became evident from the communique issued jointly by the President of the United States of America and the Prime Minister of Britain. These differences could no longer be ignored or obscured after the French Foreign Minister's indictment of the Western Powers' foreign policy. Sir Anthony Eden has explained the differences between Britain and America as a natural aspect of relations between democracies. America's Secretary of State has sought to minimise the significance of M Pineau's recent disparaging comments on the Western Powers' undue reliance on security on the ground that France remains a NATO Power. Mr Dulles has not denied the differences between the foreign policies of India and America. But he has repeated Sir Anthony's argument that such differences are only to be expected among 'free" countries.

Despite these sophisticated explanations, it becomes increasingly obvious that the Western Powers are divided on many of the world issues. These differences are of two kinds, though all the disagreements arise out of the Western Powers' attitude to Russia. It is clear that America is not in agreement with all the aspects of Britain's policy to west Asia. No less evident is Britain's resentment over the American policy to far-east Asia. France has a grievance that Britain and America do not consult her in formulating their policies to west Asia and far east Asia. She complains that her

NATO allies, Britain and America, do not appreciate her position or the situation in north-west Africa. Her Socialist Foreign Minister has expressed disagreement with the Anglo-American solution to the Arab-Israeli dispute, which excludes co-operation and consultation with Russia. Both Britain and France resent, implicitly if not explicitly, some of the pressures which America has exerted since the last world war. These are the inherent conflicts among the Western Powers in their constant search for spheres of influence, which have, perhaps, not been appreciated by Russia earlier. Now, after these differences have come out into the open, Moscow is not unprepared to exploit the situation.

In west Asia, the Baghdad Pact has complicated the Arab-Israeli dispute. This regional military alliance offered the opportunity to Russia to create her sphere of influence in West Asia. This military pact has, similarly, helped Egypt to win her Arab neighbour away from Britain. As the Baghdad Pact was inspired by America, she cannot disown responsibility for Britain's discomfiture in west Asia, or for Britain's tense relations with Greece as a sequel to the developments in Cyprus. Arab States are opposed to the Baghdad Pact. They resent the Western Powers' attitude to the Arab-Israeli dispute. They have every reason to welcome Russian co-operation to solve their dispute with Israel. What the Baghdad Pact has achieved in fortifying the northern tier in the region concerned against Russia is not generally known. But it is undeniable that it has prejudiced Britain's position in West Asia, complicated the Arab-Israeli dispute and provided Russia the opportunity to enter the west Asian scene.

SEADO has had equally disastrous consequences. Russia has been emphatic in her hostility to SEADO and Baghdad Pact countries. Even as she has gained friends in west Asia by offering military and economic aid, she has tried to fortify Afghanistan to offset the Western Powers' military aid to Pakistan. She has offered economic co-operation to India and Burma to match America's plans for economic aid to undeveloped countries. Apart from Thailand, Pakistan, Iran and Iraq, all Asian countries are opposed to SEADO and the Baghdad Pact. India remains unimpressed by the arguments of the British and American Foreign Ministers that these regional military alliances are necessary to maintain peace in these regions. She is more in sympathy with M Pineau's appraisal of the changed world situation. Not military pacts, but economic help is the road to peace and goodwill in these regions, as well as in the world as a whole. It would be foolish to pretend that M Pineau's recent outburst against the Western Powers' foreign policy or Mr. Dulles's talks with Pandit Nehru will lead to any change in America's foreign policy. It is doubtful whether Sir Anthony will have the courage or the statesmanship to pursue a foreign policy independently of America. But India can continue her foreign policy of good neighbourliness in the secure knowledge that, as more and more countries realise the futility of a foreign policy based exclusively on security, there will be an agonising re-appraisal in America of the changed and changing world situation.



Weekly Notes

No Case for Higher Bank Rate

WHILE Sir Cowasjee Jehangir was addressing the shareholders of the Bank of India, and calling upon the Reserve Bank to raise its bank rate in order to enable the banks to charge more on their advances, interest rates on advances were being put up by the banks by a quarter to half per cent. The correct news about advance rates is difficult to get; even when the Reserve Bank Bulletin publishes its survey, one cannot be quite sure of the variations in the rates quoted, for advances for rates vary within a range which is usually fairly wide. But this is the best guess one can get at the moment.

Assuming that money rates have hardened, and banks find the margin between their borrowing and lending rates too narrow, it is still surprising to find that so knowledgeable a person as Sir Cowasjee should advocate raising the bank rate as a remedy. Surely the case for it has to be based on altogether different grounds viz. unwholesome inflationary pressures, excessive speculation in commodities, particularly an alarming increase in holding of stocks etc. Though the volume of bank advances has increased considerably over the past 12 months, a hundred crore increase cannot be regarded as abnormal in the absence of specific evidence to the contrary. Partly the expansion has been called for by the rise of prices that has taken place during the year and partly by the fact that development in the organised sector has been considerable and this is the sector that uses bank credit to the largest extent. The movement of the revised index of industrial production which damps down the increase quite substantially, suggests that this may be so. The Reserve Bank should know; it must be watching the situation carefully enough.

Broadly there appears to be a case for expansion in keeping with the tempo of development. Higher bank rate in England—Bank of India seems to have convinced itself that the Reserve Bank must necessarily follow suit and has raised its fixed deposit rates accordingly—has robbed the money market of what little relief it could get through indirect borrowing from the London money market. Foreign assets have not gone up and therefore the only source of liquidity is the extent of deficit financing, the actual volume of which is anybody's guess but may not far exceed 160 crores, compared to the budgeted deficit of 330 and revised estimates of 240 crores for the financial year closing on March 31. There has been a corresponding increase in money supply, of course, but it is obviously inadequate.

Control Over Expenditure

Our Delhi Correspondent writes:

WITH State responsibility for social and economic activities increasing every day and talk of relaxation of Treasury control in the air, the suggestion for more effective parliamentary control is most opportune. If for ensuring efficiency and speed, Treasury control is to be replaced by budget control, closer parliamentary scrutiny follows as a necessary corollary. Ultimate control in theory rests with Parliament which in any case could not abdicate its power to the Government. On the contrary, the time has come for Parliament to make its authority really effective. To Shri Asoka Mehta goes the credit for highlighting the increasing need for stricter parliamentary control.

He suggested the formation of at least three committees of Parliament—a committee on investment, a committee on contracts and a committee to review the working of the public sector, all based on recent experience in France. Without reports from such committees, any discussion on the budget, he pointed out, would be unreal. He also recommended a special committee of the Lok Sabha—an expenditure committee on the lines of the one set up in the U K between the world wars—to look into the finances of the State. These suggestions had been made earlier by Shri M. N. Kaul, Secretary of the Lok Sabha, at the recent Seminar on Parliamentary Democracy, but had not then received the attention they deserved. Now that Shri Asoka Mehta has taken them up, they may secure better consideration.

That changes in the present system of financial control are under contemplation was indicated by Shri C. D. Deshmukh himself in his reply to the budget debate in the Rajya Sabha. Departmental accounting is necessary not merely for having a record of current progress of the Plan, as he seemed to suggest. The essence of this arrangement is that it ensures that responsibility for policy and for the financial consequences of this policy go hand in hand. Management accounting induces a sense of financial responsibility which the spending Departments tend to lack under the present system of financial control. Today they are apt to look upon finance as something troublesome and inconvenient which needs to be thought about only after policy has been settled.

Gone are the days when economy was considered something to be imposed on other Departments by a Treasury acting as "the single-handed champion of solvency keeping ceaseless vigil on the buccaneering proclivities of Permanent Heads of Departments". With management accounting and the consequent devolution of power, the Finance Ministry will learn to shed its omniscience and the administrative Ministries will be forced to make detailed estimates of their schemes before asking for the concurrence or approval of the Finance Ministry. This will ensure both economy and a closer correspondence between estimates and actuals.

The wide variation between budget figures and actuals has raised also the question of the suitability of the present financial year. Management accounting may promote better understanding between the Finance Ministry and the spending Ministries, but it will not help to forecast the course of actual expenditure on public works, for example, any better. The bulk of such expenditure is incurred in the autumn and winter. Revised budget estimates thus often go wrong by a long chalk. It has, therefore, been suggested that the time of the budget should be shifted to the Diwali. If the budget was presented on October 1, final figures of expenditure would cover the months when the bulk of the expenditure is actually incurred. If the new financial year roughly coincides with the business man's year it will be an additional advantage.

Employment—Revolving and Sediment

THERE is a difference between 'revolving' employment called for by a multipurpose project during the period of its construction and the 'sediment' of permanent employment that is left behind when the project is completed. This the employees of the Damodar Valley Corporation have learned to their cost; in fact, they are feeling it in their bones, having been served with mass notices of termination of jobs. As many as 16 thousand employees of the DVC face unemployment at the moment. In a circular, the DVC stated that employment under the Corporation falls under three categories (1) permanent, (2) those who are employed for a specific assignment and (3) contract labour. Of course the permanent ones will continue but what is the Corporation to do with those who have completed the job for which they were employed or with labour employed on the construction project which has been completed? The assurance given on the floor of the Parliament by the Planning Minister Shri Gulzarilal Nanda that none of the DVC employees would be thrown off his job appears, in the circumstances, to have been premature or unwise.

This matter of revolving and sediment of permanent employment, however, needs to be looked into more closely. The Bokharo Thermal Plant is a model of labour saving perfection. Everything is automatic and a handful of people are enough to run the plant. So are the other installations of the project. Once construction is over, the tide of employment recedes. But surely it is expected to devise successive ways of employment elsewhere, not too far from the valley? The Planning Commission must be having some research programme on hand to study the multiplier effects of investment in multi-purpose projects. The results of such research, whatever they are, should be publicised forthwith, if only to console the 16 thousand who are agitating that Nandaji should keep his word !

Esteemed Speaker

IN the course of her apprenticeship in parliamentary government, India has produced eminent presiding authorities, no matter whether they be called speakers or presidents. The late Shri G.V. Mavalankar was not the first of them, nor, let us hope, the last of the illustrious order. Yet Shri Mavalankar had a distinction all his own. He was not content to be just a competent speaker. He strove to put the very institution of speakership on a sound and abiding basis, set up conventions and precedents which should be useful for a long time to come and what is more, protect and strengthen the delicate plant of parliamentary democracy which we are tending with so little care.

It was a self-chosen mission, which found expression not only in the distinguished role he played as free India's first speaker in the Lok Sabha, but also in the periodical conferences of speakers of state legislatures from all over India which he used to convene and guide and the strict code of public utterance and demeanour that he set for himself. In other words, he enlarged the conception of speakership to include functions which, though by no means obligatory, were nevertheless vital to the growth of parliamentary government in the incipient stage. Thus he was guardian not only of the rights of the House over which he presided, but, in a sense, of other such institutions as well.

Lending a grace and dignity to the high office of speaker, he was at pains to protect it against any danger, whether from within or without. Indeed, he was more concerned about the conduct of the presiding authority himself, be it in any deliberative body anywhere in the country; for he rightly felt that public regard for the office would depend more on the utterances and actions of the occupant

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than on any other factor. Temptations have not been few for presiding officers to get involved in controversies in the unsettling changes that have followed freedom; but however strongly Shri Mavalankar might have felt on issues raging in the country from time to time, he would not give the least public indication of it, lest the prestige of his office should suffer. For a man who was closely associated with active politics, this was no small act of self-denial.

Sense in Language

IT was perhaps as much the disarming humility and sweet reasonableness of Shri B. G. Kher as the practical need of a medium for inter-State communication that has made the task of the Official Language Commission, which he heads, easier. Shri Kher said last week that contrary to what might have been expected, the Commission had encountered little opposition so far in the course of its tour in the country; and as if in confirmation of it has come the report that the Madras Government has agreed to the adoption of Hindi as the official language. Madras had, not without justification, been more than a little hesitant in the matter. The preponderance of English in that State and the advantages that it had given the people were not to be lightly overlooked. Moreover, Hindi differs so radically from the regional languages of the South, that hostility to it was natural, which the overzealous protagonists of the national language did nothing to minimise. There was also the very human reluctance to learn a new language with which the South had little in common and the attendant doubt whether Southerners would be able to learn it well enough to face competition with others. These factors combined to lend some force to the anti-Hindi agitation which mere logic could not counter nor appeals to patriotism charm away.

That the agitation is still alive is evident from the accusations of partiality for Hindi that were hurled at Government on the floor of the Madras Assembly last week and the angry outbursts of some members that Hindi was more alien to Tamils than English. Whether opposition to Hindi will flare up again in the wake of the Government announcement on the subject remains to be seen. There are, no doubt, certain reservations accompanying the decision in the shape of suggestions made to the Commission to give due importance to English and adjust the process of change-over to the mood of the South. These suggestions are believed to have been favourably received by the Commission. Whether this is really the case or not can be known only when the final report is out. Meanwhile, the State Government can certainly claim credit for its confident handling of the matter in the face of opposition as also for the decision taken by it not to go back on the constitutional provision in respect of Hindi. The Commission would do well to take this fact into account in making its recommendations, and that not so much as a concession to the South or any other part of the country, but as a positive contribution to the ultimate success of the very mission it is engaged in. In the recent linguistic upheaval, Hindi did not come out as a supreme unifying force; and it has yet to be something more than a convenience. The chances of its playing its destined role ought not, therefore, to be vitiated by excessive zeal, haste or lack of a sense of proportion.

Cyprus

COLONIALISM is not the only issue involved in the ugly situation in Cyprus. Military considerations complicate the problem. One of the major mistakes of the second Attlee government was to prolong the dispute between Britain and Egypt. Insistence on the occupation of the Suez Canal zone was even then a blunder, as Britain had decided long ago to fortify Cyprus as an air base. This was the main reason why the Churchill government thought it prudent to settle the dispute with Egypt by evacuating the Canal Zone. It is the military aspect of the Cyprus problem which explains the present British policy to Cyprus.

Revolt against Sir Anthony Eden is spreading. His party's crusade against him stems mainly from the Eden government's internal economic policy. But the deterioration in Britain's position in west Asia has fanned the flame of the party's revolt against Sir Anthony. His Cyprus policy has the support of the "Suez group" of conservatives. But it has been the main target of criticism of the Opposition. When the trouble started, Britain bluntly denied the right of self-government to Cyprus. This was followed by the abortive London Conference. To hold Cyprus as a military base, a soldier was appointed as Governor. After months of barren negotiation, a constitution was prepared which was rejected by the parties concerned. Deportation of Archbishop Makarios emphasises Britain's determination to pursue a "strong" policy in relation to Cyprus.

Developments in Cyprus and Jordan are rude reminders of the consequences of Britain's new-found friendship with Turkey. Baghdad Pact was the main cause of Britain's disgrace in Jordan. It is the "Suez group" among Conservatives who not only insist on holding on to the military base in Cyprus, but are in favour of a pro-Turkey solution of the Cyprus problem. This has caused serious tension in the relations between Britain and Greece. More relevant is the demand of the Cypriots for self-government. In emphasising the strategic importance of the eastern Mediterranean, Britain ignores not only the changing world situation, but the sympathy of the whole of Asia with the Cypriots.

Karachi Conference

IT is clear that, with the exception of France, the members of SEADO are concerned about the effects of the Russian leaders' visit to India, Burma and Afghanistan. Military implications of SEADO are obvious. But these miltary aspects can be over-emphasised. These issues have been duly stressed in the Communique issued after the Karachi Conference. SEADO members are agreed about "the desirability of maintaining certain of their military forces at levels of mobility and combat effectiveness which would be an effective deterrent to aggression". Military experts may interpret this decision as they like. But it is evident that no joint Command, on the lines of NATO, is to be created.

Rusia's offers of economic co-operation to Asian countries have provoked Mr. Dulles, the American Secretary of State, to warn SEADO members of the new dangers of economic subversion. But, despite the Pakistani Prime Minister's appel for increased economic aid, there is little evidence in the Communique to show that America is interested in matching Russian offers with increased American economic aid. Mr Dulles seems content with his complacent conclusion that, in offering economic co-operation, Russia is only imitating America. It is strange that Mr Dulles is either unaware, or finds it diplomatic to ignore, that even Japan seems inclined to the view that the Russian approach to economic problems in Asia is superior to that of America.

Karachi is proud that it has induced SEADO members to accept Pakistan's stand on problems in the north-western areas of the former Indian Sub-continent. On Kashmir, Pakistan has won a pyrrpic victory. SEADO's references to Kashmir are more nebulous than its other decisions. Karachi may well boast that, if the Russian leaders have endorsed India's policy to Kashmir, SEADO members have accepted Pakistan's claims on Kashmir. This is a gross misinterpretation of SEADO's reference to Kashmir. In New Delhi, Mr Dulles has taken pains to assure Pandit Nehru that the Karachi discussions only mean that SEADO members hope that the Kashmir dispute would be settled peacefully either through direct negotiation or under the auspices of the United Nations. Though India denies the right of SEADO to discuss the Kashmir issue, this is a solution of the problem which is not opposed to New Delhi's policy.

Mr Dulles had private discussions with Pandit Nehru. But the American Secretary of State's Press Conference in New Delhi reveals that he is an expert tight-rope dancer. He repeated that there was nothing sinister in his description of Goa as a "province" of Portugal. But it is apparent that he conveniently ignores that, under the Indian Constitution, Kashmir is a "State" of the Republic of India. Pakistani Premier was diplomatic in his references to the right of self-determination of peoples. But, in endorsing Pakistan's soveriegn rights over areas up to the Durand Line, SEADO members, including Pakistan, ignored the demand for Pakhtoonistan. It is amusing to discover that some of the diplomats attending the Karachi Conference are unaware that Afghanistan does not claim Pakhtoonistan to be Afghan territory, but supports the tribes people's right to have a separate, independent country of their own. SEADO Conference in Karachi has ended. Its decisions have not only not brought the solution of Kashmir or of Pakhtoonistan any nearer solution, but have introduced additional complications to these issues.

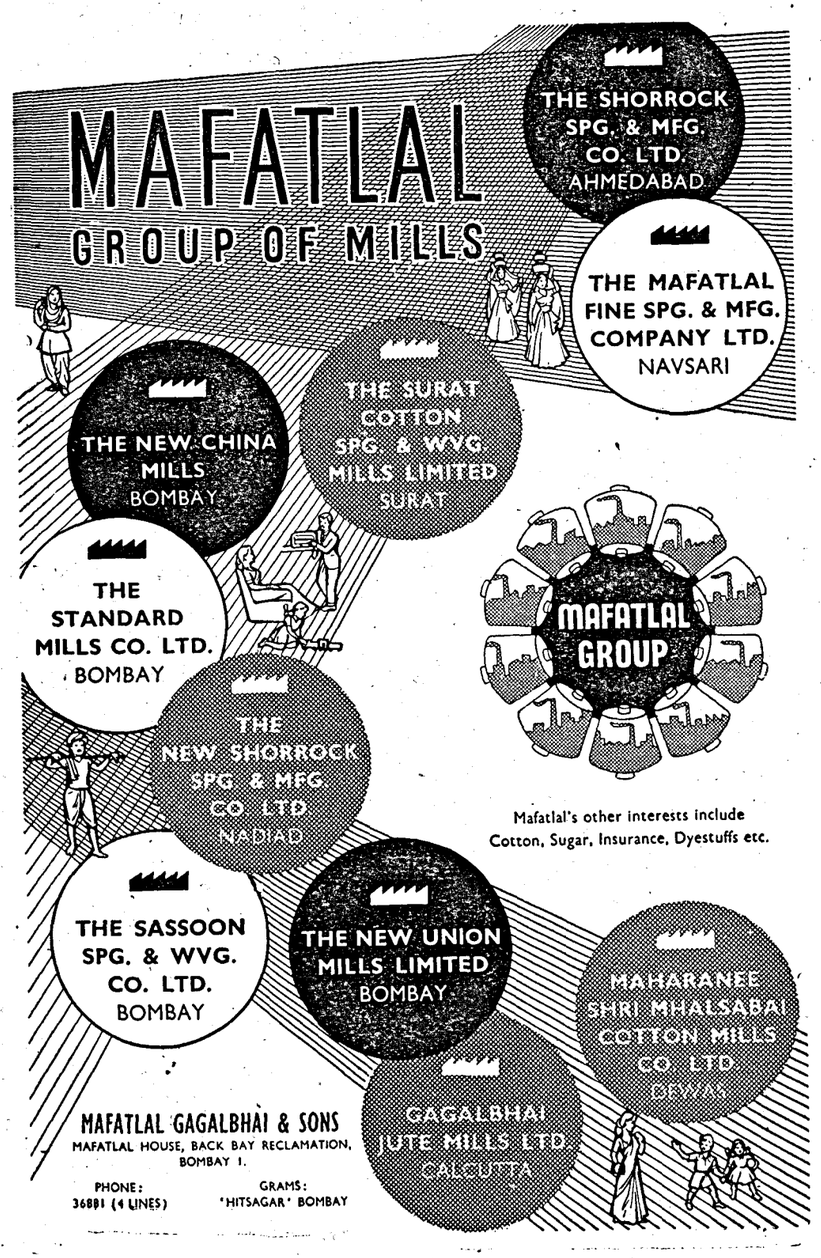
Alkali and Chemical Corporation

THE annual report and accounts of the Alkali and Chemical Corporation of India for the year ended September 30, 1955, disclose excellent working results. All the units of the company's factory at Rishra, Calcutta, had a satisfactory year and the Chlorine/Caustic Soda Plant ran at almost rated capacity. The company's paints—'Duco' and 'Dulux'—have proved so popular that in order to meet the increasing demand for them the directors are contemplating extension of the paint production plant.

Revenue from sales increased by Rs. 37 lakhs to Rs. 155 lakhs during the year under review. After meeting manufacturing expenses—which rose from Rs. 67.40 lakhs in 1953-54 to Rs. 81.61 lakhs in 1954-55—and other commitments, and providing Rs. 9.48 lakhs towards depreciation (Rs. 8.83 lakhs last year) the net profits for the year amount to Rs. 19.39 lakhs—more than double that realised last year (Rs. 8.37 lakhs). Adding the amount brought forward from last year (Rs. 1.13 lakhs) and the amount at the credit of the Reserve for Exchange Losses (Rs. 2.39 lakhs), total available for distribution during the year amounts to Rs. 22.93 lakhs. Out of this, Rs. 12.5 lakhs have been allocated to Reserve for Deferred Income-tax, Rs. 2.73 lakhs to Dividend Equalisation Reserve and a sum of Rs. 1.55 lakhs is being used for meeting dividend obligations to preference shares.

The directors have recommended higher dividends on ordinary shares at 8 per cent—an increase of 2 per cent over the preceding year—which will absorb Rs. 4.96 lakhs. The balance is to be carried forward.

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Off the Record

Question of Caste

THE Rajya Sabha has given its approval to a private member's Bill, already adopted by the Lower House, seeking to do away with the recording of the caste of a person in the registration of documents.

For this purpose, the Bill—which was sponsored in the Lok Sabha by Shri. S. C. Samanta (Congress)—amends the Indian Registration Act, of 1908, under which it is obligatory on the parties to a deed presented for registration to mention their castes.

Shri P. T. Leuva (Cong.—Bombay), who moved the Bill in the Rajya Sabha, said the measure was a small attempt to create a psychological atmosphere in the country, which would help do away with the evils of caste system.

During the two-hour lively debate in which over a dozen members participated, the Bill received overwhelming support. Only a few thought that it might lead to certain complications. Some members suggested that the amendment should be extended to similar enactments.

The Government's support to the measure came from the Minister for Legal Affairs, Shri. H. V. Pataskar. He said though the Bill did not go "the whole length," it removed any hardship a person might experience for not wanting to mention his caste. The extension of the measure to other laws immediately, he thought, would create complications since the Constitution recognised certain backward classes for giving special protection.

Dr. P. V. Kane, the erudite scholar on Dharma Shastras, said that by passing this "hasty" measure, they would be creating complications. He would suggest that refusal to state caste in the documents would not enable the Registrar to refuse registration.

Dr. P. C. Mitra (Congress—Bihar) said the Bill would create difficulties for Adivasis of Chota-Nagpur where there were restrictions on the transfer of property between two sections of Adivasis.

The Minister for Legal Affairs, Shri Pataskar, said the Bill had a limited scope and he failed to understand how it would lead to any complications. He expressed difficulty, however, in taking immediate action for deleting caste in all the Government documents since special protection had to be given to Scheduled Castes and Tribes. He hoped to get guidance from the Law Commission about the laws which needed to be similarly amended.

The above report is from the P.T.I. The debate raises the question: Can caste be abolished simply by refusing to take any cognisance of it? It is easy to take exception to this manner of posing the question by pointing out the obvious omission in it. Caste will not disappear simply by refusal to recognize it; simultaneously other steps have to be taken, such as measures to strengthen social mobility, throwing open all occupations to everyone irrespective of caste, breaking down segregation by a deliberate housing policy and so on. The moment positive measures are thought of, however, the question arises: how are these to be enforced unless those who are discriminated against are labelled as such? If these positive measures for bringing about equality through uplift are to be expanded and intensified, labels cannot be taken off those who are to be uplifted. So though the public spirit of the private member of the Lok Sabha, Shri S C Samanta, who moved the Bill, and the spirited support that Shri P. T. Leuva put up for it in the Rajya Sabha will be widely commended and will receive applause, the Minister for Legal Affairs will also, on second thoughts, deserve some sympathy for not being able to promise total removal of all references to caste from all official records and documents. How could he, when the Administration is committed to special measures for the economic and social betterment of the backward classes? Being the Minister for Legal Affairs, he could not think of anything better than leaving the matter to the Law Commission to decide how best one could get out of this difficulty.

When the late Sardar Vallabhai Patel decided that caste should not be recorded in the 1951 census, the decision was hailed as a bold stroke of imagination on his part. Ever since, we have been going back to the same caste classification but apparantly without the benefit of a systematic and scientific recording.

How could it be different? For the Constitution does not rest content with prohibiting discrimination on the ground of caste; it also provides safeguards, such as reservation of seats in legislature and in the services, for the scheduled castes, backward classes and scheduled tribes, as also for their educational and social uplift. The Directive Principles of State policy in the Constitution provide not only that the State remove the disabilities suffered by the scheduled castes but also take positive steps to promote their welfare. As evidence of what the Government is doing for carrying out this Constitutional Directive year after year, statistics are published of the schools opened for scheduled castes and scheduled tribes, of the scholarships awarded for them and of the money that is spent on educational facilities for the backward classes. Similarly, benefits under Five Year Plan are also tabulated especially going to these classes.

There is, however, a sting in the tale. Though 'backward classes' are mentioned in a number of places in the Constitution, the term has nowhere been defined. So a Commission was appointed under the Chairmanship of Kaka Kalelkar in 1952 to define the term and to determine the tests by which any particular class or group today may be described as backward. Since some are backward compared to others in every caste and sub-caste, this will bring back not only castes but also sub-castes and sub-sub-castes, which Sardar Patel wanted to get rid of. The Commission is to prepare a list of such classes for the whole of India and finally to examine their difficulties and to recommend steps for the removal of these difficulties. When it is published, the report is going to produce a bombshell, the explosion of which may cause even greater havoc than the SRC report.

Now does not this refusal to enter castes on documents of registration go back on all this? One wonders what the specialists have got to say on this very important problem. Some time ago, a Seminar was held

by the Indian Conference of Social Work (ICSW) on casteism and removal of untouchability. Academics have thus formally admitted this ugly word 'casteism' into their vocabulary perhaps to counter another ugly word 'Sanskritisation' which had been admitted earlier. The address delivered by Professor Srinivas, the Director of this Seminar, was published in this paper.* The ICSW has published a report on the Seminar in a handy volume of nearly 300 pages (to be reviewed). About castes, of course, it is one thing to ask whether they should exist and another, whether they are likely to exist. The Director put this fairly enough when he said:

"Agreeing to progressive resolutions satisfies our conscience and assures us of our worldly prospects, while at the same time our sense of facts tells us that nothing serious is going to be done by anyone and that caste will continue to remain what it is. The best of both the worlds are secured by taking such a course."

About the situation that exists today, this is what he says about his own home State: "In the first popular cabinet in Mysore State, headed by Shri K C Reddy, not only were the ministers chosen on a caste basis, but each had a secretary from his own sub-sub-sub-caste. And today, in Mysore State this principle is followed not only in every appointment, but also in the allotment of seats in schools and colleges." When the Backward Classes Commission reports and action is taken on its recommendations, the whole of India will be a replica of what Mysore is today.

The Director naturally suggested that castes being so powerful and pervasive, the first step in the struggle is to have a precise measure of its strength. He had probably in mind something much more subtle than mere strength of numbers, but how can administration do without enumeration? Caste had considerably gained in strength under the British days because the country ceased to be broken up into small fragments. At once horizontal combination became possible, while forces of vertical integration, which make for interdependence, were weakened. Independence has brought fresh strength to it, by making people more conscious of their rights and bringing them the widest opportunities of exercising there rights through the vote. Prof. Srinivas notes with pleasure that as education spread among them, "Harijans are organising themselves to assert the rights which the Constitution gives them". But are they not organising themselves as Harijans—How can that lead to a classless society? Finally, like vaids who advise acute cases to be treated by allopaths first, in order to get some immediate relief, before they take up their patients for long-term treatment, social anthropologists base their hope on economics, on the Five Year Plan and industrialisation, and bank on "greater Sanskritisation of the way of life of the Harijans" to remove the more abnoxious features of the caste system gradually. After all this, one cannot help feeling a little sneaking sympathy for Pandit Gobind Vallabh Pant who, in the concluding address to the Seminar, expressed his wonder if, in the process of the uplift of the Harijans, they were not in fact perpetuating the existence of the Harijans though in his own district, Kumaon hills, an active movement for throwing temples open to untouchables would do a world of good.

About what economic changes can be to class or occupation—caste, however, is a slightly different matter—the current experience of Israel is instructive. Here is a story from Israel which may well be true. A woman who had saved up £. 1000 went to a matrimonial agency. The man in charge offered a grocer; she was not interested. He then suggested a young Doctor who was coming up. She declined. The man lost his temper. "You do not expect a worker for your £. 1000, do you?" That's that.

If the mustard seed with which the ghost of casteism is to be exorcised itself contains the distilled essence of caste, how can it do the trick? Class seems to be able to cut across caste more easily than caste is able to cut across class. So the ideal of a classless society leaves a vaccum in the present which reinforces rather than weakens caste. Neither is social mobility easily promoted by economic development—least of all by the sort of development that is specially intended to help the small man and the rural community. Basic education i.e. education through craft, naturally falls back on hereditary occupations; even the programme of rehabilitation of cottage industry is a programme for helping hereditary crafts. The Birmingham trained tanning expert does not lose his caste by handling leather nor is the Sanitary Engineer in charge of disposal of sewage contaminated by dirt. When members of a backward caste ever gain admittance into such professions, they leave their caste, and enter a higher class; the position of their castemen is not changed thereby. With what shall it be salted, if salt loseth its flavour?

Let the Oxford Brahmins deliberate on caste if they want to, but let them not forget that they can think of a society without class any more than the bigotted Hindu can think of a society without caste. What do social anthropologists know about class-less society? The logical positivist who asked himself why one could not play chess without the queen, could find no answer, called a priest, confessed and died a good Christian, was at least being honest to himself. It is the finding of the social anthropologists themselves that caste is increasingly being used to serve altogether new and modern functions, e.g. that of trade unions. More vigorous growth of trade unionism might render the use of such obsolete means unnecessary. So let them talk of escape from caste into class, but not of a classless society. All the talk of inter-dining and inter-marriage between Congress MLAs and Harijans merely clouds the issue. The social mobility they want is only for producing a social stratification different from that of the existing caste structure.

*"Castes: Can they exist in India of tomorrow?", Economic Weekly, Oct. 15, 1955.

ICI Project for Plastics In India

A project for the large-scale manufacture of plastics in India is to be launched by Imperial Chemical Industries (ICI). The scheme involves a sum of about £2,250,000, and manufacture will be undertaken by the Alkali and Chemical Corporation of India, an ICI associate.

Technical assistance in the design and operation of the plant will be provided under an agreement with ICI, and processing will be similar to that used in the production of 'Alkathene' plastics in Britain.

From the London End

East of Eden

IN a recent despatch, your Correspondent referred to the "lack of touch" of the Eden Government with the economic situation. This lack of touch has now come to embrace almost every field of Government activity. The perceptible slide which began about the middle of last year has now been followed by the arrest and deportation of Archbishop Makarios — an act of supreme lunacy. Actions like this can only be sanctioned by a desperate Prime Minister — a Prime Minister in panic. For those who wished for a more visible proof of the decline of Sir Anthony Eden, the Commons debate on the dismissal of General John Glubb was possibly most timely. As the **Manchester Guardian** remarked about the role of the Prime Minister in this debate "...his lack of composure is no new symptom". The Commons found an overwrought Prime Minister arguing a case made more difficult by its lack of consistency or reason. Being unsure of himself, and thus of his case, he found compensation in vehemence of speech accompanied by gesticulations which are not at all characteristic of him. The gravity of the problems for Britain in the Middle East is such that it is no longer capable of competent handling from so desperate and panic-stricken a man. The earlier right-wing Tory reaction against the Prime Minister has now at least gained a justification which bodes ill for Sir Anthony's continued occupancy of No. 10, Downing Street.

The crisis in the Middle East has been a long-simmering one, but as reasonably thinking people have come to appreciate, it has only been brought to a head by the Baghdad Pact. The two reasons originally advanced for this urchin-alliance were the Soviet flow of arms to Egypt and the need to divert the attention of the Arab nations away from Israel on to the strategy of the Dulles "northern tier" concept. Indeed, neither appeared at the time to hold any degree of urgency, or for that matter, to call for so far-reaching a military arrangement when the failure of the earlier mooted Middle East Defence Organisation was still fresh in mind. There was thus some other reason or reasons for this act of folly as it is now recognized. And your Correspondent believes that Colonel Nasser was the first and the quickest to perceive the more fundamental calculations of the British regime in the Middle East. It was clear to him that the Baghdad Pact was aimed at dislodging Egyptian supremacy and leadership in the Arab world and give Iraq that enviable position. And why? The Asian neutralist trend had already infected Egypt and this infection was rapidly overwhelming a number of Arab states, principally, Syria, Lebanon and Saudi Arabia. Prior to that, sharp conflicts between Britain and Egypt had appeared over the future of Sudan, and many commentators heave accordingly interpreted the Sudanese Independence Act as British **de marche** to forestall the accession of Sudan into another Egyptian province—a fairly unusual and expensive **de marche** on the part of the British.

Behind these conflicting positions, one of the prime reasons for the Baghdad Pact is the end of British dominance over the Suez Canal zone. This fundamental fact has, of course, now led to the path of British folly in Cyprus. No longer was the British posture of military strength possible in Middle East politics when the Suez was lost and the attempt to give Cyprus the Suez character is proving to be as futile as it is dangerous (i.e. the weakening of Anglo-Greek relations and thus of Nato). There remained Glubb's hold over the Arab Legion and this had been some secret consolation to the Foreign Office—now even that is gone. Continued division of the Arab States, transference of Arab leadership to Iraq and the desperate desire to make Cyprus take the military position of Suez—these have been the policies of Britain. That such policies were based on assumptions not only outmoded but in conflict with American intentions is only now being recognized and hence the panic, the decline of Sir Anthony Eden.

The spoke in the wheel of British Policy of fostering disunity in the Arab world has been and remains the existence of Israel. If anything unites the Arabs from Iraq to the little sheikdom in the Persian Gulf, it is the antagonism towards Israel and even when Britain makes such gestures as banning arms shipments to Israel or sharply reprimanding and condemning Israel for the recent Syrian border incident (before the U.N. Truce Commission has fixed the responsibility for it), the Arab nations find little to support Britain's presence in the Middle East. The latest act of British assurance, in spite of being profoundly illogical, has failed to impress the Arabs. In the Commons debate, the Minister of State, Mr. Anthony Nutting, declared against a new treaty guaranteeing Israel's frontiers, for the Tripartite Declaration against "incidents" on Israel's frontiers and finally for the 1948 Anglo-Jordinian Treaty guaranteeing the integrity of Jordan's frontiers with Israel. This fantastic for and against policy cannot but expose the bankruptcy of a panic-stricken Government.

Anglo-American discord is possibly more serious and illuminating. Americans originally sponsored the "northern tier" concept and yet in deference to their oil interests, they have remained outside the Baghdad Pact. This is possibly the clearest indication that the Baghdad Pact has little to do with "containing Communism". Since American oil interests happened to lie on the Saudi-Arabian side of the division line being fostered by Britain, the Americans "have for once kept their noses clean". At the recent Eden-Eisenhower meeting, Britain had once again attempted to obtain direct American acceptance of Iraq's leadership in the Arab world but had failed. Now with the Middle East crisis at its peak, the Eden attempt to obtain American support has met with some very qualified and irritating answers.

There are many problems each of which may spell death to the Eden Government; none however is more dangerous to the life of the present British regime than the Middle East crisis. The powerful right-wing Tory groups have for long been "gunning" at Sir Anthony Eden—the Middle East has been providing ammunition.

Banking Treasuries and Commercial Credit

D L Gupta

THE Imperial Bank of India had been transacting cash work of Government treasuries since its inception, and as such, it became the sole agent of the Reserve Bank of India in Part A & C States. It was also banker and treasurer to some Part B States like Jodhpur and Alwar (Rajasthan) etc. Some of the Part B States, however, have had their own local banks for handling their work. These are now known as "State Associated Banks." In the Indian Union there were 1304 Government treasuries in 1950, out of which 157 were banking and 1147 were departmental treasuries.

After independence, with the implementation of development schemes, financial transactions of the Government have increased enormously which has made it difficult for the departmental treasuries, particularly at Tehsil headquarters, where National Extension Service and Community Projects have been set up, to handle their work efficiently. On the other hand, the services of the banking treasuries have been found by the Government to be comparatively economical, convenient and reliable. This relieves the district authorities of the worries of safe keeping, transfer and disbursement of public revenues. Besides, the use of cheques in payment of Government obligations requires banking arrangement for the Government just as private business concerns have.

The banking treasury system is not only advantageous to the Government but it is also a successful way to maintain stability in the money market. The Financial operations of the Government continue to exercise great influence on the general financial position of the country. At the time of tax payments and issue of new loans, for example, heavy payments are made into Government treasuries which affect the money market. Similar changes—though in the opposite direction—take place at the time of sudden payments of large amounts for redemption of Government loans. All this could be completely avoided by introducing the banking treasury system through the country.

In view of the above advantages and facilities, there was a pressing demand from the administrative authorities and public representatives in Parliament for opening branches of the Imperial Bank of India. In this respect, the Bombay Administrative Enquiry Committee (1948) observed and recommended in their report:

"In the districts where the Imperial Bank of India has a branch treasury transactions are entrusted to it and we have been told that this makes for the general convenience to the public and given confidence to the Collector. We, therefore, recommend that the Imperial Bank should be approached to open branches in those districts where they do not exist at present, and if they are unable to do so Government should recognise approved banks wherever such exist for carrying our cash transactions."

The matter was thereafter referred to the Rural Banking Enquiry Committee in 1949 which also recommended that at 274 places where the turnover on Government account exceed Rs. 64 lakhs per annum, the Imperial Bank should take over the cash work of treasuries. To give encouragement to the bank for opening more branches, the committee further suggested that the commission charges should be increased to a reasonable extent.

Acting on this recommendation, the Reserve Bank of India raised the commission from 1/128% on the last slab to 1/16% on the turnover of the Government transactions to be handled by the new branches of the Imperial Bank. The Imperial Bank agreed to open 114 branches (including 13 treasury pay offices to be turned into branches) within 5 years from July 1951, but up to the end of 1954, it opened only 44 branches and converted 11 pay offices into branches.

In Part B States, which cover more than one fourth the area of the Indian Union, the Reserve Bank was appointed the sole banker by five states—Hyderabad, Mysore, Travancore Cochin, Madhya Bharat and Saurashtra. PEPSU and Rajasthan, however, could not do so, as they had some difficulties. Out of the former five states, only in two States (Hyderabad and Mysore) the Reserve Bank of India appointed its previous banks—the Hyderabad State Bank and the Bank of Mysore respectively — as agents. In other three states it could not do so for some reason or other. So without agency arrangements, the Reserve Bank could not expand Banking treasuries in these states. Consequently the expansion of the banking treasuries and extension of banking facilities particularly in rural areas could not go ahead.

The question again came up before the Estimate Committee on Finance appointed by the Parliament. The Committee, after a careful consideration of the question, recommended in its report of May 21, 1954 that the banking organisation, being more efficient and reliable than the old outmoded system of (department) treasuries, should be made greater use of. It said:

"The present system of treasuries should be abolished. The payment functions should be taken over by the branches of the Imperial Bank of India or, where a branch of the Imperial Bank of India does not function, by a branch of some other Scheduled Bank in consultation with the Reserve Bank. Where there is no branch of the Imperial Bank of India or any Scheduled Bank in existence, the Treasury Office itself should be converted into a pay office of the Imperial Bank of India" (Para 36)

The committee further suggested that:

"the Imperial Bank which is mostly concerned with the payments on behalf of the Central and State Governments should be nationalised at an early date. The demand for the nationalisation of the Imperial Bank has been there for a long time, and assurances have been given from time to time that the matter would be examined with a view to nationalising the bank at an early date. The Committee feel that the time has come when this should not be postponed any longer and in the present context of things, early steps should be taken to nationalise the bank so that the whole organisation of the Government payments is put on a sound and satisfactory footing and utmost promptitude is shown in making Government payments."

While the above recommendations and suggestions were under active consideration, the Government of India received the report from the Direction Committee on Rural Credit Survey which emphatically recommended:

"The State Bank of India should be established by statutory amalgamation of the Imperial Bank of India and the major state associated banks." (Chapter 34 para 2)

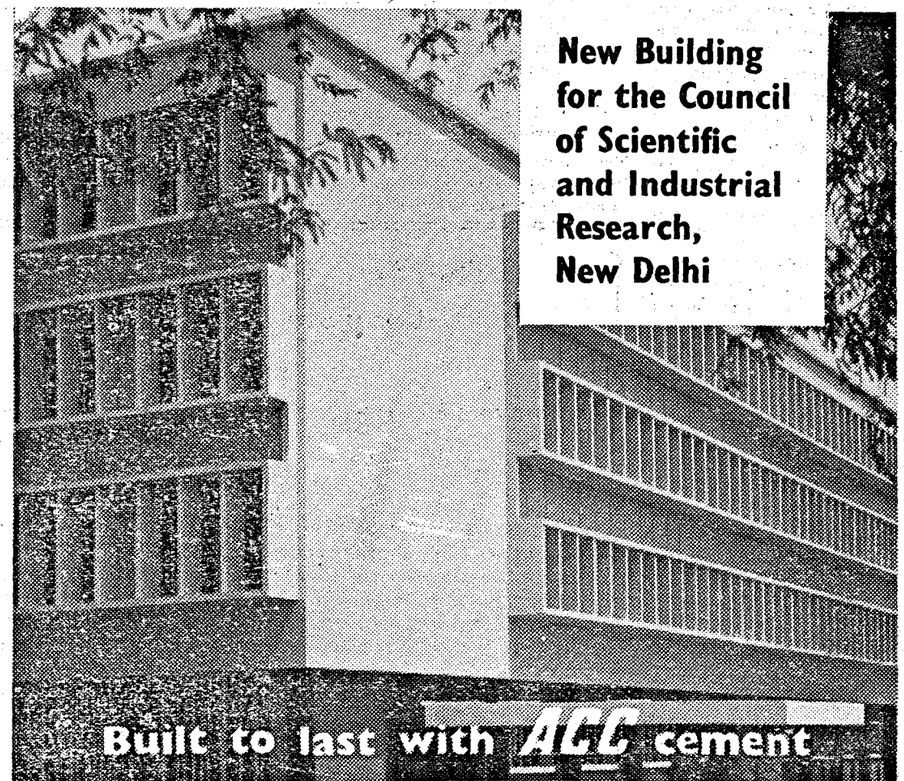
Amendment of the law including if necessary amendment of the constitution is recommended so as to make it obligatory on all the State Governments and not merely as, hitherto, the State Governments of Part A & C States to appoint the Reserve Bank of India as their sole bankers. "(Chapter 33 para 6).

"It should also be statutorily provided that it shall not be open to the Reserve Bank of India to appoint any bank other than the State Bank of India as its agent". (Chapter 33 para 11).

The analysis of the circumstances narrated above indicates that if (1) the Imperial Bank had opened at least 274 branches as suggested by Rural Banking Enquiry Committee and (2) PEPSU and Rajasthan Governments had appointed the Reserve Bank as their sole banker which would have been possible, had the state associated banks agreed to adjust themselves to the suggestions of the Reserve Bank, then I believe that the nationalisation of the banks and the establishment of the State Bank could have been, if not abandoned at all, postponed for several years.

There was another complaint against the Imperial Bank viz. that being placed in an advantageous position as being the sole agent of the Reserve Bank of India and the custodian of the currency chest, it extended unfair competition to the other banks. The Rural Banking Enquiry Committee had observed:

"It is wrong in principle and against the long term interests of the country, that Government cash work and currency chests, with all the prestige and other benefits they carry, should be entrusted to a single commercial bank thereby creating a powerful private monopoly, which can disregard the interests of the public, or jeopardizing the working of



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other banks"

and had suggested that:

"Either the monopoly should strictly be regulated by the State or the bank should be deprived of the cash work and other special privileges it enjoys at present."

With the nationalisation of the Imperial Bank, the private monopoly has been eliminated but the State Bank of India has become a powerful commercial bank and so the fear of competition remains.

So far as Part B States Banks are concerned, there was no such complaint against them. So they deserve a different treatment at the hands of the Government of India. This point has already been alluded to in my article "State Associated Banks" (Economic Weekly, June 4, 1955.)

The State Bank of India is a national institution and has been established for the service of the country, particularly of small communities, which are at present not receiving banking facilities. This can be done in two ways:

(i) Through the local banks and branches of the regional banks

(ii) through direct dealings with the public.

As regards the first, it should be borne in mind that a single institution, whatever its size, cannot meet the requirements of all the communities of this vast country. They can be met, so far as rural India is concerned, only through the mediation of the other local banks; because the people on account of their close association can easily approach them in a spirit of mutual confidence.

Agricultural credit can be extended only through cooperative banks. But it should not be forgotten that the success of the agricultural credit is mostly dependent on commercial credit as it helps in increasing the purchasing power in the rural market, and also in stablising the prices of agricultural commodities to a considerable extent. Rural commercial credit, for all legitimate purposes and to all the deserving persons, can be extended conveniently and safely through the local banks wherever they exist.

Facilities required for banks.

Again, as the custodian of the Government surplus funds in the currency chests, it is the duty of the State Bank to relieve stringency in the money market; and for this purpose it should extend the following credit facilities to all the good scheduled and non-scheduled banks as their financial conditions permit:

(1) overdraft, instead of loans, against Government securities at at least ½% below bank rate;

(2) purchasing their endorsed demand bills and T.Ts without earmarking the Government securities;

(3) discounting bills (Promissory notes executed by their borrowers against advances secured by pledge of goods) of those banks which do not want or cannot get the facility from the Reserve Bank on account of the rigid formalities or working restrictions etc; and

(2) participating with small banks in their big advances just as the big city banks of U S A help their country correspondent banks.

The above accommodation should be allowed only to extend sound credit to trade, commerce, industry and agriculture and not to encourage speculation.

In addition to the above, the following facilities are also necessary for the banks on very reasonable charges:

(1) collection of their bills;

(2) remitting their funds free of charge without the existing conditions like, twice a week (this was only once a week before) and only to their Head office or Principal account with the Reserve Bank of India; and

(3) drawing limits on the various branches of State Bank against Government securties.

If scheduled banks are accommodated as above, they will realise that the State Bank is a source of help and strength to them and not their competitor. In turn they will extend credit and other banking facilities to their clients. Hence all legitimate demand for credit will be met and there will be no stringency in the money market even at the time of the peak season. In this way the State Bank will be able to achieve the main objective of expansion of banking treasuries in the country.

The Tata Iron and Steel Company Limited

NOTICE

NOTICE is hereby given that the Register of Members and the Transfer Books of the Company will be closed from Thursday, the 12th April 1956 to Thursday, the 26th April 1956, both days inclusive.

Notice is also hereby given that pursuant to the Special Resolutions passed at the Extra-Ordinary General Meeting of the Company held on Monday, the 12th March 1956, the holders of Ordinary shares on the Register of Members of the Company on the 26th April 1956, being the date fixed by the Directors pursuant to the above Resolutions will be entitled to apply for the new Ordinary shares in respect of their holdings of Ordinary shares on such date. Application and Renunciation forms will be posted to the shareholders in due course.

By Order of the Directors
TATA INDUSTRIES LIMITED, MANAGING AGENTS,

J. D. Choksi
DIRECTOR.

Bombay, dated 12th March 1956.

Manufacturers' Associations Speak Out

TO understand how the various industries are shaping and to follow their pattern of development it is no longer enough to go by general reports or the declining figures of imports of manufactures or even by the financial results of the industrial concerns. Alas, the comforting assurance that because imports of such and such a product are going down year by year or that the companies concerned are making handsome profits, the industries are also doing well, is steadily being undermined. Industries may also be 'salted' and their growth arrested while they remain sheltered and continue to make profit! Particular problems of the industries and their changing shape day by day, therefore, need to be followed closely. The operation of various controls, the appearance of Development Councils on the scene and administrative problems that have to be solved by the industries themselves both for conforming to various controls and for complying with excise regulations have led to the emergence of trade and industrial associations. Government professedly welcomes these associations. It is easier for the Government to deal with responsible bodies than with individual producers particularly when they are a heterogenous lot, differing widely in their capital resources, methods of production and trading and if truth must be told, in the degree of their reliability. Industry also wants these associations, badly to put up their case and deal with Delhi, but many of these bodies complain that they are not listened to or consulted. How is that? There are of course always two sides to a question. To be able to sample the problems that arise and the factors that bedevil development over a wide sector of industry, it is useful to study what the spokesmen of these industries have to say. But Chairmen or Presidents of the various industrial, manufacturers' or trade associations do not always get the attention that they deserve because the convention has not yet been established of publishing the full texts of their speeches or addresses as paid advertisements, which is the only way of ensuring the fullest publicity for all. This is much to be regretted, and not only for the loss of prospective revenue it means for the financial papers and other sections of the press, who would not mind having this new source of revenue to replace other sources which are disappearing one by one through the expansion of the public sector. The prospective loss of life insurance advertisements is a case in point that need not be laboured overmuch.

A number of such associations have lately brought their problems before the public. The Chairman of the Paint Federation has recounted the difficulties which paint makers had to face to comply with the regulations enforced by the excise authorities. They are by no means over yet, even after a whole year of discussions at various levels and representations to the highest quarters. He only hopes that "by the next year the situation will have resolved itself into a reasonably smooth working system". Anyway, the case of the paint makers is somewhat especial. Attention was drawn to it in these columns last year when the excise duty was first imposed on paints. The President, however, no longer protests against the excise duty. His association is only trying to come to terms with it, but unlike others, he openly opposes the encouragement to small units (who, by the way, are not admitted to membership of the association) and continues "to deplore the exemption from duty of the smaller manufacturers, which, in practice, places a premium on the quality of the larger manufacturers' products without any compensatory inducement to the small exempted manufacturer to improve his wares."

The Paint Federation Chief is equally opposed to new units being licensed for the production of paint. "It would be quite unjustifiable to license any new units during the Second Plan", he said, "since the burden of excise duty, on top of increasing production costs, was gravely prejudicing the health of the existing units in the industry." But if conditions are really that bad, why should others want to enter this field?

This is sharply in conflict with Shri Mangaldas's Presidential address at the annual session of the Federation in which this acknowledged spokesman of Indian industry declined, with thanks, the monopoly which Government was proposing to confer on the Cotton textile industry, for example, among others, by keeping out new entrants and banning all expansions.

The problems of all these trade bodies have a family likeness. They all complain against 'excessive' imports, for example, though the Paint Federation do not have this particular complaint. They also complain about shortage of raw material and inadequate allocation of controlled or imported materials. They complain against the delay in acceptance of Government tenders, extension of delivery dates and payment of bills.

The President of the Screw Manufacturers' Association is bitter that the Government should have allowed import of wood screws even to the extent of 5 per cent of the past year's imports, after having allowed the G K W to establish a plant for their manufacture. He stoutly denies the existence of any shortage. On the contrary, indigenous manufacturers, he claims, can manufacture all the special varieties of screws the imports of which continue to be freely allowed. That the manufacturers do not manufacture these varieties is only because consumers can get the imported stuff so freely. It is not possible to estimate the exact extent of demand for these special varieties, because the import of these varieties is not separately classified. This is a general complaint—inadequate import classification. "Samples of these varieties manufactured by the member-firms of the Association have already been submitted to the Development Wing and the Association has no doubt that the varieties manufactured by the indigenous industry have been found to be of good quality. When the prospects of marketing them open up, the factories will themselves get the test certificate but as it is, it does not appear to be necessary."

There is another common complaint—estimates of demand and supply are so sharply at variance. Demand, it is complained by the manufacturers' association, is grossly over-estimated. Consumers, on the other hand, make the same charge against estimates of supply and availability, often contending further that the quality of the indigenous product is not up to the standard or that they do not get the special type they require. It is surprising that the area of disagreement and uncertainty is not sought to be narrowed by changes in customs classification which should at least enable a correct estimation of the

actual quantity of imports.

About inadequacy of imports, the Paint Federation has a curious situation to report. Government, it is well known, has decided to protect indigenous titanium dioxide and with that end in view, had restricted the import of lithopone. Nevertheless, Government orders for paints continued to specify the use of lithopone, which the paint manufacturers naturally found difficult to comply with, since the import of the latter was severely restricted. It fell to the lot of the Federation to get the Government to agree to the substitution of titanium dioxide, wherever specifications mention lithopone!

Hurricane lanterns, the manufacturers of which have brought out an excellent directory, are not separately classified in import statistics. They are classed together with "metal lamps and parts." But imports are no longer a matter of active concern to the industry which is generous enough, it is an agreeable surprise to find, to welcome the token imports to the extent of 2 per cent on the face value licence which were allowed last year. The manufacturers concede that they have reached a stage where they are able to compete with foreign lanterns and need no protection. On the contrary, as they are in a position to export and have been exporting on a significant scale, such token imports, they agree, "will act as a check both from the stand point of quality and price."

Now about raw materials. Screw manufacturers get their steel wire and rods from Indian Steel and Wire Products Ltd who are, however, not in a position to meet their demands in full. Naturally, therefore, their own production programme is hampered. The Association has been asked to get the balance of their requirements from imports but here comes the question of import duties. In short, unless the import duty on wire rods and steel wire is removed, the screw industry cannot work to full capacity. Being a protected industry, it is very necessary, in so far as its progress is checked, for it to give a good account of itself, but it cannot, for no fault of its own. Not all manufacturers of wood screws, however, are members of the Association, which creates additional complications in the matter of allocation etc.

As in screws, so in the case of many other light engineering industries, it finally ends up in shortage of steel. The second Plan is being launched against a background of acute shortage of this basic raw material of industry as that of cement, the basic material for construction. Instead of a million tons a year for the next three years, the shortage is now being placed at double that figure. Already considerable quantities of steel are being imported by the private sector at 'free' prices, following the raising of steel prices to Rs 500 per ton, abolition of import duty and removal of price control on non-subsidised steel. As the difference between domestic and free import prics is reduced, the tendency to import on private account will strengthen; at the same time, the logic of circumstances will force controlled prices to be raised, except perhaps for users in high priority categories who are all in the public sector.



A formidable case and a far more complex one is that of electrical manufacturers. Mr Driessen of the Indian Cable Company presented it forcefully at the last meeting of the Indian Electrical Manufacturers' Association. He complained that it was quite impossible to comply with the Government's demands on these industries to increase their production, unless, at the same time, allocation of pig iron and steel to the manufacturers is increased. He suggested on behalf of all indigenous manufacturers that

> "Government plans to import one million tons of steel during the next financial year is not bold enough and that plans should be considered to import steel and pig iron in quantities that will allow India's Industry to expand without the fetters of raw materials shortages until such time as the country's planned steel production is sufficient to fill the needs of the nation."

If in the case of pig iron and steel, the shortage is absolute, in that of raw materials of the electrical manufacturing industries, it is complicated by the import duties on aluminium bars and rods and the stipulation made that aluminium imported under reduced import duties should be used for the manufacture of ACSR alone. The resulting anomalies are unbelievable, but true. Thus all aluminium conductors are allowed to be imported on paying a duty of 5¼ per cent, while domestic manufacturers of overhead conductors have to pay 35 per cent on the metal imported for their manufacture! Again, the import duty on the parts required for the manufacture of motors and transformers ranges from 25 to 30 per cent while the duty on the complete product is much less.

This is not all. The anomalies of import duties may be serious enough but they can be removed. But what about getting the imports? Aluminium, in the form of ingot, bar or rod, is almost unobtainable in foreign markets and the principal suppliers to this country, the Aluminium Union of Canada, are able to allocate to domestic manufacturers only a small and wholly inadequate quota. The sole producer of electrolytic aluminium ingots or bars is the Indian Aluminium Company, which has not yet gone into production. When it does, its total production will be only 18,000 tons of ingot per annum, while the consumption of electrolytic aluminium by manufacturers of electrical conductors alone would exceed 20,000 tons in a couple of years. The gap between consumption and production, on present showing, may well be between 40 and 50 thousand tons by 1960.

The situation is not, therefore, very different from that of steel, the availability of which in foreign markets is far from free or easy. But for aluminium, there is a precedent. Most governments arrange for bulk imports of this metal for distribution to their electrical manufacturers and the other users, viz, utensil and packing industries. The Government of India should follow suit, or alternatively, use the rich bauxite deposits in the country to plan production on a much larger scale than is contemplated in the second Plan.

Electrical manufacturers have also a grouse that their Association is neglected by the Government. It has not been given representation on the Development Council for Heavy Electrical Industries. And like others, the Association is extremely critical of the imports allowed, in its case, of motors from 3 to 10 H P in the first half of this year. The domestic motor industry claims that it is capable of meeting all requirements fully up to 100 H P, and even more up to 500 H P are within its competence. About complaints of shortage, the IEMA Chief has an important suggestion to make: Indentors should plan their motor requirements in advance; if they do, Mr Driessen has no doubt, they will find that domestic producers will be able to give delivery earlier than the dates of actually getting imports. This applies to all engineering products.

Finally, a word about Government purchases, on which most of these producers are so heavily dependent. The Paint Federation Chief had some interesting light to throw on this problem. The Stores Purchase Committee, it will be remembered, made some recommendations for improving the situation, among others that requests for extension of the delivery date should be attended to within 15 days and that payment of final bills should be ensured within 90 days from the despatch of stores. "Although Government has accepted these two recommendations in principle, the Federation has so far been unable to discern the fact of their practical application."

Many of these difficulties arise from lack of liaison between Government and manufacturers. If in the case of paints, the Government Test House methods of inspection seriously impede production and supply, in the case of switch gear it is a great deal worse, because there is no laboratory to carry out tests. The delay experienced in the firm acceptance of tender for electrical goods is no whit less and the arrangement for testing military batteries at Bangalore do not bear writing about. Batteries sent for test are normally not released under 3 to 4 months, though the IEMA Chief makes bold to say "due to modern and efficient form of manufacture employed to-day, not a single case of failure has been known for 10 years". How long would the Directorate General of Supply and Disposals continue to occupy such an unenviable place in the proceedings of all Trade Associations?

THE CENTRAL BANK OF INDIA LIMITED

(Established December, 1911)

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

Authorised Capital	6,30,00,000
Issued Capital	5,77,50,000
Subscribed Capital	5,76,66,125
Paid-up Capital	3,14,54,250
Reserve Fund and other Reserves	4,01,00,837
Deposits as at 31-12-54	1,24,21,26,680

Directors:

Sir Homi Mody, K.B.E. (*Chairman*)
Cooverji Hormusji Bhabha, Esq. (*Vice Chairman*)
Dinshaw D. Romer, Esq.
Dharamsey Mulraj Khatau, Esq.
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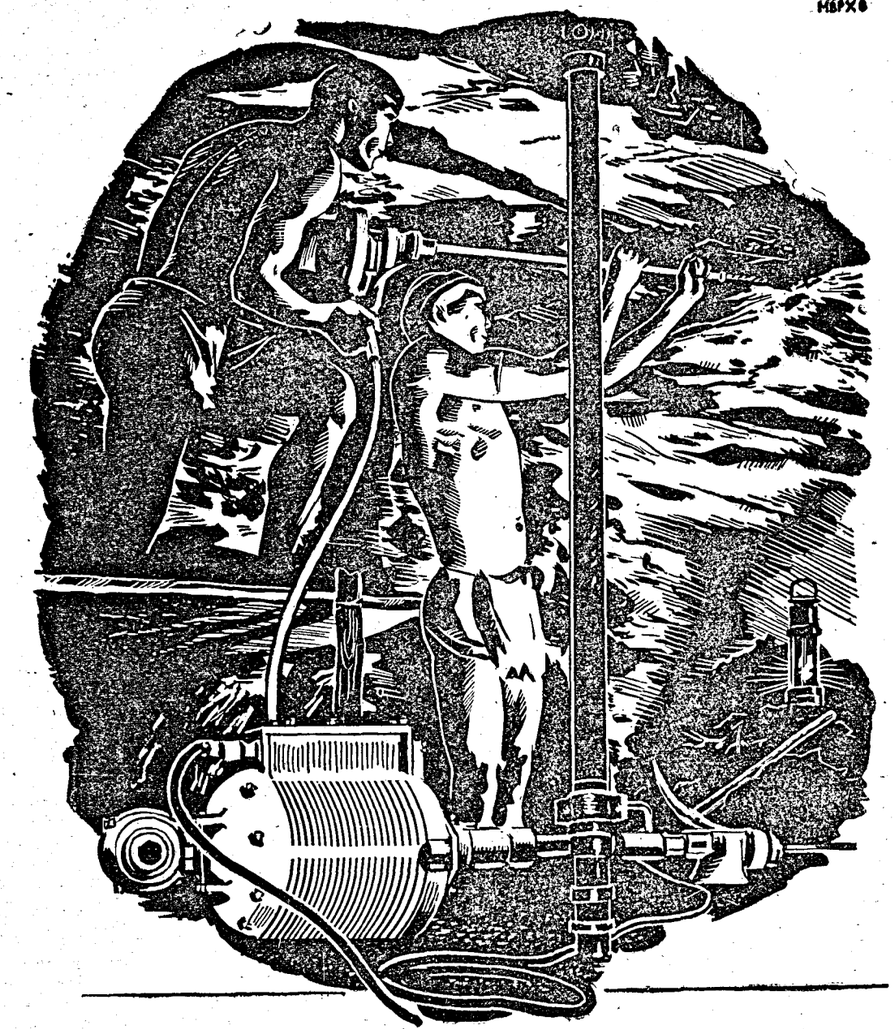
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Around Calcutta Markets

Slow Recovery

Wednesday, Evening

EQUITIES have recovered some of the ground lost immediately after the budget. But the recent behaviour of stock markets indicates that some more time must elapse before confidence revives. Speculative scrips remain hesitant. But sound cash scrips are gradually crawling up. Sellers have become scarce. But buyers remain shy. By all current indications, the Calcutta Stock Exchange is likely to remain uncertain for yet awhile.

Tax proposals in the Union budget are not the only factors responsible for the curtailed volume of business. Clive Street is still suffering from the effects of the payments crisis. Brokers have somehow honoured their commitments. But many clients have not paid their brokers in full. Brokers have become more selective in entertaining business from clients. Even professional operators have become less active. Simultaneously, investors remain away from the market.

In recent days, there has been a revival of kerb trading. All the clearing shares are now again being traded on a delivery basis. These are symptoms of revival of activity. But both official and kerb dealings in clearing shares remain small. And the margin basis of trading is, naturally, affecting turnover. No individual broker can now keep an open position in excess of Rs 5 lakhs without providing margin for the excess. This limitation may have had a healthy effect on the market. But the turnover continues to be small.

Though the payments crisis has somehow been solved, "budla" charges in the last settlement indicate that the market is still carrying a weak 'bull interest. Thus, the technical situation remains vulnerable. This is one of the reasons why forward shares remain irregularly lower. And the uncertainly lower trend in speculative counters tends to check the rising tendency in equities in general. These are the market factors which are prolonging the adverse effects of tax proposals.

To stress the technical aspect of the market is not to ignore the unfavourable effects of tax proposals. True, equities are well above the budget "lows", but the lack of confidence reflects the long-run effects of the tax proposals. Industry is not much affected by the Union budget. But it is loaded heavily against the investor. Indirect limitation on dividend payments, withdrawal of the rebate on undistributed profits and the tax on bonus shares explain why investors remain shy.

It is arguable that investors are ignoring the effects of deficit financing on stock markets. This is an argument with which speculators, rather than genuine investors, are more concerned. It would be wrong to assume that investors are disinterested in capital gains. But they are more concerned about the yield on the investment. It will be conceded that budget proposals may affect equity yields. To the extent that the budget may have the effect of minimising capital gains, speculators will lose interest in stock markets. That is why professional activity remains at a low ebb.

Last week's statement by the Finance Minister indicates the pattern of financing the second Plan. There will be stress on deficit financing in the initial years. Taxation will be raised as the Plan progresses. This should have had a moderately "bullish" effect on stock markets. Equities have not moved up appreciably. But the slow recovery in the last few days suggests that neither investors nor speculators are altogether unimpressed by the indicated pattern of financing the Plan.

But it is clear that the annual increase in taxation will be as heavy as in the first year of the second Plan. There may not be enough scope for any further increase in direct taxation. If taxation has to be stepped-up, indirect taxes will have to be extended and the existing levels of indirect taxation will have to be raised. This has been the main trend in taxation since the war. And, even the level of indirect taxation has now reached a level where it impinges on stock markets.

One of the assumptions behind the financing of the Plan is that, as money incomes expand, consumption will not suffer because of the effects of indirect taxes on the prices of consumer goods. But the inflationary consequences of the Plan have other aspects which cannot be ignored. Industry is already losing the advantages incidental to relatively lower prices for foodgrains and industrial raw materials. This cost factor may soon assume significance.

Industrial borrowing costs are also mounting. Money remains plentiful. But money rates have hardened perceptibly since the last increase in the British Bank Rate. Banks are being forced to pay more to secure deposits. In consequence, their lending rates are being raised. One of the bank chairmen has already expressed his opinion that the Indian Bank Rate is out of touch with the market rates of interest. In the event of a further increase in industrial borrowing costs, industrial profits may be affected further.

These are trends which no investor can ignore. Some of these factors explain why Jute shares remain dull. For more than a year, the spinner's margin has remained unfavourable to the industry. There is yet no indication of the extent of the anticipated Russian order. Meanwhile, the industry has been enlarging output by unsealing sealed looms. Modernisation of jute mills is going on at a snail's pace. It is a costly affair. Its benefits will not be apparent until after some years have elapsed.

Though the beginning-of-the-year enthusiasm about Jute shares has subsided, Clive Street now seems to be moderately optimistic about the shares. Tea auction prices have risen in recent weeks. There is growing belief that the worst has already been seen. Though the outlook is still rather obscure, it is possible that the low late-1955 tea prices may not be witnessed again in the near future. In the last few days, shares of the tea companies with gardens, or some interest, in Pakistan have gradually moved up. This reflects the relative tax advantage enjoyed by these tea companies. Slowly, the shares of Indian tea companies are looking up. Investors are no longer under any urge to liquidate. But they yet lack the courage to go in for fresh investment in Tea shares.

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Around Bombay Markets

Higher Dividends

Thursday, Morning

WHILE speculation is going on as to which companies would capitalise their reserve by issue of bonus shares and which would go in for higher dividends as the lesser of the two evils, there is increasing evidence that even the most conservative of concerns are raising their dividends. A number of such announcements regaled the investors during the week. The new taxation policy is obviously encouarging the cotton mills who have earned substantially higher profits to raise their dividends. Bombay Dyeing raised theirs from Rs. 20 to 25, Gokak with profits higher by Rs. 7 lakhs at Rs. 21.72 lakhs have recommended a dividend of Rs. 15 per share as against Rs 13, while Bangalore Woollen and Cotton and Silk Mills have obtained permission to capitalise Rs 81 lakhs from reserve by issuing two bonus shares for one held.

Phoenix Mills have announced a dividend of Rs 10 as against Rs 8. Dawn Mills profits have risen from Rs 6 lakhs to Rs 14.70 lakhs and the management has recommended two and a half times higher dividend at Rs. 15 per share as against Rs 6. Swan Mills dividend has been stepped up by Rs 5 per share. Gold Mohar Mills raised their dividend from Rs 12-8-0 to Rs 15 per share. Finlay Mills announced a dividend of Rs 20 per share as against Rs 16 paid in the previous year. Several others, like Tata Mills, Swadeshi, Tata Oils, Indore Malwa and India United Mills are expected to have made higher profits and are likely to raise their dividends. Century, Buckingham and Carnatic and Shivrajpur have made bumper profits.

Heavy bear positions had been accumulated as a result of selling presure from prominent operators. The market was in a state of oversold position. This was revealed at the time of budli business during the week. Bears in Shivrajpur were heavily penalised; shorts in other scrips were not in a happy position either as budli judging from the rates in the last settlement.

Despite tight money conditions and the tax proposals, leading industrials are getting consistent bull support and there has been heavy bear covering. Higher deivdends have helped sentiment. The shareholders of the Tata Iron and Steel Co. approved at the extra ordinary general meeting held during the week the scheme to issue new shares at a premium. The Chairman struck a note of optimism during the course of the meeting. This found its due reflection in Tata Steel Ordinaries which shot up by several points from the week's lowest. Indian Iron went up from Rs. 31-11-6 to Rs 33-8.

In the textile section, Bombay dyeing jumped more than thirty points. Century appreciated by twentyfive points. Simplex rose nearly twenty points. Gokak further looked up by more than five points. Swadeshi, Finlay and Swan gained higher levels.

In the miscellaneous section, Associated Cement attracted good investment buying which took the rate to a recent new peak of Rs 214-8. On expectation of bonus, Burma Old rose nearly fifty points to Rs 607-8, and closed around Rs 600. Scindia, Tata Chemical and Premier Construction appreciated considerably.

Cotton

Ceiling for Vijay

COTTON futures trading continued to remain suspended. Meanwhile, demand for quality cotton by spinners in the ready cotton market at Sewri was on the increase. Despite increased excise duty the margin of profit on superfine cloth, is reported to be fairly satisfactory. Following the downward revision of crop estimates, especially of quality styles, influential spinners were in the market for popular quality styles.

Vijay, Navsari and Surati varieties were much sought after at rising prices. The volume of business in these styles has increased considerably, say, from 2000 bales to 8000 bales per day. Broach Vijay, in consequence, hardened by more than twentyfive rupees per candy over the week. Vijay Cotton moveed up from about Rs. 895 to Rs 925. judging from the heavy demand for this type, it seems certain that ceiling price will soon be reached. Vijay ceiling price for 13|16" is fixed at Rs 945.

Vijay Ag. Mark Cotton had buyers at as high as Rs. 945. A foreign firm of cotton dealers was reported to have purchased Vijay certified cotton at Rs. 981 (K.form). Even at higher levels, the demand for this quality persisted.

Following the firmness in Vijay, the rates of delivery contracts of other varieties also recorded improvements. Good business was reported in Jarilla, Batwa, Dabhoi, Jambusar and Telara at higher rates.

In the export section, Wagad continued to attract considerable attention from shippers and was sold at Rs. 705 while Kala had buyers at Rs. 700. Exporters also showed interest in the permissible qualities like Bengals, Comra, Deshi and lower quality Jarilla.

There was some activity in the foreign cotton section also. Business was reported in Busoga at around Rs. 1425, Bukhedi at Rs. 1430 and Jinja at Rs. 1350 per candy.

Oilseeds

Firm Trend

A firm trend persisted in oils and oilseeds throughout the week. In the face of suggestions of a lower crop and steady demand from crushers, the groundnut arrivals both in the terminal markets and locally, are slowly drying up. Besides, enquiries from overseas dealers poured in and rates were taken up to new high levels. It was widely believed that fresh export quotas for groundnut oils will be announced in the near future. Foreign advices were also encouraging.

Following brisk demand in the ready section, castor May futures attracted speculative support throughout the week. Castor ready firmed up to Rs. 25 per cwt. over the week. Firm spot prices and extension of heavy support by bulls led to short covering at advancing rates. The firmness is also attributed to the standing option business. As prices rose and the period for the maturity was nearing, option dealers had to cover their risks. More than 20,000 candies had to be covered, and this contributed to the rise.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1444.09	1418.65	1407.64	1281.19
2. Rupee Coin	102.55	103.97	104.55	101.10
3. Deposits				
a) Central Government's	54.31	59.56	60.54	55.22
b) Banks'	47.40	49.34	53.01	48.46
c) Other Governments'	10.55	18.02	11.00	18.50
d) Others'	16.87	16.81	15.92	21.68
4. Foreign Securities	697.15	682.15	667.15	678.15
5. Balances held abroad	40.61	53.92	71.06	52.73
6. Rupee Securities	613.22	603.22	603.22	472.64
7. Investments	37.61	47.41	49.75	51.36
8. Loans and advances to Governments	4.37	2.89	3.69	1.20
Scheduled Banks				
1. Demand liabilities (net)	618.05	626.65	628.88	575.53
2. Time Liabilities	418.70	418.08	412.30	371.20
3. Cash on hand	34.78	34.82	34.66	33.29
4. Borrowings from Reserve Bank	48.47	40.82	34.79	17.32
of which against Usance Bills	35.32	21.65	18.88	8.26
5. Advances and Bills discounted	666.00	651.99	634.63	569.51
of which State Bank's	126.16	120.42	117.71	124.01
6. Invst. in Govt. Sec.	373.54	375.26	380.45	347.48
of which State Bank's	105.54	105.11	107.31	92.02
Cheque Clearance	149.04	173.02	158.89	114.65

†For Reserve Bank and Cheque Clearance week ended 9-3-56. Scheduled Banks week ended 2-3-56.

Bombay Money Rates	6-3-56	2-3-56	10-2-56	11-3-55
Inter-Bank Call Rate	3 3/16	3 3/16	2 7/8	2 7/8
3 months deposits	3 3/16	3 3/16	3 1/16	3
6 months deposits	3 3/16	3 3/16	3 1/16	3

Bombay Bullion — In Rupees and Annas

	15-3-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	105-1	101-4	97-11	93-6
Forward	104-4	100-9	97-6½	92-4
Silver (per 100 tolas)				
Spot	178-12	175-2	174-15	166-12
Forward	179-6	175-4	175-3	165-12

ABSENTEEISM IN COTTON TEXTILE INDUSTRY

Bombay State

Average percentage of absenteeism* in

	Bombay City	Ahmedabad	Sholapur	Viramgam	East Khandesh	All Centres
1947	14.39	6.39	19.13	2.81	—	12.04
1948	13.29	5.87	18.10	8.24	20.65	11.06
1949	15.91	7.38	21.29	10.33	14.49	13.19
1950	14.50	8.36	20.22	9.36	12.56	12.57
1951	12.83	8.34	18.80	9.43	13.16	11.53
1952	12.70	9.49	20.22	10.41	12.81	11.90
1953	12.62	9.43	20.53	10.93	14.42	11.93
1954	10.80	8.72	17.35	9.00	13.79	10.44
1955	8.15	6.79	18.00	11.88	11.94	8.28
1955 :						
Jan.	7.25	5.82	16.88	12.25	10.12	7.29
Feb.	6.87	6.53	18.43	11.83	12.33	7.49
March	8.57	6.88	18.22	13.71	13.37	8.53
April	9.62	7.64	19.80	13.36	15.23	9.57
May	10.21	8.67	23.46	14.51	15.58	10.49
June	8.73	7.53	18.54	10.97	11.82	8.86
July	7.75	6.58	16.03	10.38	10.43	7.85
Aug.	7.43	6.15	14.79	10.63	10.74	7.43
Sept.	7.62	6.59	15.39	11.23	11.98	7.71
Oct.	7.75	6.51	16.92	11.57	11.09	7.91
Nov.	8.32	6.45	19.35	11.53	10.44	8.37
Dec.	7.66	6.17	18.20	10.62	10.12	7.80

*Percentage of man-shifts lost by absence (due to leave, sickness, accident etc., but not due to strike or lock-out) to man-shifts scheduled to work.

Source: Labour Gazette

INDUSTRIAL DISPUTES IN BOMBAY STATE

	No. of disputes	No. of workers involved	No. of working days lost
1947	650	726,594	3,783,817
1948	536	384,385	1,810,793
1949	376	279,883	1,765,583
1950	271	374,649	10,251,718
1951	315	206,645	1,112,972
1952	265	428,649	1,207,753
1953	179	141,525	618,192
1954	201	111,273	396,187
1954 :			
October	24	16,879	30,435
November	16	9,052	91,359
December	18	5,987	62,145
1955:			
March	24	27,915	34,630
April	28	9,260	43,927
May	27	8,182	25,153
June	27	6,214	50,092
July	26	3,179	19,135
August	30	7,623	53,425
Sept.	28	3,365	7,299
October	22	5,268	15,743
November	28	6,630	16,629
December	38	21,237	57,460

Source : Labour Gazette

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100).

Group and Sub-Group	Week ending 25-2-56	Week Ago	Month Ago	Year Ago
I **Food Articles:**	**343.0**	**338.3**	**334.0**	**300.5**
Cereals	430	419	398	343
Pulses	359	359	356	232
Others	227	228	241	252
II **Industrial Raw Materials:**	**462.4**	**460.2**	**456.1**	**433.0**
Fibres	469	466	451	479
Oilseeds	465	468	474	358
Minerals	459	444	433	416
Others	409	411	449	482
III **Semi-Manufactures:**	**357.2**	**355.5**	**355.2**	**3 7.2**
Leather	408	398	414	390
Mineral Oils	208	202	202	221
Vegetable Oils	422	426	426	375
Cotton Yarn	446	446	436	440
Metals	281	280	280	242
Oilcakes	341	342	372	297
Others	365	364	364	337
IV **Manufactures:**	**375.3**	**375.5**	**374.9**	**376.1**
Textiles	409	409	408	420
Jute	415	416	417	475
Cotton	403	403	403	409
Rayon & Silk	502	502	486	455
Woollen	274	278	278	310
Metal Products	371	371	371	340
Others	285	285	285	284
V **Miscellaneous:**	**527.4**	**528.2**	**537.1**	**559.0**
All Commodities:	**380.9**	**378.7**	**376.6**	**358.8**

COAL PRODUCTION AND DISTRIBUTION

(Monthly Averages or Calendar Months)

('000 tons)

	Raisings	Despatches	Stock at Pit-heads
1948	2,485	2,155	2,262
1949	2,621	2,339	1,417
1950	2,666	2,401	2,008
1951	2,859	2,426	2,646
1952	3,019	2,566	3,519
1953	2,987	2,588	3,411
1954	3,064	2,662	3,771
1954 :			
April	3,037	2,599	4,051
May	2,977	2,621	4,093
June	2,885	2,576	3,950
July	2,966	2,810	3,693
Aug.	2,958	2,926	3,380
Sept.	3,171	2,888	3,210
Oct.	2,921	2,787	2,914
Nov.	3,323	2,728	3,161
Dec.	3,503	2,747	3,468
1955 :			
April	3,230	2,692	4,066
May	3,175	2,743	4,095
June	3,075	2,658	4,129
July	2,956	2,755	3,902
Aug.	3,118	2,879	3,696
Sept.	3,378	2,802	3,786
Oct.	3,085	2,883	3,521
Nov.	3,097	2,771	—
Dec.	3,388	2,782	—

Sources : (1) Indian Trade Journal
(2) Directorate of Industrial Statistics

ELECTRICITY GENERATION AND DISTRIBUTION

(Monthly Average or Calendar Month)

(in million kwh)

	Generation	Distribution						
		Domestic consumption	Commercial light and small power	Industrial power	Public lighting	Traction	Irrigation	Public works & sewage pumping	Total
1948-49 ..	390.1	34.8	20.3	206.0	4.2	23.8	11.0	14.7	427.9
1952-53 ..	525.1	51.5	29.2	275.6	6.0	27.7	19.2	19.4	464.4
1953-54 ..	573.1	68.3	31.7	298.1	6.5	29.7	19.1	20.6	474.0
1954-55 ..	646.6	62.6	28.9	344.6	7.5	31.7	20.0	22.1	517.4
July	633.4	62.3	37.5	338.6	7.1	31.9	15.6	22.9	515.3
August ..	635.0	64.9	37.2	338.8	7.3	27.3	11.7	23.2	510.5
September	647.6	65.0	37.4	344.6	7.4	27.6	18.4	23.1	523.3
October ..	626.5	63.7	35.3	336.6	7.7	30.8	14.9	22.6	511.6
November	656.5	63.4	35.2	351.2	7.7	31.9	22.5	22.6	534.6
December	683.5	63.2	36.2	370.9	8.1	33.2	23.0	23.5	558.0
1955 January	668.5	62.1	36.3	362.5	8.0	32.1	21.4	22.9	545.2
February	628.7	60.8	35.1	346.7	7.5	29.4	20.7	21.5	521.8
March ..	698.7	63.3	38.7	375.5	7.9	35.2	24.2	23.6	568.3
April ..	691.1	62.6	43.6	368.9	7.6	32.0	25.6	23.7	563.9
May ..	706.5	64.2	39.7	377.2	7.8	34.1	21.5	24.9	569.4
June ..	716.2	67.8	38.5	379.7	7.6	33.2	24.7	24.6	576.1
July ..	724.8	67.6	38.3	390.2	7.8	34.2	20.8	24.5	583.3
August ..	708.9	69.5	39.6	380.4	8.3	34.2	17.3	25.1	574.4
September	719.3	70.0	40.2	390.8	8.3	33.6	19.8	24.3	587.0
October	720.7	72.6	40.0	394.4	8.6	34.8	16.5	25.0	591.9

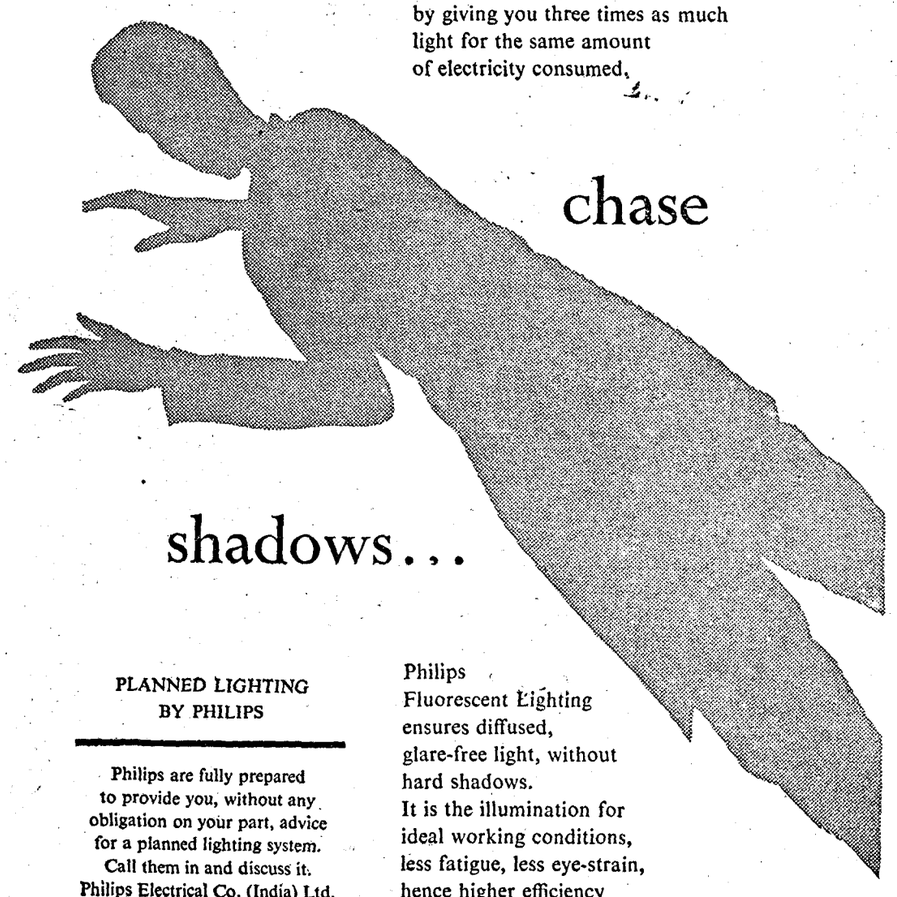
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What Ails the Indian Banks

THE Indian Banks' Association is now quite an important body among the commercial and financial associations in the country, and the Chairman's speech of such an august body, therefore, demands more than a casual reference. Unfortunately this year's Chairman, Shri C H Bhabha, has not ventured to look in a different and constructive way at the problems faced by the Indian Banks. He has harped on the same old themes like unhealthy competition from the Exchange Banks, inefficiency of the clerical staff and the consequent rise in expense ratio etc. He has, however, tried to put forward certain statistical comparisons to drive his point home in respect of the aforesaid two themes, which deserve careful examination.

The total deposits of the Indian Scheduled Banks increased by Rs 35 crores as against a rise of Rs 45 crores in the Exchange Banks' deposits between the end of 1948 and 1955. This, according to Shri C H Bhabha, is an eloquent testimony to the unhealthy competition waged by the Exchange Banks. It is difficult to imagine the reason for selecting 1948 as the base year for comparison, for it was in this year that the impact of Partition was greatest on the Indian Scheduled Banks. Between the end of 1948 and 1949, Indian Scheduled Banks suffered a decline of Rs 105 crores in their total deposits while those of the Exchange Banks increased slightly by Rs 17 lakhs. Clearly this was not a case of transfer of deposits from the Indian Scheduled Banks to the Exchange Banks. Much of it is explained by transfer of funds from Indian to Pakistan branches.

The decline in Indian Scheduled Bank total deposits was arrested only when the Reserve Bank introduced exchange control on remittance from India to Pakistan after 1949. Therefore, if any long term comparison is to be made, it should more properly be made between the end of 1949 and 1955. During this period, total deposits of Indian Scheduled Banks increased by as much as Rs 135 crores compared to a rise of Rs 44 crores among the Exchange Banks. The choice of 1948 end as the base period for comparison, therefore, vitiates Shri Bhabha's conclusions. A comparison of total deposits between the end of 1949 and 1955 among the Indian Scheduled Banks and Exchange Banks demolishes the basis for Shri Bhabha's inference; but admittedly, it does nothing more. For a proper understanding of the forces affecting the deposits of the two sectors, it is more useful to consider the periods 1949 to 1952 and 1952 to 1955 separately. By the end of 1949 the effect of Partition on their total deposits was more or less complete and the Indian Scheduled Banks were in a position to benefit from the favourable atmosphere created by the Korean boom. Their total deposits increased by Rs. 10 crores between 1949 and 1950. True, the Exchange Banks also benefited from the boom almost to the same extent but this was to be expected as they were more favourably placed in regard to exchange business. The Korean price boom was broken abroad by the middle of 1951, but the full impact of the recession was not felt here until the Bank rate was raised in November 1951. In the course of the next six months, ending in April 1952, however, total deposits of the Scheduled Banks, which had participated in agricultural stock-piling in quite a big way, shrank appreciably.

By end of 1952, near normalcy was restored and deposits of the Indian Scheduled Banks began to look up. These banks had been shaken somewhat and it is quite possible that in this period, the Exchange Banks offered stiff competition. Demand deposits of Exchange Banks which had remained constant between the end of 1951 and 1952 recorded a sudden jump of Rs. 15 crores in the first half of 1952. Exchange Banks sought by all manner of means to attract depositors, and Shri Bhabha's strong criticism of the attitude of the Exchange Banks would in a measure be justified, if it were confined to their behaviour during the period 1949 to 1952, especially between the end of 1951 and mid-1952.

Between the end of 1952 and 1955, however, the position became different. During 1953, total deposits of the Indian Scheduled Banks rose by Rs. 20 crores whereas those of Exchange Banks declined by Rs 16 crores. The rise of Bank rate in England affected the business of the Exchange Banks rather directly, and their demand deposits declined by Rs. 14 crores. As against this, there was a fall of only Rs 2 crores in their time deposits which supports the contention that the Exchange Banks continued to strive hard to retain their deposits. But it would be difficult to maintain that this was at the expense of Indian Scheduled Banks, for the time deposits of the Indian Banks had also risen in the meantime by about Rs. 18 crores.

To cut a long story short, between 1952 and 1955, Indian Scheduled Banks' total deposits increased by Rs. 169 crores as against a rise of Rs. 16 crores in the deposits of Exchange Banks. Their time deposits increased by Rs 92 crores during this period against Rs 13 crores among Exchange Banks. Even in terms of percentage, which is after all not a very reliable standard for comparison between two dissimilar figures, Indian Banks increased their time deposits by 37 per cent while Exchange Banks could increase theirs only by 21 per cent. Against this background, it is rather difficult to see the point of the crusade launched by the Chairman of the Indian Banks Association. It would have been more helpful if instead of wasting so much time on questionable comparisons, he had elaborated what should now be done to overcome the present difficulties of Indian Banks. Only a fortnight ago Sir Cowasji Jehangir pleaded that the Reserve Bank should raise its Bank Rate in order to enable the scheduled banks to adjust their rates on advances upwards. Shri Bhabha now attacks the State Bank for not giving the lead in the matter of interest rates on bank advances. Apparently, the leading lights in the Indian banking world are obsessed with the idea that what prevents their earning more is the possibility of the Reserve Bank frowning on a higher charge on bank advances. They forget that banks cannot charge more than what borrowers are willing to pay. What is worse, they pay so little attention to the role that they ought to play in furthering the objectives of the Second Plan, especially as regards private investment. One wishes Shri Bhabha had probed a little the suggestion recently made by Dr John Matthai, that the Indian Banks together with the Reserve Bank of India should find ways and means of checking the rise in the borrowing rates of banks. But, obviously, Indian Banks, like many others, prefer to complain about things and consider it a good day's work done.

In Perspective

SINCE the Geneva "summit Conference", there is stalemate in Europe. But in east Asia, in south-east Asia and in West Asia, the "cold war" has been intensified. Pandit Nehru is aware of this threat to Asia. He is conscious that a continued "cold war" can only "keep up the atmosphere of hatred and fear and the ever-present danger of being converted into nuclear war". New Delhi dislikes military pacts. It is right in its opposition to SEATO and the Baghdad Pact as threats to Asia. India's foreign policy of non-involvement in the "cold war" has the support of the people. They accept Panch Shila as the basis of relations among nations. There will be no quarrel with Pandit Nehru's assessment of the world situation, or with his recipe for world peace.

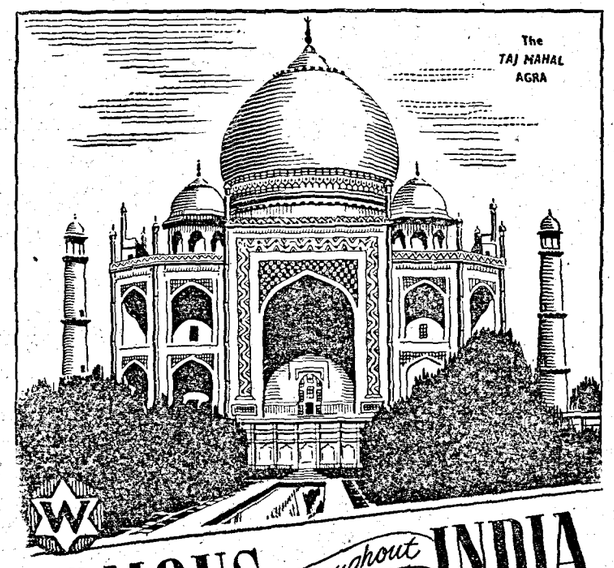
But certain developments in Asia need to be appreciated for a proper reappraisal of India's foreign policy. Events that make such a reappraisal necessary are not unknown to Pandit Nehru. There are hints in his speech in Parliament on foreign affairs, which disclose his awareness of some of the implications of developing events in Asia. India's foreign policy is clear-cut. Her policy of peaceful co-existence is accepted by the rival power blocs. But neither side is willing to accept the full implications of peaceful co-existence. Basically, it is the qualified acceptance of competitive co-existence by the Western Powers that perpetuates the "cold war" atmosphere in all parts of Asia. Both SEATO and the Baghdad Pact were established after the Geneva "summit Conference".

Pandit Nehru is not alone in questioning the wisdom or necessity of these regional military alliances. But he confesses that he has not been able to make converts of the British Foreign Minister or the American Secretary of State. In recent months, he has had talks with his "opposite numbers" from many countries. But these discussions have not been fruitful. India has emphasised her apprehensions about regional military pacts in Asia. Britain and America have informed India that they have no intention of abandoning their policy of negotiating through strength. France's Socialist Foreign Minister has expressed emphatic disapproval of such a foreign policy based exclusively on security. But the Foreign Ministers of Britain and America have politely but firmly informed Pandit Nehru that they have respect for India's foreign policy, but have no intention to abandon their search for security.

Apart from America, the major Western Powers accept India's solution of the critical situation in east Asia. They endorse India's policy that Communist China should be admitted to the United Nations. They will echo Pandit Nehru's suggestion for withdrawal from the coastal islands of Quemoy and Matsu so as to ease the situation in Taiwan. But they, with the possible exception of France, are agreed that SEATO and the Baghdad Pact are necessary for the defence of the regions concerned. One of the essential conditions of peaceful co-existence is an agreement to disagree among the rival power blocs. There can be no peaceful co-existence unless the Western Powers accept Communist States or the latter concede the existence of Capitalist States. To stress this is not to suggest that an agreement to disagree between India, America and Britain can reconcile the situation in west and south-east Asia. Pandit Nehru has informed Parliament that his talks with the British and American Foreign Ministers have had no positive outcome except a tacit agreement to disagree. He has "noted with regret" that these Commonwealth countries "have associated themselves with the offending declaration" made by SEATO Powers on Kashmir.

Because of the changed situation in all parts of Asia, there have been frequent suggestions from some quarters that there is need for a reappraisal of India's foreign policy. There is plausibility in the arguments advanced in these quarters. India is not self-sufficient in the manufacture of arms and ammunition. Her dependence on foreign supplies for defence preparations enhances the threat incidental to Pakistan's membership of SEATO and the Baghdad Pact. In a world dominated by power politics, India's foreign policy, it is argued, should be realistic. Faced with a situation which does not differ in essentials, Egypt has succeeded in averting the threat by accepting supplies of arms from Communist countries. To oblique suggestions that New Delhi should emulate Cairo, Pandit Nehru will probably retort that India is sincere in her policy of non-involvement as well as in her aversion to joining a race for armaments. Those who are conscious of the explosive implications of such a policy argue that realistic diplomacy is not necessarily or exclusively concerned with the military aspects of the situation. There are other ways of combating the threat arising out of Pakistan's membership of SEATO and the Baghdad Pact. Offers of economic co-operation by Russia to India and the hostile reaction in America to such gestures would seem to confirm the assumption that economic issues are no less relevant in power diplomacy.

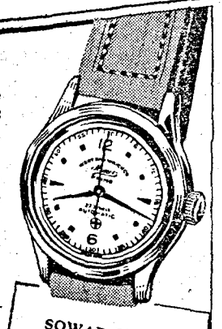
Even in an era of peaceful co-existence, power diplomacy will prevail. In the circumstances, India can ignore the diplomatic implications of the developing situation in Asia only at her peril. But Pandit Nehru will not be uncharitable in reminding the diplomatic realists that the era of monocled diplomacy is dead. Pakistani Foreign Minister's belated endorsement of the old and oft-repeated Indian proposal for a "no war" agreement between the two countries is, therefore, doubly welcome. Equally welcome is his proposal for a demarcation of the Indo-Pakistani border. Only those who have read more in the recent Karachi discussions among SEATO Powers than they should will feel surprised at the Pakistani Prime Minister's gesture. It would be irrelevant to stress the internal compulsions which have prompted Karachi to accept India's proposal for a "no war" agreement. It would be equally foolish to jump to the conclusion that a "no war" agreement will automatically solve all the issues in dispute between the two countries. But it will be widely conceded that a "no war" agreement will help create a more congenial atmosphere in which disputed issues can be discussed calmly so as to facilitate a negotiated solution of problems which cause discord between India and her neighbour.



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Weekly Notes

Role of Economists

ADMINISTRATORS, Shri D L Mazumdar, I C S, admitted in an Extension lecture delivered at the University of Rajputana, have no difficulty in using the technical knowledge of the natural scientists, but fruitful application of economical knowledge to administrative problems is a different matter altogether. Difficulties arise mainly from:

(a) the different nature and scope of the natural sciences on the one hand and of economics on the other,

(b) the different nature and quality of the data and materials with which economists have to deal,

(c) the somewhat intractable problem of separating 'value judgements' from an objective study and analysis of economic data, and lastly

(d) the relatively unstandardised methods of economic analysis, which make it difficult for administrators, without necessary training in economics, either to assess the merits of such analysis or, as in the case of the natural sciences, to accept the validity of these methods.

Of these, Shri Mazumdar regards the last one as the most difficult of all. In short, economic analysis has not yet secured the same measure of recognition as technical knowledge in other fields. Nevertheless, it is being increasingly recognized that "economic administration, at the higher levels, at any rate, can no longer be entrusted to civil servants who have not received the necessary training or acquired the necessary experience for this specialized field." Moreover, where standardization, because of the inherent nature of the subject, is not possible, only the best is good enough. In this, of course, he has Prof. Robbins on his side whom he quotes with approval. Until economics wins its spurs and is standardised, unlike other sciences, "economics as a technical qualification is not much use unless at a high level of competence". But is competence enough? There is also the question of ends and means and these cannot be separated sufficiently to enable the practising economists to specialise as technicians, who can suggest the best means for achieving given ends. Here the administrators have the advantage of being closer to their "political masters", and "it is their duty to obtain from their political chiefs an affirmation of their faith, on which alone major administrative policy decisions can be based."

In saying this, Shri Mazumdar is not fair to the practitioners of the profession whose job has been likened to that of the family physician. He may not be fair, but if he is probably trying to be realistic—he should know—the analogy that readily suggests itself is that of the poor Hakims who had to examine their female patients from a distance. The patients could neither be seen nor touched. Their pulse had to be felt through a thread tied to their wrist, the other end of which alone the Hakim was permitted to hold. It is, however, a question of fact on which the administrator's testimony should be accepted. Delhi economists, then, are not really as close to the "political masters" as they are sometimes made out to be.

But leaving aside these finer debating points, could not the sterility of economics, to which Shri D L Mazumdar has drawn attention in a very polite manner, be traced to factors other than the difficulties of the subject itself? What Professor Baran said in these columns must at least be historically correct. "The development of economic thought and research has been always closely related to the needs of society at various stages of its development. Where this relation has been torn apart, economics was condemned to sterility or played even a negative, reactionary role in the process of social advancement." It should follow that now that greater attention is being paid to problems of development, economists may be able to play a more fruitful role than they have done in the past.

Expansion Programme for Coal

COAL is another of the issues which the Draft Outline has deliberately kept hanging. The target of 60 million tons, i.e., adding 23 million tons to the present production stands, but its distribution between the public and private sectors has been left somewhat vague. The provision for Government collieries in the next budget, however, throws some light on this question. The State collieries are expected to increase production from 3 million tons as at present to 15 million tons to be distributed as follows:

> 13 million tons by the development of new coalfieds in Korba, Karanpura, Raniganj, Jharia etc; 1.5 million tons by raising the present output of Singareni Coalfields; 0.5 million tons by raising the present output of State Collieries (Bokaro Colliery).

A provision has been made for Rs. 12.54 crores in the budget estimates for 1956-57 which may be compared to the capital at charge of the State collieries as at the end of 1954-55 which was Rs. 6.98 crores.

Though the target of 60 million tons stands, the railways have been told, however, that they would not be expected to carry more than 48 million tons of coal by 1961, which falls short of the target by 7 million tons. No decision has been taken as to who should undertake to produce the balance of the coal required in the second Plan period; it will be decided later, according to the experience gained meanwhile.

Government collieries are reported to have made a profit in 1954-55 —the latest year for which data are available—of Rs. 29.94 lakhs. This is a substantial improvement on the profits of the previous year which amounted to Rs. 1.35 lakhs only. The small profits in 1953-54, it is explained, was due to the writing off the revenue of Rs. 42.15 lakhs on account of the investment made in one of the Government collieries which has since been abandoned, and the adjustment of Rs. 7.24 lakhs in respect of another colliery during the year.

I C I C

MR H T PAREKH, B.Sc. (Econ) (Lon), of the firm of Harkisondass Lukhmidas, Stock Brokers, Bombay, has been appointed Deputy General Manager of the Industrial Credit and Investment Corporation of India Limited and will join the Corporation on 29th March, 1956.

Mill Yarn for Handlooms

THE suspicion of the Khadi group against the organised sector of the cotton textile industry, particularly its open allegation that mills would sabotage the handloom programme by withdrawing yarn from the handlooms must appear somewhat fanciful, in the absence of really convincing proof to the contrary. There may be, and probably there are, serious impediments to the flow of yarn from the mills to the handloom weavers, but it is difficult to imagine that these are all of the mills' own making. The distribution system may be faulty; co-operatives may react even more markedly to changing expectations than capitalist enterprises guided by un-adulterated profit motive; there must also be the common, or garden variety of underhand dealings and it may not be impossible, as has actually happened in the past, that enterprising exporters, tempted by prospects of high profits on exports of yarn, adopt unfair means or bring undue pressure to bear on the Textile Directorate to get yarn, which is earmarked for delivery to handlooms, released for export. But surely, circumstances under which—why yarn alone? —anything may disappear underground, can be met by appropriate action, if the Government is vigilant and undertakes its responsibility seriously of maintaining supplies to the handloom weavers. That no complaints have been heard about shortage of yarn in the last year or two during which handloom production has made considerable headway naturally raises the suspicion that in their genuine concern for handlooms, the Khadi group might be imagining things. The employment potential of charkha of the ordinary or improved variety, however, is a different question altogether. Here we are concerned with the bonafides of the mill industry and its intentions to maintain steady supply of yarn for handlooms.

Mr Sheppard's testimony in his address to the shareholders of the Kohinoor Mills should dispel such suspicion. The Chairman was at some pains to explain to the shareholders why the Kohinoor mills had not shown as much improvement in profits as one would have expected, in view of the brisk offtake and rising prices of cloth. This was because the Kohinoor Mills happened to be composite, but composite in a different sort of way in that half of their spindles are devoted to producing 'free' yarn and sewing threads, for which a special plant has been installed. Now the fact is that though the industry had a reasonably good year, this was largely because of the keen demand for cloth. Yarn, however, did not share this prosperity; prices of yarn remained very low throughout the year, making this part of the Kohinoor Mills business much less remunerative. Surely, relatively low prices of yarn would not indicate shortage of supply for handloom?

No Place for Na-paks !

RECENTLY, much has been heard about the problem of Hindu migrants from East Bengal. There is no dearth of schemes and plans, either of the West Bengal Government or of New Delhi, for rehabilitation of East Bengal Hindus. Calcutta pleads its inability to shoulder the responsibility without aid from New Delhi and other States. Two years ago, New Delhi accepted its responsibility for solving the problem of rehabilitation of refugees from East Bengal. But the problem has assumed alarming proportions in recent months. Recent developments deepen suspicions that, faced with the magnitude of the problem, New Delhi is unwilling to undertake its solemn commitments.

These reflections are prompted by some of the observations made by Shri C C Desai in his Press Conference in Calcutta last week. "India cannot be driven to the position of accepting", India's High Commissioner to Pakistan observed, "any more of refugees than she could successfully rehabilitate". Since the adoption of an Islamic State in Pakistan, the exodus of East Bengal Hindus has been so heavy that New Delhi's main concern now seems to be to devise ways of stopping the exodus. For six years, New Delhi has been hoping against hope that Karachi and Dacca will take steps to end the exodus. To-day, it would not only be idle, but dereliction of duty for New Delhi to pretend that Karachi will implement measures to stop the exodus, or that the Hindu exodus can be stopped or ended.

Shri C C Desai admits that the closing of the border is no practical solution to the problem of continued migration of East Bengal Hindus. New Delhi has, on second thoughts, been wise in not accepting Karachi's implied suggestion that it can stop the exodus by withholding migration certificates. Inflow of refugees in March is proof that even the slowing down of issue of migration certificates is no remedy or solution of the problem. But Shri C C Desai's observations and the repeated policy statements by New Delhi are distressing reminders that New Delhi is still concerned with futile discussions about the causes of the Hindu exodus from East Bengal. It is more than time for New Delhi to formulate a positive policy, instead of wasting time and energy in barren talks with Karachi about the ways of stopping the exodus.

To enable New Delhi to formulate a solution, it is necessary to realise that the problem is no less than that of giving shelter and rehabilitating the entire Hindu population of East Bengal.

This is a responsibility which New Delhi did not undertake, explicitly or implicitly, at the time of partition. It is not a question of mental reservation but of fact that Congress accepted partition but did not accept the two-nation theory. Whatever its other failings might be, even the worst critics of the present Government cannot impugn its record in the matter of building up a genuine secular state. What the implication of a two-nation theory could be, had Congress or the present Government acted up to it, is too horrible even to contemplate. So, it is only fair to concede that New Delhi never bargained for a complete evacuation of the Hindu population of either wing of Pakistan when it agreed to the partition of the country. But that is neither here nor there. As time passes, it becomes increasingly evident that in a theocratic, Islamic State only the Paks can have a place; the rest may at best be tolerated or suffered. But they can have no rightful place in an Islamic State. It is idle, however, to look back and ask, did we bargain for it when we agreed to the establishment of Pakistan as a sovereign State? True, the attributes of sovereignty have undergone a sea change in modern judicial theory but that, again, is an idle thought. Having chosen the humane way and decided to stick to the narrow and straight path of decency and sanctity of human relations, New Delhi has taken upon itself the responsibility of finding a home for the refugees from East Bengal. This responsibility it cannot escape from, however difficult it might be to discharge it. New Delhi must now show realism and willingness to fulfil it.

Propaganda

BASELESS allegations made by both Pakistani Foreign Minister and Prime Minister do not obscure the disillusionment that seems to be spreading in Karachi in quick succession to the temporary jubilation over Pakistan's imagined diplomatic triumph during the SEATO Conference there. Karachi seemed to be satisfied with the military aspects of the SEATO Conference. It made no secret of its diplomatic victory in prodding SEATO Powers to issue a communique which included references to Kashmir and the Durand Line. But the aggressive allegations made by both Pakistan's Prime Minister and his Foreign Minister against India in relation to recent border incidents would seem to indicate that Pakistan has belatedly discovered that her anticipated gains out of SEATO and the Baghdad Pact are illusory.

Evidently, Pakistan's calculations have not materialised. There have been many border disputes since partition. But the timing of some of the recent border incidents lent weight to the suspicion that Pakistan was interested in exploiting these incidents to convince Mr Dulles, during his presence in Karachi to attend the SEATO Conference, of India's alleged aggressive designs. Karachi's subsequent accusations against New Delhi can only mean that Pakistan has not succeeded in her propaganda efforts to impress SEATO Powers of India's alleged aggressive intentions.

Karachi may be ingenious, but is not convincing in her allegations against India. Pakistani Prime Minister has repeated his Foreign Minister's allegation that India is aiding or abetting, if not an aggressor in, the recent border incidents in order to pursuade America not to supply military aid to Pakistan. If India is, as Karachi alleges, an aggressor, Pakistan can be doubly sure of receiving military aid under both SEATO and the Baghdad Pact. That may be the real motive behind Pakistan's allegations against India. If it is so, it is poor propaganda indeed.

Mr Mohammed Ali, Pakistani Prime Minister, has suggested a conference at the ministerial level to discuss the recent border incidents and the establishment of a Boundary Commission. At the initiative of New Delhi, a Joint Standing Committee of the two countries was formed. Mr Hamidul Huq Chowdhury, Pakistani Foreign Minister, admits that this Committee has practically ceased to function. After Nekowal and the recent incident at Chhad Bet, it is doubtful whether any such Committee is of any practical use. India is ever willing to reconcile disputes through negotiation. But New Delhi cannot abandon its duty to resist aggression against Indian territory by force if necessary.

Pakistani Prime Minister now suggests that India and Pakistan should conclude a "no war" agreement to ensure "peace and good relations" between the two countries. Long ago, India's Prime Minister issued an appeal to Pakistan to enter into such a "no war" agreement. This appeal has since been repeated by New Delhi. But Karachi has always been adamant. Pakistan has rejected this proposal on the ground that peace between India and Pakistan cannot be ensured without a solution of the Kashmir problem. Pakistani Prime Minister emphasises, even as he proposes a "no war" agreement, that the Kashmir dispute "prevents" friendly relations between the two countries. New Delhi is anxious to solve not only the Kashmir issue, but all disputes through negotiation. If Pakistan is wiser and soberer by the experience that India is determined to resist aggression against her territory by force if necessary, Mr Mohammed Ali's proposal for a "no war" agreement will be welcomed by New Delhi. It is for Karachi to prove that Pakistan's intentions are sincere.

Off the Record

Oil and Assam

ASSAM has been the pioneer in the matter of oil. Leaving aside the Zoroastrians who tapped oil in ancient times and used it for burning lamps in their fire temples located on the mounds, what would correspond roughly to modern oil strikes, the extraction of mineral oils and their use in industry is not even 100 years old. Oil was struck in Assam at Makiem as early as 1867! The first well drilled by the Assam Oil Company in 1899 at Digboi was 662 feet deep. It dried up long ago, but since the first well was drilled, more than 900 wells have been drilled in and around Digboi. The recent strikes, however, are a different matter. They open up possibilities of much more substantial oil production. In a radio talk in December last, Shri K D Malaviya, the Minister for Natural Resources, said "The Assam Oil Company was carrying out intensive surveys both geological and geophysical in the Brahmaputra Valley, following the discovery of Nahorkatiya area two years ago. Out of 10 wells drilled so far, 8 have been successful and out of these two are actually producing around 1,500 barrels of oil per day".

Unlike the earliest well, which was only 662 feet deep, the recent ones are much deeper. Well No. 12 at Naoholia, in the Hirgrijan oil prospecting area of upper Assam, had struck a depth of 11,855 feet (nearly 2¼ miles) in January. As it has not yet been completed, drilling may go still deeper. There are, however, still deeper wells in Sind, Lakhra No. 1 there being 12,666 feet deep.

Now the first step in oil economics is to get the conversion tables correct. How 1500 barrels (or 42 gallons per barrel American and 31½ English) per day work out in terms of tons? Whatever be the equivalent in terms of tons—a million tons a year has been frequently mentioned—production in the Assam fields is expected to reach a figure which will necessitate setting up of a separate refinery. Calcutta has been suggested as the site for this refinery. Digboi will not be able to cope with all the oil that the Assam fields will be producing. Its present capacity is only some 300,000 gallons of crude oil; it cannot be expanded economically to process more than 400,000.

Assam oil has hit the headlines in another way. Attention has been drawn to the high prices charged for oil in Assam some years ago and the matter was to have been taken up by the Cabinet Economic Committee. It may be recalled that the Air Transport Committee had first drawn attention to the matter but at the time it was contested on behalf of the company that prices in Assam were no higher than they should be. They were fixed on the same formula, based on the theoretical cost of transport from the Gulf ports, plus the additional cost of transport from Calcutta to Assam, which was some times high because of the transport difficulties. At the time the late Shri Burgohain, then Deputy Minister for Natural Resources, had no defficulty in pointing out that this would not explain the 300 per cent dividend paid by the Assam Oil Company. Anyway, after the reduction in prices offered by the company, the matter was laid to rest. The company's case, of course, is obvious viz. that as it acts as a subsidiary, separate cost of its operations cannot be fixed, except arbitrarily. The other day, Shri K C Reddi, Minister of Production, implied the same thing when he said in reply to a question in Parliament that separate figures of investment for the Digboi refinery alone in regard to the Assam Oil Company were not available, as the activities of the company extended to several fields, of which the refinery was only a part.

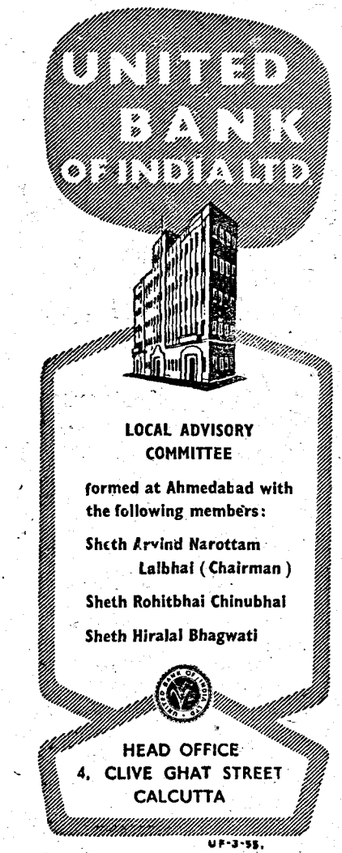
Now the Assam Oil Company holds four separate prospecting licences. The terms of two of these cover 160 square miles in Moran and 280 square miles in Hagrijan. A rupee company is to be formed jointly by the Government and the AOC by March 31 for expanding this area. This company was to have two directors on its board representing the Governments of India and Assam respectively, and it had been reported earlier that Government of India would contribute upto one-third of its share capital. Maulana Abul Kalam Azad, who is the Cabinet Minister in charge of this portfolio, has now staked the claim that in pursuance of the Industrial Policy Statement of 1948, the Government of India will have 51 per cent of the share capital in the rupee company, and not 33-1/3 per cent, as had been reported earlier. The company, he reaffirmed, was to be registered by March 31.

Nobody bothers about oil prices, that is, about the basic price which the oil companies get. For what the motorist pays at the pump is something quite different anyway, and if the companies charge less or get less, the difference will not be passed on to the consumer; it is bound to be taken up in increased taxes. Moreover, facts about oil are hard to come by in any country. In the Government of India, petrol is handled by four different Ministries one way or another. The Ministry of Works, Housing and Supply is in charge of the Petroleum Division which is supposed to be the "coordinating executive authority in India for all users, civil and military, on all policy questions connected with the supplies of petroleum products". Then there is the Production Ministry which is in charge of the refineries. Finally there is the Ministry of Natural Resources which looks after prospecting for oil, a very exciting business these days which is very much in the limelight. There are a lot of Government publications these days and less and less of information. You wade through all the Ministry reports, and you will not be able to find out the basic facts about oil. This year, however, the Ministries have been kind enough to spare busy people the trouble of wading through their reports by issuing them in driblets and only in summary. That a democratic Government should be so negligent about keeping the people informed may be regretted but there is little loss of information as a result. In the year when there was all that agitation about high prices of oil in Assam, the Petroleum Division had only this much to say:

"As a result of discussions, the Assam Oil Company reduced the price of petrol on an ad hoc basis by 4 as. per gallon in Shillong and by 2 As. throughout the other parts of Assam with effect from 1st October, 1953".

It is true that as oil companies are constituted today, it is futile and even unfair to try to compute costs and work out profits. The allegation—that is what it is nowadays, brows are always raised when 300 per cent are mentioned—that Assam Oil Company was charging too much for petrol was really groundless. What can possibly be deduced from it? AOC is wholly owned by Burma Oil Company and the capital of the AOC is nothing but a notional figure. It could have been put down at a rupee; why 300 per cent, then the rate of profits would have worked out much higher. On the other hand, if the capital that is invested by the BOC on behalf of the Assam Oil Company in oil exploitation in Assam were to be taken as the basis for estimating profits, those on the capital actually employed would not probably have exceeded a modest 10 or 11 per cent. AOC was formed as a separate company only as a matter of convenience in the accounting of the operations of the BOC. Go a step further. Burma Shell owns half the share of the BOC. The latter again has vast investments in Anglo Iranian Oil Company and so on.

Consider against this background the proposal of forming a rupee company for exploitation of oil in Assam, as a subsidiary to one or the other of the oil companies. Shri K C Reddi was wise when he declined to state the amount of capital invested in the oil refinery at Digboi. Maulana Azad has been bolder, but one wishes he had been a little more explicit and informative.



Our Delhi Letter

Oil Makes News

OIL is in the news. This time the venue is not the Middle East, Russia or America, but Delhi. Not that oil has been struck in the capital. But the Government of India has defined its policy regarding oil. What forced the issue are the current negotiations with the Assam Oil Company. The purpose of the talks is agreement over the formation of a rupee company to explore, tap, refine and distribute oil that may be available in Assam and the extent of Government participation in the venture. While the Assam Oil Company is reported in favour of restricting the Government share to 33-1|3 per cent, as tentatively agreed upon earlier, the Government is not prepared to have anything less than controlling interests in the proposed company. At a Press conference Maulana Azad stated that the Government must have 51 per cent shares and "not a pie less" in the new company to be formed in collaboration with the Assam Oil Company.

The new-found confidence of the Government of India is the direct result of the economics of co-existence. It does not stand to reason that the Government of India has suddenly realised that oil is a wasting asset or that foreign companies exploiting oil have often worked against national interests. What was preventing the Government taking a firm stand on oil had been a sense of diffidence born of the lack of capital and technical know-how. It is out of this feeling that the Government thought it advisable, a year ago, when the idea of a joint venture for prospecting and exploiting Assam oil was first mooted, to accept a 33-1|3 per cent share.

What changed the situation were the survey report of the Russian experts and willingness of an American company outside the international oil cartel to co-operate with the Government on terms acceptable to it. The Russian experts in their preliminary report indicated that there are large reserves of oil in different parts of the country. This, together with the assurance that Russia would be prepared to provide both equipment and technicians, emboldened the Government to decide to set up a Directorate of Oil and Natural Gas for prospecting and drilling for oil under its direct supervision.

Government's preparedness to start on its own and the recent offer made by the American company in competition with the terms offered by it makes the position of the Assam Oil Company rather uncomfortable. For the breakdown of the negotiations and the failure to form the rupee company will mean that the lease of more than 500 square miles in the Nahorkatiya area granted to A O C for prospecting will revert to the Government.

In the reply to the general debate on the budget the Finance Minister preferred to dwell on the general principles involved rather than on any specific tax proposal. In this choice, he was helped by the absence of any deeply felt grievance. In truth, the budget proposals proved much less rigorous than what had been apprehended. Shri Chintaman Deshmukh seemed to consider just the demand for the prerequisites which enable one to view the budget as an instrument for the execution of the Plan. Under conditions of planned development the quantum of total expenditure and the likely sources to be tapped for the purpose are fixed for a period of five years. In these altered circumstances, the major importance of the budget lies in its relation with what has already been achieved and what still remains to be accomplished. That is why the budget should be preceded by a Progress Report on the Plan. For understanding better the economic trends that exert a strong influence on the Plan, and for judging the suitability of the corrective measures proposed in the budget, estimates of national income and expenditure are also necessary.

Wednesday, Afternoon

Shri Deshmukh has assured Parliament of both. What, however, needs to be emphasised is that to be serviceable they must be ready in time. Once the proper machinery is set up and the necessary experience gained, there is no reason why they cannot be made available before the annual budget is presented.

The Finance Minister, however, would not be hustled into committing himself to any particular course of action, in case inflationary pressures develop. The long and short of it is that he declined to heed the warnings of the pessimists. In a developing economy the correlation between money supply and prices is difficult to predict. Increase in production, extension of the monetised sector and changes in the saving habits of the people, all combine to produce a constantly shifting balance. Thus if the prices of food and cloth can be held in check, a rise in the general price index need not cause serious concern. With a glut in the international food grains market and the USA willing to sell farm surpluses on credit or for national currencies, even large-scale crop failures cannot endanger the stability of the economy. As for cloth, there is unutilised capacity that can be pressed into service at short notice. Thus a breakdown of the production programme for the handlooms and the Ambar Charkha need not cause a cloth famine.



"He who is firmly seated in authority soon learns to think security."

J. R. Lowell.

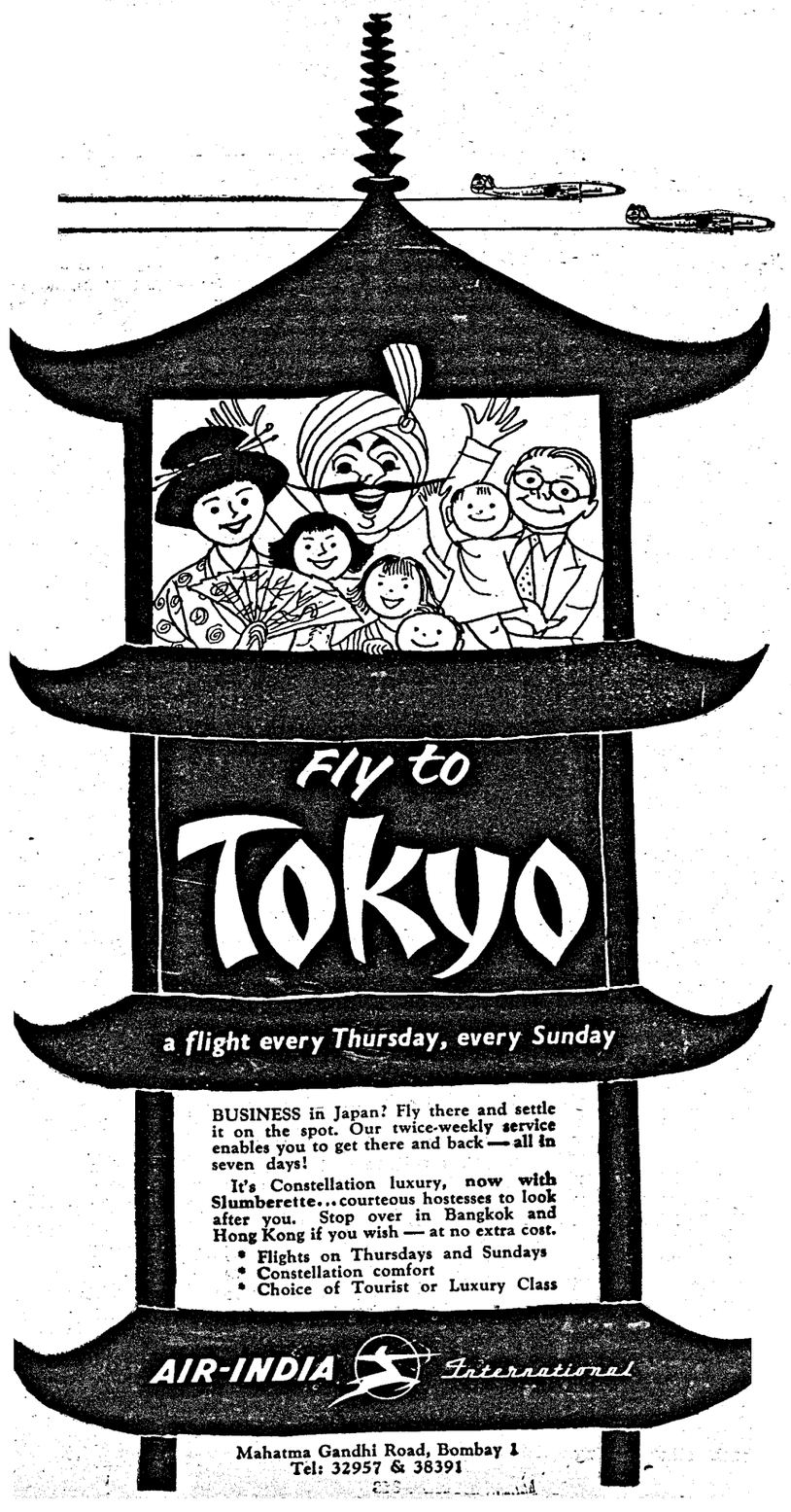
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From the Chair

The Kohinoor Mills Company Limited

Speech of the Chairman Mr E D Sheppard

THE following is the full text of the speech delivered by the Chairman Mr E D Sheppard at the 61st Ordinary General Meeting of the Company held in Bombay on Monday the 19th March 1956.

Gentlemen,

I am happy to address you again at the close of another year of your Company's working. The year has been an eventful one and I would like to mention to you some of the more important events.

First of all, it is gratifying that there have been no major flare-ups in international affairs. Peace has been maintained throughout the year with the exception of an occasional foray in China, and periodic skirmishes on the Israel-Arab State borders. As far as the latter is concerned, although the fighting has been confined, the atmosphere in the Middle East has in recent *months become explosive and might*, if it is not brought under control, lead at some future date to a conflagration which might engulf the whole world. The United Nations are sparing no effort to bring about a peaceful solution of the problems that confront the differing parties. India, as usual, is in the forefront.

One feature which is most encouraging is the increasing number of visits that are being paid by the Heads of all countries to others. Here in India, during the course of the year, we had visits from Marshal Tito of Yugoslavia, the Egyptian Prime Minister, the Head of the Peoples Government of China, Marshal Bulganin and Mr Krushchev from Russia, H M King Saud of Saudi Arabia, and since the beginning of the year, Their Majesties the Shah and Queen of Iran. Before long we hope we may have with us the President of the United States. Our Prime Minister has himself paid visits to China, Egypt, Russia, Poland, Great Britain and Yugoslavia, and has been invited to go to the United States as the guest of President Eisenhower. In my opinion there is nothing which can be more conducive to bringing about peace and harmony in the world than such visits of leaders of nations to each other, during which they can see for themselves and understand the problems which confront each one of them and which, to some extent, govern the policy that they follow in international affairs. As in the affairs of individuals so with nations, a sympathetic understanding is an essential for the fulfilment of our aspirations for world peace and the advancement of humanity.

Very serious efforts are also being made by all the major powers to bring about the limitation of armaments and the complete banning of atomic and other weapons which, if ever utilized again, can only mean the complete destruction of man.

It is most unfortunate that it has not yet been possible for us to arrive at an understanding on outstanding differences with our closest neighbour—Pakistan. Let us hope that this will be brought about in the near future.

Power Supply

The power position, so far as we are concerned, continued to be satisfactory during the year. Tatas thermal station should be in operation about the end of this year and then there should be no danger of a further shortage of power at any rate for two or three years, or even for considerably longer if the Koyna dam scheme is completed according to schedule. The Second Five-Year Plan has now been formulated and, although very much larger than the First in its scope, it is to be hoped that it will be as successful as its predecessor. It is unfortunate that the sponsors of the Plan have 'frozen' the mill industry at its present capacity and have decided to rely on the cottage and handloom industries to produce the additional cloth which the country will require. I feel that they could, without in any way prejudicing the position of the latter, have permitted reasonable expansion in your industry to enable it to supply the potential demand for mill-made textiles in India and, at the same time, retain its markets overseas.

Mill Industry

The Mill industry has had a reasonably good year. The demand for cloth has been steady throughout the year. Earlier in the year prices of cloth, though steady, were not quite at the levels they should have reached to permit of a reasonable profit, but as the year progressed they improved somewhat. Yarn prices I am sorry to say remained very low throughout the year making this part of your Mills' business much less remunerative. This is the reason why your Mills have not shown the improvement in the profits one would have expected because of the good offtake and higher prices of cloth. It must be borne in mind always that, although your Mill has 1,20,000 spindles, half this number is working continuously on the making of yarns and sewing threads for which a special plant has been installed. In view of this 'dual personality' of your Mill, there may be times when as compared to balanced spinning and weaving mills *the profits may not seem very large*, but there have been times in the past and they will surely come again in the future when with a rise in the prices of yarn and sewing thread your Mill will be in a position to show better progress than others.

Tax Burden

The Budget proposals as announced on the 29th of last month provide for the enhancement of the Excise Duty by 6 pies per square yard on all categories of cloth. This will mean that your Company will have to pay Rs 9 lakhs more to Government under this head. It remains to be seen how much of this it will be possible to pass on to the consumer. The proposed penal tax on Dividends declared at a rate of more than 6 per cent on the paid-up capital will cost your Company Rs 2 lakhs per annum if it reaches the Statute Book in its present form —asuming that the present rate of Dividend distribution remains unaltered. This proposed tax operates most unfairly against companies such as yours which have prudently accumulated substantial reserves from the taxed profits of past years. Just as disturbing, to my mind, as the actual tax itself is the manifestation of the fact that the "6 per cent mentality" persists in New

Delhi. In conditions as they exist to-day—for example, the Bank Rate in the U K is now 5½ per cent—it does not seem reasonable that Risk Capital should only be allowed a return of 6 per cent without a heavy penal tax, and particularly at a time when it is hoped to attract such capital to enter this country.

As regards the Government's policy on personal taxation, I gave you my views on this last year and also reviewed the matter at some length in my address to the shareholders of your Agency Company. I do not propose to indulge in repetition and would only say that my views are unchanged. There is a saying in England that "all work and no play makes Jack a dull boy". It remains to be seen what effect the Government's present policy of "all work and no pay" will have in this country.

Cotton Trade

Trading in Indian cotton remained free of all restrictions during the whole year as, on account of ample availability, there was no reason for Government to reimpose the quota system. Prices of cotton remained steady throughout the year but weakened with the approach of the new season because of reports that the crop would be 55 lakhs of bales. This position was, however, short-lived as unseasonal rains caused damage to several of the growths and prices started to rise. Towards the close of the year there had been a very large appreciation and the forward market which had been moving around the 600 mark went up to 740. At this point Government decided to step in and take a hand. The contract was frozen at 700 and futures trading came to a stop. However, in the spot market prices continued to rise and some of the growths very nearly reached the ceilings fixed by Government. The position remains the same to the present time and it would seem that because of the statistical position there is little chance of any appreciable recession.

Foreign cotton prices remained reasonably steady for most of the year but during the last quarter there was a definite upward tendency. Alexandria particularly recorded a steep rise. African and American growths remained fairly steady, but because of a recent announcement by America of the impending release of further large quantities of loan cotton at competitive prices, these have tended to weaken.

Accounts

I will now turn to the report and accounts. The amount of Rs 8.50 lakhs provided for taxation is made up of Rs 5.01 lakhs for income-tax, Rs 2.97 lakhs for Corporation tax and Rs 0.52 lakhs extra for contingencies.

To meet the statutory depreciation of Rs 17,62,477 and to set off the initial depreciation of Rs 3,70,175 allowed in previous years, your Directors have set aside a sum of Rs 6.33 lakhs from the profits of the year and have appropriated a sum of Rs 15 lakhs from the Machinery Reserve Account. A sum of Rs 3 lakhs has been appropriated from the profits of the year to the Development Reserve, being the amount of benefit derived from the Development Rebate. A sum of Rs 1.50 lakhs has been put to the Employees' Pension & Gratuity Fund bringing this to Rs 12.50 lakhs which represents a full provision for present liabilities under this head.

In view of the Millowners' Association's Bonus Pact with the Rashtriya Mill Mazdoor Sangh on the lines of the Ahmedabad Millowners' Association's agreement, it is calculated that your Company will be required to pay 3 months basic pay as bonus for all the three years 1953, 1954 and 1955. It became, therefore, necessary to provide in the accounts of the year 1955, Rs 4.43 lakhs in respect of 1954 in addition to Rs 16.57 lakhs for the current year.

The insurance value of your Mills' property and stocks on the basis of their reinstatement value now stands at Rs 10.51 crores which is higher by Rs 36 lacs. This is due to an increase in machinery valuation by about Rs 25 lacs and to higher stocks of cotton.

Strong Position

The Balance Sheet figures show that your Company continues to be in a strong position as the current assets at Rs 2.88 crores exceed the current liabilities and provisions by Rs 1.45 crores. Secured loan of Rs. 38.84 lacs is lower by Rs 2.52 lacs. The liability for expenses is down by Rs. 6.63 lacs as no provision for arrears of D. A. was necessary this year. The liability for Other Finance is up by Rs. 11.27 lacs due to carry-over to the current year of the bonus unpaid for the previous year.

On the assets side of the Balance Sheet the value of stocks of cotton and staple fibre is higher by Rs. 15.66 lacs mainly due to the increase in the stock of cotton. Art silk and other yarns are up by Rs. 2.40 lacs due to increase in the stock of art silk yarn. The stock of cloth, yarn and waste, is lower by Rs. 3.66 lacs due to good deliveries during the concluding period of the year. The stocks of stores, fuel and grain are lower by Rs. 2.36 lacs. Book debts at Rs 3.88 lacs are up by Rs. 2.46 lacs due to bills for cloth, yarn and cotton being outstanding at the close of the year. Advances at Rs. 10.27 lacs are lower by Rs. 10.66 lacs mainly due to cotton advances being down. Taxation under Advances is down by Rs. 1.39 lacs due to adjustments in the advance tax payments.

Profit and Loss

Now I will give you some salient features of the Profit & Loss Account.

Cotton and fibre consumption is down by Rs. 13.37 lacs due to the consumption of a larger proportion of cheaper cotton. Muccadumage is up by Rs. 0.80 lacs due to the increase in the muccadumage rate and also in the quantity of cotton received. Yarn and cloth commissions are slightly down due to the lower yarn and cloth values. The stores consumption, etc. is practically the same. Electric power is higher by Rs. 0.32 lacs due to increased consumption of energy. Salaries and wages are up by Rs. 9.99 lacs due to the adjustment in the quantum of bonus as already explained. Dearness allowance is down by Rs. 11.89 lacs compared to the previous year when Rs. 13.98 lacs including arrears were paid according to a Court Award. Rents and taxes are up by Rs. 0.47 lacs due to the increase in water rate by 2 annas per 1000 gallons. Although stocks were higher, insurance is down on balance by Rs. 1.18 lacs as the Company's contribution to the Employees' State Insurance amounting to Rs. 1.89 lacs has been debited to Salaries and Wages this year as this item has been considered as a part of wages being the compulsory contribution to the Government Fund. Interest is higher by Rs. 0.68 lacs due to

larger purchases of cotton. General charges are up by Rs. 0.58 lacs on account of the Indian Industries Fair, Delhi, where your Company's products were exhibited. Trade subscriptions are down by Rs. 1.98 lacs, as a sum of Rs. 2 lacs was paid as the Company's contribution to the Bombay Textile Research Association Fund in the previous year. Donations are up by Rs. 0.15 lacs due to a contribution to the Prime Minister's Relief Fund for flood-stricken areas in Bihar, Orissa and the Punjab.

On the credit side of the Profit and Loss Account, the sales of cloth, yarn and waste show a decrease of Rs. 9.89 lacs mainly due to the production of a large proportion of the cheaper qualities. Yarn and cloth expenses are lower by Rs. 0.39 lacs in consequence. Miscellaneous receipts are up by Rs. 0.22 lacs due to a refund of excise duty.

Selling Agents

You will have seen from the notice that we have for confirmation by you at this meeting the renewal of the agreements of both our cloth and yarn selling agents. Messrs V S Apte & Son and Messrs Nahalchand Laloochand Ltd., have been your selling agents for 44 and 29 years respectively, and I can say without any hesitation that they have served your Company exceedingly well throughout this period. In keeping with the times they have agreed to reduce their commissions and from the 1st of April they will both be receiving about 25% less than hitherto. Our association with them has always been a very pleasant one, and I am confident that it will continue for many years to come.

The Future

You will expect me to say something about the future. As far as your Company is concerned, it has practically completed a comprehensive programme of expansion and rehabilitation in the last ten years and a pause must now be made to consolidate the position it has attained. The outlook for cloth continues to be good and the yarn market is showing signs of improvement. We are now uptodate with our bonus provision and the current year's accounts will not have to bear any additional burden in this regard as was the case in 1954 and 1955. Further your selling agents have agreed to a substantial reduction in their commissions. Against this, the year has got off to a bad start due to the disturbances in the city in the latter part of January, when several working days were lost and the Bombay Cost of Living Index figure has not come down as much as was hoped. I must leave you to draw your own conclusions.

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The Alkali & Chemical Corporation of India Ltd

Speech of the Chairman Mr N. D Harris

PRESIDING at the 19th Ordinary General Meeting of the Members of the Alkali & Chemical Corporation of India Limited held at the registered office of the Company, 34 Chowringhee, Calcutta on Wednesday the 7th March 1956, the Chairman said:

Gentlemen,

The Audited Accounts and Directors' Report for the year ended 30th September, 1955, have been in your hands for some time and with your permission I propose to take them as read.

Your Company has had another successful year in which production and sales of all its products have been considerably greater than in previous years.

Production of Chlorine and Caustic Soda was higher than during the previous year. Caustic Soda sales improved but there was very severe competition in Liquid Chlorine. We were able to sell the entire amount produced but only at a considerably reduced price. An interesting factor and one of deliberate policy has been the growth in the quantity of Chlorine consumed internally for the manufacture of other profitable products. Investigations in this direction continue with vigour.

Gratifying Increase

Sales of Hydrochloric Acid and of Zinc Chloride, the latter a relative newcomer to our range, showed similar gratifying increases. In spite of very great competition from other manufacturers' products the demand for our well known range of "Gammexane" B. H. C. formulations has been difficult to satisfy. To meet this your Company installed greater formulating capacity during the year and sanctioned extensions, now being constructed, to the plant making Benzene Hexachloride (B.H.C.), the basic product.

Our "Dulux" and "Duco" range of paints and allied products continue to be very popular indeed and we have been unable to meet the full demand for them. Your Directors have great confidence that the need for these high quality products will continue to grow as India develops industrially, and because of this they decided last year to double the factory's capacity. These considerable extensions are now well in hand. An important new introduction is the range of metal-pretreatment products which, under the name "A. C. P.", have already proved popular.

I wish to mention here the introduction after the last Budget of an excise duty on Paints. This sudden imposition on a range of manufactures very different from previously excisable products caused great dislocation to ourselves and to all others in the paint trade.

Cordial Relations

Relations between the Company and its employees continued to be most cordial and the Works Committee set up at Rishra five years ago again proved its value by acting as a friendly and effective link between the management and the workers. I wish to express the thanks of the Company to all our staff and workers whose loyalty and hard work helped so much in achieving the year's good results.

I have talked primarily about what we have produced. Products do not of course sell themselves and I would like to pay a tribute to the Technical and Sales Staff of our Selling Agents, Imperial Chemical Industries (India) Ltd. They have made a remarkably fine effort in finding new markets and uses for our products. This applies in particular to our paints and "Gammexane" products. I ascribe our success in this direction during the last year very largely to their careful planning and hard work.

The nett profit for the year, after providing for depreciation, amounts to Rs. 19,39,845|-. This is more than twice that of the previous year. The sum available for distribution is Rs. 22,93,168|- which includes a balance of Rs. 1,13,627|- brought forward, and a reserve for exchange losses previously held but now no longer required.

Once again there is no liability to taxation for the year due to initial allowances on the new plant installed, but a sum of Rs. 12,50,000|- has been transferred to Reserve for Deferred Income Tax Liabilities. This brings this Reserve to Rs. 23,21,000|- which equals the total tax, payment of which has been deferred by the operation of initial allowances. A sum of Rs. 2,73,000|- has been transferred to Dividend Equalisation Reserve. The dividends on the Preference Shares for the year absorbed Rs. 1,55,000|- and your Directors recommend the payment of a dividend of 8% on the Ordinary Shares, 2% higher than that for last year. If you agree to this, a balance of Rs. 1,19,168|- will be left to carry forward.

You will be pleased to hear that we hope shortly to receive Government's approval to a project to manufacture polythene in India. Imperial Chemical Industries Limited, your technical advisers, have agreed to supply their process and continuing "know-how" on very favourable terms. Polythene was discovered by I. C. I. Ltd., who now manufacture large quantities in the U. K. and have licensed its manufacture in several other countries. The production, actual and projected, and consumption of polythene throughout the world have during recent years increased to a remarkable extent, and give every indication of continuing to do so.

Much in Use

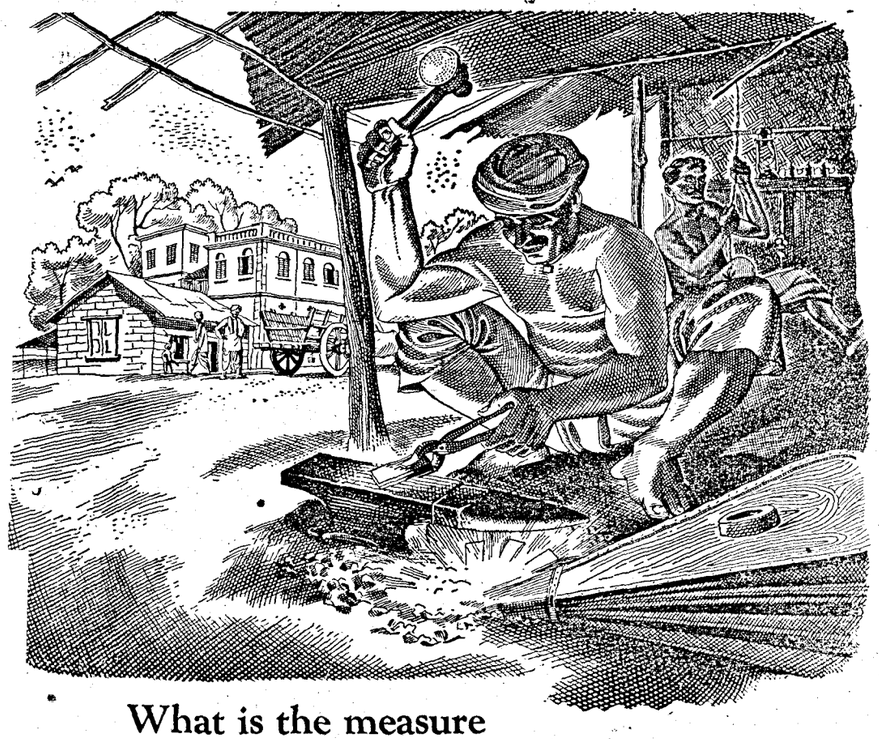
The process will be that used by I. C. I. in the manufacture of the well-known "Alkathene" brand of polythene. The use of "Alkathene" in India has been developed by I. C. I. (India) Ltd. who have operated a plant at Calcutta for the manufacture of film from imported granules since 1953. Polythene is a tough, flexible, thermoplastic material with outstanding electrical insulating properties. Many thousands of tons are used every year throughout the world in the manufacture of packaging film, flexible pipes, submarine telephone cables, radar equipment and moulded domestic articles, to mention only some of the major uses. The largest single use of polythene in India will probably continue to be for packaging purposes, both as film and as coating on paper and jute.

The project will involve a total investment of about Rs. 3 crores for which additional capital will have to be found. Methods of raising this are being studied by your Board at the moment, but I wish to take this

opportunity of telling you that it will take two to three years at least to bring the plant into economic production. Although the project should ultimately prove profitable, capital invested during the construction period will earn no return and it may, therefore, be difficult for your Company to maintain the higher rate of dividend declared on the Ordinary Shares this year.

The Directors retiring by rotation are Mr. B. R. Goodfellow, Mr. K. W. Young and Dr. E. C. Fairhead and my colleagues and I have pleasure in recommending their re-election.

The Auditors, Messrs. Lovelock & Lewes, also retire and you are requested to re-appoint them for the current year. They have however asked for an increased fee of Rs. 7,500|- as against Rs. 6,000|- sanctioned for the previous year. As you are aware the new Companies Act, which will come into force on the 1st April this year, imposes certain additional duties on Auditors for which we must necessarily pay. In my opinion the increased fee is justified and I recommend its acceptance.



What is the measure of an Industry's importance ?

If a bicycle, a sewing machine, or even a hurricane lantern were shown along with a steel ingot to the man-in-the-street, he would not take a second look at the ingot. Yet, in machines, factories and buildings...in the making of the hundred things we use every day...Steel is indispensable.

Started less than fifty years ago, India's Steel Industry is to-day a vital factor in the nation's economy. It produces nearly 1.75 million ingot tons of steel at a cost that no country can equal, of which Tata steel accounts for over one million tons. Tatas plan to produce 2 million ingot tons early in the second Five-Year Plan period.

Private enterprise serves the Nation

THE TATA IRON AND STEEL COMPANY LIMITED

TN. 573

From the London End

Farmers' Union Protest Price Guarantee Inadequate

THIS is the first time that British farmers have not agreed to the annual review of farm prices under which the Government provides subsidies or guarantees to farmers as required under the 1947 Agricultural Act. Farmers have expressed their concern both about the inadequacy of the new guarantees as well as the agricultural commodities to which they apply. Guarantees for the year 1956-57 are now increased by about £25 million.

The subsidisation of British agriculture originated primarily from the problems of the war and early post-war years. During the war the main task of all farmers was to maintain and increase the supply of milk, despite drastic cuts of imports of feeding stuffs and, at the same time, to devote more land to the production of crops for direct human consumption (instead of to permanent pasture), so as to ensure the provision of an adequate diet to the population in the face of diminishing food imports. Both these obligations remained long after 1945. Throughout the post-war years, there was a continual call from the Government for maximum agricultural expansion within, of course, the limits set by the feeding stuffs situation. It was only in 1947 that the nature of this expansion was given serious consideration. It was then believed that the expansion should be consistent with the need to conserve the fertility of the soil and it was, therefore, with this consideration in mind that after some six years of intensive crop farming, expansion was directed towards livestock farming. It became the Government's declared policy to switch from crops for direct human consumption to livestock and fodder crops as soon as possible. This change was urged not only by such factors as the irregular supply of Argentine meat, but more by the revival of European agriculture and the availability, through imports, of a number of food crops for British consumption. In any event the Government then believed that the soil and climate of Britain was for the most part best suited to a mixed system of farming, with grass playing an important part in crop rotation. Simultaneously, the new direction in which expansion was being encouraged implied that there would be a higher standard of self-sufficiency, not only in livestock production, but in the supply of feeding stuffs.

Against this background was passed the Agriculture Act of 1947 which is likely to prove one of the more important landmarks in the history of British agriculture. The Act was in two parts; the first was concerned with guaranteed prices and assured markets and the second with what was termed "good estate management and good husbandry". This presented, what the Government then called, the "twin pillars on which agricultural policy rests". At the same time it was the Government's belief that such a policy would secure "stability and efficiency". Under this Act, the prices system which had taken shape during the war was permanently established. Further, the prescription of standards of good estate management and good husbandry enabled the Government to place under supervision or to direct and further, if necessary, to dispose of the land of such landowners and farmers as had not complied or did not comply with such standards. The price review system which is the particular matter for review here has been used to ensure that given normal weather conditions, the net receipts of farmers in the aggregate will approximate to a figure already determined. At the same time, by means of differential price incentives, the price review system had the purpose of bringing the pattern of agricultural production into conformity with the Government's plan for total food supplies. Provision was also made for special reviews apart from the annual reviews in the event of sudden or substantial rises in the cost of agricultural production. It was not a "cost-plus" system. There was no guarantee against loss on individual farms, even if all the rules of good husbandry had been scrupulously followed.

With the passing of the 1947 Agricultural Act and its pertinent price review provisions, the agreed prices have invariably been more than adequate to cover the working expenses of a reasonably efficient agricultural producer. The Government has always believed, it appears, that for the enforcement of its expansion programme, it would be necessary for farmers to earn enough, not only to cover running expenses, but also to finance new investments on the scale which the programme required. Prices were therefore fixed at levels which were calculated to inject into the industry a sum ranging between £40 million to £60 million a year for this purpose.

This price review system has been attacked vigorously and by various quarters. The **Economist**, for example, has condemned it as "feather bedding". Indeed, a Government Minister resigned in 1950 in view of his opposition to the burden of agricultural subsidies on the Exchequer. In fact, many free traders, particularly in the now more normal conditions of international trade, oppose the subsidisation of an industry which can find little or no justification for its place in the economy. The highly questionable increase in the tariff on Danish imported bacon to protect British pig farmers had recently raised a storm of protest but this protest has largely been a consumer protest—a protest against the consequent rise in the cost of living.

Under the Present Price review, the Minister of Agriculture has outlined the main directions in which the Government would wish to see Production develop. These are: maintenance of a large arable area; increase in the production of beef, mutton and lamb; more of the milk output from home-grown feed; and the reduction of the costs of pig production (why then the new 10 per cent ad valorem tariff?). The new price guarantees are calculated accordingly. There is now a decline in the price guarantees for wheat and rye and an increase in those for barley-oats, potatoes and sugar beet.

Agricultural output is now estimated to have risen from 51 per cent above pre-war last year to 55 per cent above pre-war in 1955-56. The volume of net output is now back to the 1953-54 level which was the highest previously recorded. The increases in output are mainly in respect of record yields for cereal crops and a continued rise in the output of milk and eggs. The net income from agriculture in 1955-56 is forecast at £299.5 millions compared to £285.5 million

in 1954-55.

This apparently prosperous state of British agriculture is now disturbed by the powerful National Farmers' Union which contends that production costs alone have risen by £37 million between 1954-55 and 1955-56 and the increase in price guarantees does not compensate these cost increases. The Union claims that to enable the industry to equip itself for an even greater contribution towards closing the trade gap, the subsidies this year should have been higher in view of the steady decline of income of the past three years.

The Times has described the Government Policy as being in the "right direction". The gradual shift in emphasis away from production of commodities more cheaply available from abroad (cereals and pig-meat) presents the correct step—it attempts a more national and efficient distribution of resources, and here only the British farmers will object. But they are powerful. This first occasion for opposition against the Government's policy is possibly one indication that the honeymoon period of union between the authorities and the farming community is over.

Company Notes

BENGAL PAPER

PAPER shares have been moving up for the past two years. Improvement is due to the growing demand for paper: Investors are agreed that, as population and literacy grow, paper shares should move up. This is the main reason behind the continued spurt in paper shares. But the rise has been helped by other market factors. Some paper-manufacturing companies have expanded output capacity. Some others have been subject to cornering attempts.

For some months now, there has been interested buying of the shares of Bengal Paper for cornering these shares. Balmer Lawrie are the managing agents of Bengal Paper. An extraordinary general meeting of the shareholders will be held on March 29, 1956 to consider the question of renewal of managing agency of Balmer Lawrie for ten years. By January 15, 1957, the present managing agency agreement will expire.

In a circular letter to shareholders, the directors suggest plans to expand the output capacity of Bengal Paper. With the implementation of the proposed expansion plan, it will be possible for the company to earn more profits as well as to face competition more effectively. There is considerable shortage of raw materials for the manufacture of paper. It is disclosed by the directors that they are exploring the possibilities of establishing a bamboo pulp mill in a suitable area. As the cost of this mill will be very high, the company is negotiating with another party to secure the needed finance. But the directors inform the shareholders that renewal of the managing agency is necessary before the negotiations relating to the proposed bamboo pulp plant can proceed smoothly. Shri N G Maniar, who describes himself as Secretary of the Committee of Shareholders of Bengal Paper, has issued a circular opposing the renewal of the managing agency. His complaint about the inefficiency of the managing agents has provoked the latter to issue a circular to shareholders in which his charges are refuted.

BRITISH INDIA CORPORATION

DURING the year to December last, Shri Haridas Mundhra, a Calcutta industrialist, acquired sufficient shares of BIC to control majority votes. In their report, the directors say that he is lending every support to them and management "in their endeavours to ameliorate conditions". In explaining the poor working results, the directors argue that excise duties and the heavy cost of employing or discharging labour have created difficulties. There was a strike in the Kanpur textile mills for three months. Punjab floods dislocated dispatches of products of Egerton Woollen mills. Excise duties acted as "a direct tax on the producer".

Though the dividend has been passed, the directors report that every effort is being made to reduce costs and to expand the earning capacity of the company. Shareholders will welcome the assurance that capital expansion projects are being undertaken according to schedule.

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Employment and The Plan

Joan Robinson

OVER the doorway was written: BE BOLD, BE BOLD, BE NOT TOO BOLD. An outside observer cannot but sympathise with the perplexity of the planners who have to decide how bold is bold enough. Mere prudence is no safeguard, for an inadequate amount of development which would allow unemployment and misery to go on increasing with the growth of population holds dangers which, from a long run point of view, are even more menacing than the dangers involved in a breakdown of over-ambitious schemes.

So far as employment is concerned the Draft Outline of the Second Five Year Plan is somewhat pessimistic. It is calculated that it would be necessary to create 15 million new "jobs or job-opportunities" in order to eradicate unemployment during the plan period (Draft Outline, p. 42) while the employment likely to be generated by the plan is estimated as 8 million. The hope of improved productivity in agriculture is left to look after the rest.

End or Means?

The provision of employment is regarded as one of the main objectives of the plan. From one point of view this is obviously correct. But it is a serious error to regard opportunities for employment as a benefit which a humanitarian government offers to its citizens, comparable, say, to old-age pensions. Rather it is idle man-power which offers to the government the opportunity to increase production. The relevant question to ask is not "How much employment can we create?" but "what is preventing us from using all our existing resources?" Setting the question that way round does not make it any easier to answer, but it makes what answers can be found a great deal more cogent, for when we find what the limiting factors are, we can set about planning to widen the limits.

Think of a Number

The basis of the calculation of jobs to be created is left, perhaps deliberately, very vague in the **Draft Outline.** First of all, we are not told to what period the figures apply. Do the figures given (p. 43) refer to the rate at which employment is expected to be running in the fifth year, to an average over the period or to the level of employment continuously maintained over the whole period? The quantitative difference between these interpretations is quite large.

The authors of the outline cannot have overlooked this point, but perhaps they prefer to leave it hazy because at best their estimates must be very sketchy and they wisely refrain from giving them a false appearance of precision.

Furthermore the Outline does not distinguish between what is sometimes called "revolving" employment on schemes of investment and the "sediment" of permanent employment that a completed scheme leaves behind it. The point can be seen very simply in the case of irrigation projects. For, say, two years some lakhs of men are occupied in digging canals. When these canals are dug, the labour force becomes available for some other project, and will relapse into unemployment if no new project has been prepared. But the first two years of work has left a "sediment" of cultivable land which will provide a livelihood for some thousands of families, who can then be subtracted from the reserves of the underemployed. There is a hint in the Outline that the sediment so far achieved is regarded as negligible, for it is argued (p. 44) that the increment of direct employment is not likely to be greater under the second five year plan than under the first, although the expenditure on development is to be twice as great. This means that the whole of the direct employment under the first plan was "revolving" and that merely to maintain it requires an equal expenditure. Is not this too pessimistic? There must surely have been a considerable "sediment" which can be credited to the outlays already made.

The Limiting Factors

However that may be, there is certainly man-power available beyond the amount that it is planned to use. What is the limiting factor? The question is not, why is there unemployment to-day? That question is quickly answered—schemes to employ man power have not yet been conceived, organised and got under way. The question is, what limits the amount of employment that should be planned? How can it be "too bold" to employ all the man power there is?

One answer might be that employment is uneconomic in an absolute sense. Under private enterprise it is uneconomic to employ a man when the surplus of his product over his wages is insufficient to yield a profit on the investment required to employ him. But to say that employment is uneconomic absolutely means much more than this. A man who exists is eating something, but so long as he is idle he eats little, and with any luck he will soon die and cease to be a problem. If he is to work he must eat more and there is nothing he can do which will contribute to production the equivalent of his additional consumption. It is hardly likely that the planners are taking this view.

What then is it that keeps down the level of employment to be aimed at? Obviously there is a strict limit to the amount of employment that can be organised which involves the use of imported machinery, which involves techniques that have not yet been mastered, which involves operating on materials that are not available. Is it the limiting factor that no kinds of activity have been found that do not require such scarce resources? If this is the right answer, the way to look for a remedy is to think of something to do; but it is hard to believe that there is not already an enormous field (irrigation, land reclamation, road making, building with local materials) where almost unassisted man-power can create wealth.

Fear of Inflation

If so, the limiting factor must lie in the supplies required to support labour working on such schemes. It is this limit that seems to govern the thinking of the planners, under the guise of fear of inflation. When armies of workers are being employed to produce wealth that will bear fruit only in the future, they have to be fed meanwhile. They must be paid wages, and their purchasing power competes with that of workers already employed for the stream of goods already being produced. If the flow cannot be augmented correspondingly, prices rise. The workers already employed have a grievance or are actually pushed below the minimum of subsistence, and their wage rates in terms of money have to be raised. So inflation takes hold. At the same time, those who

are benefiting from the higher prices are likely to be consuming more—of their own products in the case of food and of other people's in the case of *manufactures*—so that the very process of trying to provide for the newly employed workers makes it harder to provide for them.

This is the essence of the problem of inflation as a limit to development. The authors of the plan have gone some way to freeing themselves from the usual rigmarole about "deficit finance" but they have not yet gone so far as to set out any kind of estimate of the balance between demand and supply such as would make it possible to judge (or should we say guess?) how much additional manpower could be used without throwing an intolerable burden on those (particularly the urban workers) who are already in work, or what steps would be necessary to restrain consumption (or undesirable types of investment) out of inflationary profits.

Cottage Industry

The other great field for expanding employment is in small-scale industry. Here again the emphasis is wrongly placed if we think of "offering jobs" as the main objective. To favour the cottage industries because they are "labour intensive" comes perilously close to regarding inefficiency as a positive virtue. The point is that they offer scope for making labour productive without impinging upon scarce resources (true, they need organising power and public spirit to help them to get going—but of these there are potential reserves enough if the way could be found to tap them).

Here the problem of inflation does not arise, for the small scale producers cannot consume more than the equivalent of their own sales. In so far as they consume less (for instance, by using part of their proceeds to pay off debt) they are helping to damp inflation by putting more into the stream of consumable goods than they take out of it. But even if they consume the whole, they are at least not reducing any one else's consumption. It would certainly be better if workers could be provided with more capital equipment, made more productive and helped to yield a larger surplus to contribute to investment, but so long as capital is scarce only a very small part of the labour force can be equipped for high productivity, and meanwhile any production is so much to the good.

There is one policy which seems so obviously required, so generally beneficial and so little damaging to any respectable vested interest that a foreign observer can only wonder what hidden snag prevents it from being adopted—that is, stock-piling of food stuffs and locally produced materials. The advantage of having stocks so as to be able to meet a harvest failure without having to use precious foreign exchange is obvious enough. It is hardly less important to be able to take up the excess of good years. Nothing is more demoralising to the effort to increase production than to find supply out-stripping demand, leading to falling prices and repeating the all too familiar tale of the farmer who hanged himself in the expectation of plenty.

Moreover, stocks once built up would provide an invaluable buffer to keep the plan from running into disaster. Over-bold use of manpower would show itself in the first instance not in rising prices but in running down of stocks, and this would provide a breathing space (either to step up production by quick-yielding minor development schemes or, if that is impossible, to slacken demand by reducing employment) before inflation became dangerous. It would have been better if this had been done already. But that applies to everything. What prevents it from being started now?



West Bengal—Bihar Merger

Hallahal follows Amrit!

(Contributed)

APART from yielding an ideological dividend in reversing the trend towards linguistic destruction of the nation, the proposal for the merger of Bengal and Bihar hailed so recently as constituting a new dawn of hope does not seem at first sight to have any particularly attractive features, and has been so assessed by the general public at least in Bengal. The widespread, if partial, acceptance of this idea e.g. by Punjab, Andhra etc. seems however to indicate that the above appraisal is somewhat unfair. The multi-purpose development of any region often requires one to transcend political frontiers, and when the regions are constituted like West Bengal and Bihar this necessity becomes the more compulsive. As the slope of the country is from West to East, the rivers flow in that direction, so that while development projects can be sited only in Bihar much of the benefits e.g. those arising from flood control or irrigation can accrue only to West Bengal; even the demand for electricity at present arises largely in the latter area. Each State if separate can "beggar" its neighbour but only at the cost of beggaring itself. Joint projects, e.g. the D V C, function inefficiently due to the strains and stresses of compromise working, and individual works e.g. The Mayurakshi Project, which depended on the good-will of one party, left the other in the position of a suittor with its attendant bitterness and frustration, while Bihar in this instance felt it was being imposed upon in providing sites for schemes which were not of the slightest interest to her.

In the particular problem of West Bengal-Bihar there are two or three other features which impose union as the only solution. Thus the vast Gondwana mineral tract extends through the hearts of both States, and communications, labour administration, taxation policies, industrial operations, etc. have to be integrated for maximum efficiency. It will be recalled that some time ago there was a proposal for a centrally administered State for this area and the arguments in its favour should not be forgotten. In addition there is the problem of inter-State migration. Apart from those in the predominantly Bengali speaking border areas, there are thousands of Bengalis who have gone to Bihar in professions or services, while there are nearly a million Biharis in West Bengal working in the mills and factories. At present there is admittedly little tendency to discriminate against these migrants in either State, but if bitterness is allowed to grow unchecked till it ends in physical conflict, economic life could be paralysed, and much misery brought to thousands of innocent people. The Border difficulties, with inextricably mixed peoples and enclaves of linguistic groups, also impose union rather than separation.

Political Difficulties

Naturally merger will not be easy. A Purva Pradesh including these States as well as Orissa and Assam if formed might have been more attractive, as no particular group could be predominant, but in its absence, two serious difficulties from the point of view of the Bengalis emerge:

(a) The fear of being swamped by the Hindi speaking majority of Bihar.

(b) The fact that the Revenue per capita in West Bengal is double that of Bihar, so Union presupposes a subvention to the latter.

The average Bihari I think tends to fear that he will be swamped in the services and professions by the more educated Bengali, in spite of Dr Sri Krishna Sinha's assurance that he was prepared to hand over the four crores of Biharis into the great and able hands of Dr B. C. Roy without any safeguard. In addition, the main problem of Bihar being casteism, free influx of Bengalis might merely result in the establishment of yet one more clamouring group accentuating rather than reducing the problem. The apprehension of a subordinate alliance as in the pre-1911 days must have been dispelled by the fact of the Bihari majority.

The above recital shows the inescapability of some sort of safeguards. The mere creation of two Regional Councils of Bengal and Bihar within the Union with their own Budgets and Administrations will be fruitless, as it might merely create two conflicting groups with no union worth the name. It would, in my opinion, be preferable to divide them into 5 or 6 regions, some of which at least would include areas from both States so that facing common and similar local problems a sense of purpose and joint endeavour could arise. Thus the North Bihar and North Bengal areas have very similar terrain and similar difficulties, while even the Maithili dialect of North Bihar is similar to that of Bengali. Union should certainly confer unity on this area. Central Bihar and Jharkhand would have to be separate and individual States. In the same way we could have two Bengali States of say Calcutta and West Bengal, while a sixth comprising the industrial area from Jamshedpur to Durgapur could be a joint Bengali-Bihari one, like the first.

In this way there would be four sub-States which would be purely mono-linguistic and two which would be bilingual. The population of Bihar is certainly of the order of 40 millions and that of Bengal only 26, but as has been shown in a recent pamphlet, with the expected influx of Hindus from East Pakistan, and allowing for the Bengali population now living in Bihar, it is probable that the disparity will be greatly reduced. If these sub-States are so formed as to have approximately equal population (of say 10 to 15 millions) one could have a Union Legislature with equal numbers of representatives from each which it might be hoped would tend to lessen the Bengali-Bihari difficulties. If this is not wholly agreed to, the States should have a Bicameral Legislature, in the Upper House of which at least, the number should be equalized. Any proposals which affect Bengalis or Biharis as a whole should be debated by the Upper House only: a procedure for demarcating such

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problems would also have to be agreed upon.

Regarding the financial problem one can imagine that apart from Calcutta City, the revenue arising in the rest of West Bengal must be more or less at the Bihar level. If so one could easily have a financial arrangement by which a subvention from State revenues would be given by Calcutta State to those carved out of the former West Bengal areas only, while Central finances could be similarly distributed on the basis of the actual expenditure in different areas at present. While this will certainly require analysis and study of facts the difficulties are by no means insuperable.

The Bihari's fear of being swamped in the services can be stilled by having a certain quota of local recruitment, and certain local services. As a **quid pro quo** for the immense numbers of wage-earners in West Bengal some concessions might be necessary from Bihar, but with the spread of education there it is doubtful whether their fears really have any justification.

Certain statutory standing bodies, e.g. a Development Corporation for the Union as a whole, will have to be established. Thus it has been said that the allocations for the Second Five-Year Plan, as already made, will stand. This seems short-sighted; not only might the merger impose its own planning, but the third and the fourth Plans are yet unborn and linguistic patriotism must be guarded against even in those stages. If a Committee composed of say one representative of each State is formed, such difficulties will be probably minimized.

A three-tier State with numerous petty administrations might be considered both cumbrous and uneconomic, but actually constitutes the simplest and most practical solution of our difficulties. Thus as the disputed areas will be mainly within the joint sub-States of Mithila or Industralia, a decision on these can be avoided. The financial problem is also solved as indicated earlier. Smaller groups e.g. the Tribes of Jharkhand can get an opportunity of ordering their own lives, while the splitting of Bengal and Bihar will inhibit any over-shadowing cultural conflicts.

The subjects to be assigned, and the revenues to be controlled at each level will require detailed consideration, but clearly items like Local Administration, Health, Education, Police etc. must be with the new sub-States. The Union should be chiefly concerned with development programmes, refugee rehabilitation, communications, etc. and will largely have to depend upon grants from the Centre and subventions from the sub-States, though certain heads of revenue e.g. Land Revenue, Forests, Stamps and Registration etc., in which by themselves the revenues arising in West Bengal and Bihar are approximately equal, might be assigned to it as well.

Economic and Cultural Conditions

It has been urged that with the Bengalis constituting a minority there is a danger of Bengali culture dying out. This merely shows a lack of vitality and self-confidence; Polish literature and culture survived centuries of partition and foreign rule. Moreover safeguards can be provided for this as well. Thus we can attempt to teach both languages in our schools; all children whose mother tongue was Bengali to learn as a second language, either Maithili or Hindi, at their preference, and vice versa, for say at least the first six years in school. Education should be imparted in the language prevalent in the locality though of course denominational schools would be permitted but only under well recognised conditions. Three court languages viz., Hindi, Maithili and Bengali would also have to be recognised, and the local languages permitted in all matters in which regional languages are now used. In competitions for State services a certain minimum quota from each State could also be laid down, though of course a fair proportion should be filled by open competition.

With these safeguards one can well imagine that the Bengali culture will be enriched with the interaction of Hindi far from being impoverished. The latter which has borrowed much of Bengali even in the past should gain immeasurably with its universalisation.

A more important difficulty is the economic one. Agricultural wages are considerably lower in Bihar, Orissa and U. P. than in West Bengal, so the mills and factories of Calcutta are manned from these areas only, and the pressure is sufficient to lower the industrial wage level there. The differential between local agricultural and industrial wage rates is too small to persuade the Bengali agriculturist to leave his fields for the factory, as will be seen from the table below. (Taken from "The Ministry of Labour Agricultural Labour Enquiry Report on Intensive Survey of Agricultural Labour").

The Bengali agriculturist is not really more prosperous; prices are sufficiently high to equalize the level of real incomes, so unless some way of reserving occupations is found, industrialisation will bring no prosperity to West Bengal. As the forman or supervisory class is drawn ultimately from unskilled labour, middle class unemployment also will remain unaffected.

Average Income of Agricultural & Industrial Labour Families with Price Levels

Zones	Average Price of Food grains per seer.	Income of Industrial workers (Monthly)	Income of Agric. workers (Annual)
	As.	Rs.	Rs.
North India—U.P	6.1	83|1|9*	551
East India—Assam	8.2	96/3/8 (Gauhati)	601
Bihar	8.4	92/13/3 (Jamshedpur)	534
Orissa	5.9	59/12/8 (Berhampur)	340
West Bengal	8.2	70/8/4 (Calcutta)	622
All India	—	—	447

*Average monthly wage in U P—Labour Gazette

The possibilities of restrictions on non-Bengali labour must however be discounted. There are none today and any attempt to impose these in future would be retrograde, leading to great dissensions rather than unity. We may at best attempt to reserve a proportion of the supervisory posts in all industries for local inhabitants but this will have to be done cautiously. Obviously then, the merger will not by itself affect unemployment, but with the vast spread of development projects and consequent industrialisation that will become possible, one hopes there will be a gradual amelioration.

One of the basic conditions for the success of the scheme is the removal of any sense of antagonism among the peoples concerned. Apart from teaching the language of both groups to all, it is necessary to have a unified population as well, to some degree. It is therefore suggested that co-education should be introduced in all the schools as far as practicable and some sort of incentive to inter-marriages between Bengalis and Biharis given. This need not necessarily take the form of cash prizes but encouragement can be given in other ways e.g. by easier entry into Government service for such persons. While details will have to be worked out the principle itself is not a matter of detail.

Above all it must be realised that there is no alternative, the scheme must succeed. Unlike in other nations, with our communal and linguistic and caste separatism, there is no tie of common blood amongst us, the unity imposed by a shared tradition and a common history is wearing thin, and as Bombay has just demonstrated, any moment this India that is Bharat might break up into a thousand fragments. An English poet wrote of the Soviet Union in 1922:

"Of the dark Past
A child is born.
With Joy & Fear
My heart is torn.
Still in his cradle
The Living lies.
May Love and Mercy,
Unclose his eyes!"

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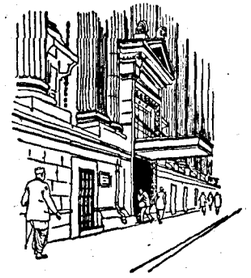
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Where are Farm Prices Leading U S?

G A Rao

THE behaviour of agricultural prices in free markets gives a raw deal to the farmer, who is left to the mercy of vagaries of weather on the one hand and unpredictable changes in demand on the other. In recent times, however, American agricultural prices have attracted the widest attention, not because of their erratic fluctuations, but because of the attempts of the U S Government to stabilize them. Price stabilization has given rise to the problem of surpluses which is plaguing not only the U S Government but also other agricultural countries.

The U S Government aimed at establishing prices for farmers at a level that would give agricultural commodities a purchasing power in terms of articles which farmers bought, equivalent to the purchasing power of agricultural commodities in the base period. The 'parity price' for any agricultural commodity as of any date is determined by multiplying the 'adjusted base price' of the commodity by the parity index of such date. The 'adjusted base price' for a commodity is computed by dividing the average price during the 10 year period immediately preceding the date of a computation by the average of the index of prices received for the same period. A comparison between the prices received by farmers for what they sell with prices paid for what they buy is the 'farm parity ratio'.

U S agricultural price policy is administered by the Commodity Credit Corporation in close co-operation with the Commodity Stabilisation Service and the Government Department of Agriculture. These agencies seek to control supplies of agricultural produce by means of acreage allotment and marketing quotas.

Price Support Programme

Price support is achieved through non-recourse loans, purchases, and agreement to purchase. Loans run for a period of 4 to 14 months and are secured by commodities as collateral under ware-house receipts or chattel mortgages. Purchases are made when other methods of control are not feasible. This is the method of price stabilisation in the case of products like cheese, butter and dairy products. Under a purchase agreement the producer is assured the support price for his commodity at the close of the market in return for a small service charge. The Commodity Credit Corporation agrees to purchase at the loan rate or at the announced price in case there is no loan programme.

Under the price support programme, price minimum or 'floors' of 60 to 90 per cent of the parity price are established for a number of commodities. At present the Secretary of Agriculture is bound by law to support about a dozen 'mandatory' commodities some of which are designated as basic and the others as non-basic. Wheat, rice, cotton, tobacco and peanuts are basic and are supported at 82½ to 90 per cent of parity according to supply conditions, if the farmers do not approve of market quotas. Among the non-basic commodities are included wool, tung nuts, honey, mohair, milk, butter, and fat. These are supported at 60 to 90 per cent of parity. The functions of the Commodity Credit Corporation in the policy of agricultural price control has been described as "a subsidised risk-taking procedure rather than a genuine monopoly technique. The methods used and the policy frame work have been greatly improved over the Farm Board days but the underlying philosophy is the same."

Falling Prices

Since 1952, there has been a marked change in the trend of agricultural prices. As a result of the decline in prices while production was being maintained at peak or near peak levels, stocks have been accumulating at an accelerated rate. Index of prices received by farmers fell from 302 in 1951 to 249 in 1954 while index of prices paid by farmers was 281 in 1954, which means that prices paid by farmers exceeded the prices received by them. The comparison between these two sets of prices is the parity ratio. This ratio reached a maximum of 115 in 1947.

Since then the trend seems to have been reversed. Largely as a result of the Korean War boom, the terms of trade in 1950, 1951 and 1952 were favourable to the farmer; after 1952 the terms of trade have been consistently against the interest of the farmers. It is also particularly to be noted that in the last five decades, in only a few years, viz 1921 and between 1931-34 and 1938-40, the terms of trade were more favourable than those in October 1955. The parity ratio in October 1955 was 82.

Net Farm Income

The position with regard to realised net farm income is also similar to that observed with regard to parity ratios. From a peak of about $17 billions in 1947, the realised net income fell by 30 to 40 per cent to about $10.6 billions in 1955. It may be mentioned in passing that between 1919 and 1930, the realised net farm income fell from 9 billion to 4 billion.

The trend of indebtedness of the farmer is difficult to gauge because the farmer's capital assets increased simultaneously with increase in indebtedness. On July 1, 1955 assets of American farmers were estimated at $163 billion while total farm indebtedness stood at $18 billion. This meant that debt accounted only for

TABLE I

Agricultural Prices & Incomes in U S

Year	Prices paid by farmers (1910-14=100)	Prices received by farmers (1910-14=100)	Parity ratio	Net realised farm income ($ billion)	Total debt on Jan. 1 Indebtedness ($ billion)
1914 ..	103	102	99	3.6	—
1919 ..	197	218	111	9.3	—
1932 ..	112	65	58	1.9	—
1939 ..	123	95	78	4.3	—
1947 ..	240	275	115	16.8	8.4
1952 ..	217	288	100	13.5	—
1954 ..	281	249	89	—	17

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CP/82

11 per cent of the assets. But when the same figures are viewed in relation to net realised income of farmers, the picture becomes less optimistic. In 1947 indebtedness accounted for about 50 per cent of realised net farm income of the operators, in 1955 the proportion had risen to 17.0 per cent. The main changes in agricultural prices and income are given in Table I.

Rising Agricultural Productivity

It is generally conceded that a storage programme does even out variation in prices in the short-run due to variations in supply of a commodity, assuming that demand remains constant. But in the U S, in spite of so much effort, prices have been falling. One explanation for falling prices would be the rising productivity in agriculture. In industry, prices are left to readjust themselves to changing conditions but in agriculture this process of adjustment has been retarded by policies which protect the efficient and inefficient alike. In the words of Mr Gilbert Bruck in **The Magnificent Decline of U S Farming**,

> "The Government, in other words, subsidised efficiency and then subsidised inefficiency and it is this James-like policy that today is chiefly responsible for what economists describe as an excess of resources in farming".

This rise in productivity has been accompanied by a reduction in agricultural employment. The farm output per man is definitely on the increase, and with increased mechanisation of agricultural production and urbanisation of the U S economy, migration to the city has been a constant factor. The ratio between farm employment and output has, therefore, been markedly ... wise (See Table II).

Falling Farm Incomes

... income of farm people has ... declining. This is because the ... supported are not per farmer, ... per unit produced. But a good ... price policy would aim ... protecting the interests of the ... Apout 61 per cent of the ... (including farms cultivated ... farmers) accounted only ... per cent of the total value of ... products sold and traded. ... other hand about 2 per cent ... sold about 26 per cent of ... total produce marketed, with ... that the price support pro... as it now works, would ... affect big farmers.

TABLE II

Farm Employment & Output in U S

Year	Average No. employed on farms (mns)	Farm output per man-hour (1935-39 =100)	Crop land harvested (mn acres)
1920	13.4	81	362
1930	12.5	87	359
1940	11.0	112	321
1950	9.3	164	355
1952	8.7	173*	N.A.

* Preliminary.

Statistics prove that though farmers contribute a good portion to the national produce, the share of the reward they get is not proportionate to their contribution. Compared to 1947-49, the prices they received last year went down by 7 per cent while the prices they paid for supplies, loans and labour went up by 12 per cent. The net income from strictly agricultural activity dropped from $11.7 billion in a year in 1947-49 to $9.9 billion last year. There are also some compensating factors, however, viz, a falling farm population, rise in farmers' income from other sources, variety in American farming which renders the total figure slightly misleading.

Farmer and the Nation

To state that the present fall in prices is due solely to the Government price policy which encouraged over-production, however, is only a half truth. The price policy is generally aimed at securing higher or stable income for the farmer. In spite of all the efforts that are being made, farm income per person is lower than non-farm income. For instance, in 1946 just after the war, net per capita farm income was $756 while non-farm income was $1,283. In 1952 per capita net farm income was $905 and the corresponding non-farm income was $1,842. (See Table III)

The elections in America have given a sharp edge to this problem of agricultural prices, and President Eisenhower has come out with a plan for a policy of agricultural prices. The main recommendation in the plan is to reduce the area cropped or grazed which will divert surplus stocks into trade channels at home and abroad without further addition to stocks. Withdrawal of certain lands from cultivation has been made as a long-term measure. The lands coming under the first part—viz, which aims at reduction of area cultivated to divert stocks—constitute the 'acreage reserve', while lands under the second part which aims at withdrawal of lands from cultivation form the 'Conservative Reserve'. Both long-term and short-term aspects of this plan are to be worked out by the Soil Banks. The participants in this scheme get certificates which can be exchanged for cash at the Commodity Credit Corporation at fixed rates. This scheme is estimated to cost $350 million during 1956, and 25 million acres would be brought against Conservative Reserve. There is yet another proposal to replace surplus programmes with quantity allotments to begin with the crop of 1956. Lower sales prices and an upper limit on price support payments to an individual or a farming unit constitute one of the minor recommendations in President Eisenhower's plan on agricultural prices.

It is difficult to evaluate a policy of agricultural prices which has such enormous proportions. It has to deal with the problem of maintaining the income of millions of farmers against mounting surpluses. The problem of American agricultural prices seems to be essentially one of surpluses. The small American farmers still belong to the most 'disadvantaged' group in the United States. According to the 1950 Census

TABLE III

Farm and Non-Farm Income in U S Dollars

Year	Total Population (in millions)	Farm output (1935-39 = 100)	Per capita net income on farm	Per capita net income not on farm
1910 ..	92	79	—	—
1920 ..	106	92	—	—
1930 ..	122	95	—	—
1935 ..	127	96	236	518
1940 ..	132	110	262	690
1945 ..	140	129	697	1,273
1952 ..	151	144*	905	1,842

* Preliminary.

of Agriculture, about 2.1 million units are large enough to be classified as bonafide commercial farms (grossing $2,500 or more annually); they produce about 88 per cent of the U S marketable farm products. The other 3.2 million farms, over 60 per cent of the total, produce only 12 per cent. Of the non-commercial farms, about half are either part-time, residential or miscellaneous. The other half are mainly subsistence farms grossing in some cases less than $1,000 a year which hardly provide a living to the occupants, regardless of the times. U S agricultural price policy does not to any great extent give particular attention to the problems of numerous small farmers in its schemes.

Capitalistic economy was born and bred in the era of freedom and laissez faire, the essential feature of this system being that price would be the resultant of a series of actions and reactions of the various economic forces at work. It is still doubtful whether in such a system, a policy of controls could be successfully carried out, especially in times of falling prices.

From the above, it is apparent that the farm price situation in USA appears to be confused not only to a lay reader but also to professional economists and policy makers in Government. The situation appears to be more difficult because

(1) While national income continues to increase, farm income is declining.

(2) Production costs are taking increasing share of gross farm income.

(3) The disparity between per capita income in farm and non-farm occupations appears to be widening.

(4) Farmer's share of food dollar continues to decline.

(5) Crop output in 1955, much of which will be marketed in 1956, may almost equal the record of 1948.

(6) Government investments in farm commodities have been mounting.

The farm price situation which the policy makers in U S face, is, to say the least, 'frustrating'.

Around Calcutta Markets

Rising Trend

Wednesday, Evening

TEA shares led the spurt in equities a fortnight ago. In recent days, the improvement in clearing shares has had a sustaining influence on the stock market here. It is evident that this week's spurt in forward shares is mainly due to covering operations for settlement purposes. So far as this aspect of the market is concerned, the support may prove temporary after the end of the settlement. That remains to be seen. Meanwhile, certain market developments may be noted.

Though recent dividend payments by Calcutta companies have been disappointing, increased dividend disbursements by Bombay's cotton textile mills have had a "bullish" effect on the market. Bank dividends are also encouraging. Simultaneously, it is realised that there are peculiar reasons which explain poor dividend payments by Calcutta's jute mills or by companies like BIC.

Good Dividends

Market circles are now arguing that the budget proposal relating to indirect limitation on dividend payments may not in effect curtail dividend disbursements. There is something in the argument that the withdrawal of the rebate on undistributed profits may partially offset the anticipated effects of the proposed indirect limitation on dividend payments. This is not the only reason why equities are gradually moving up.

One of the main reasons for the spurt in equities in the last year was the issues of bonus shares or expectations of such issues by companies. Immediately after the budget, the proposal to impose a tax on bonus shares had an adverse effect on the market. It is now argued that, even as the proposed indirect limitation on dividend payments has not affected dividend disbursements, the proposed tax on bonus issues may not discourage issues of bonus shares.

Bonus Tax

There is a variation of this argument which is more relevant. From the experience of the issue of bonus shares by Tata Steel Company, it is clear that the Government's policy is to control the issue of bonus shares. New Delhi dictated the issue price of the bonus share by Tata Steel. This had an adverse effect on Tata Steel, but Bombay seems to have overcome the difficulty. There is reason behind the argument that the proposed tax on bonus shares will have the indirect effect of fixing the issue price of such shares; that, in the circumstances, the Government will take this factor into consideration in fixing the issue price of bonus shares.

True, companies will not have freedom to issue bonus shares on terms they like. But, with the Government's policy of dictating its terms to companies, the proposed tax on bonus shares will not, it is argued, have any additional adverse effect on the market. This may not be a "bullish" factor. But it is an interpretation of the budget proposal which is not as "bearish" as apprehended earlier.

Inflation

These sophisticated interpretations may have helped the gradual recovery in equities in the last fortnight. But the influence which has initiated and supported the recovery lies deeper. Stock markets are becoming inflation-conscious. Behaviour of prices since the last quarter of last year would seem to confirm this analysis of the economic situation. In retrospect, it would seem that deficit financing in the last three years had the belated effect of raising prices by the third quarter of last year.

This aspect of the economic situation has been stressed in these columns in recent weeks. It has been argued that industry is fast losing the advantage of relatively cheaper prices for foodgrains and for industrial raw materials. This trend will be further aggravated by the massive deficit financing during the first year of the second Plan. Two questions arise. One is the growing cost of production. But the possible adverse effects of this development are being ignored because of the rising trend in prices.

Bank Rate

So far as stock markets are concerned, the inflationary effect of deficit financing has many aspects. One is the customary boom in equities in a period of inflation. This is the underlying reason behind the recent recovery in equities. It is not entirely without basis. But the budget debate in Parliament is a reminder that both the Government and the Opposition are watching the situation so as to avoid run-away inflation.

Though the problem of Bank Rate was not mentioned in the budget debate in Parliament, stock markets have become conscious of the developing situation in the money market. Reserve Bank's weekly returns are anxiously awaited every Wednesday evening. But the recent behaviour of stock markets would seem to indicate that investors are inclined to the view that the time for a higher Bank Rate is not yet. That may be, but speculators will be wise in realising that the time for a closer scrutiny of bank advances has already come.

Tea Shares

Three months ago, Clive Street was moderately optimistic about Coal, Paper and Jute shares. Coal and Paper shares are gradually recovering from the payments crisis and the budget shock. So are Miscellaneous and Engineering shares. But Jute shares remain friendless. Rising stocks of jute goods with the mills in the last two months, disappointing half-yearly reports and the continuing unfavourable spinner's margin explain why Jute shares continue to be neglected.

In the last fortnight, however, Clive Street has rediscovered the prospects for Tea shares. A month ago, auction prices started moving up. To-day, tea auction prices are well above the "lows" touched six months ago. With the gradual increase in tea auction prices, Tea shares are slowly crawling up. There is no aggressive buying. But the selling pressure has subsided. Though the 1954-55 boom is not likely to be repeated, current developments in the tea industry warrant moderate optimis about Tea shares.

Around Bombay Markets

Selective Buying Support

Thursday, Morning

SELECTIVE buying support has been forthcoming on the stock exchange for the third week in succession. This may be interpreted as a sign not only of returning confidence but of confidence that bids fair to be sustained. As time passes, it is being increasingly realized that the strong bullish factor in the market is the size of developmental expenditure. The Reserve Bank has helped the sentiment considerably by acting in a forthright manner at a time when raising of the bank rate was being advocated from banking circles. Far from being bullied into taking action of the wrong sort, it has responded to the situation of hardening money rates in a sensible manner by increasing the note circulation week by week. Currency was expanded by Rs. 25 crores in the last week alone; in the last fortnight, the expansion came up to a sizable figure of Rs. 40 crores. This has encouraged operators, if nothing else, to support first class equities at every dip.

Taking their courage from the general possibilities of development and monetary expansion, investors have at long last had the sense to realize that a tax on dividends is not a ceiling on dividends. This realization, needless to say, has been brought home to them by the series of dividend increases announced in recent weeks. True, the Finance Minister has made no secret of his intentions. This year they may have got off lightly, but that does not mean that in the years to come the tax burden will not be heavy. Apart from the general inclination to discount future burdens and to regard present impositions as being excessively heavy, the investors can also console themselves with the thought that if the present rate of earnings and dividend increases are maintained—they may very well be bettered—future burdens would be much more bearable since they would be put on shoulders which would be, figuratively speaking, much stronger.

Cotton mills were again leading, under the impetus of higher earnings of the mills that published their balance sheets during the week. Svadeshi Mills was one such which nearly doubled its profits from Rs. 8.31 lakhs to Rs. 15.48 lakhs and which has prompted its directors to recommend a raise in dividend by Rs. 4 to Rs. 12. Sales have risen to Rs. 3.63 crores as against Rs. 3.51 crores in the previous year.

Tata Mills have also shown improved working results during 1955. After providing Rs. 20 lakhs for depreciation and Rs. 10 lakhs for bonus the mills made a net profit of Rs. 7.70 lakhs as compared to Rs. 3.40 lakhs in the previous year. Sales of cloth amounted to Rs. 3.08 crores as compared to Rs. 3.26 crores in the previous year. Dividend has been raised to Rs. 4|- per share from Rs. 2-8-0 paid in the previous year.

The Standard Mills have also shown excellent results for 1955. After deducting Managing agents' commission amounting to Rs. 4.58 lakhs and providing Rs. 17.28 lakhs for depreciation, the mills made a profit of Rs. 38.88 lakhs, Rs. 10 lakhs more than in the previous year. Sales amounted to Rs. 5.33 crores recording an increase of nearly Rs. 2 crores over the year. Dividend has been maintained at Rs. 20 per share.

Digvijay Cement has reported a net profit of Rs. 25.56 lakhs for the year to December 1955 as compared to Rs. 23.71 lakhs in the previous year. Sales are said to be Rs. 1.38 crores during the year as against 1.77 crores in the previous year. Dividend has been maintained at Rs. 8-8 per share.

Besides the above encouraging company news, the Chairman of the Kohinoor Mills struck an optimistic note while addressing the company's shareholders during the week. Although the enhanced excise duty would cost the company Rs. 9 lakhs more and penal tax on dividends would operate most unfairly on companies like Kohinoor which had prudently accumulated substantial reserves, the Chairman observed that the company had practically completed a comprehensive programme of expansion and rehabilitation in the last ten years. The Chairman further observed that the company was up to date with bonus provision, and the current (1956) year's accounts would not have to bear any addi-

tional burden in this regard as in 1954 and 1955. He also said that the outlook for cloth continued to be good, with the yarn market showing signs of improvement.

Cloth production during the first two months of the current year has recorded a rise. Production in January amounted to 414 million yards. It rose to 428 million yards in February as against 402 million yards the same month in the previous year. Total production in the first two months was 842 million yards as compared to 839 million yards in the corresponding months of the previous year. The production of yarn also recorded an increase of three million lbs to 263 million lbs. over the two months' production in the previous year.

Along with production, the export of Indian piece goods have also recorded an improvement. Exports in February amounted to 68.67 million yards showing an increase of 17 million yards over those in January.

Bombay Dyeing shot up by Rs. 32-8 during the week to close at the top at Rs. 610. Kohinoor stole the thunder with a smart rise of nearly twenty-five points over the week on good future prospects. From the week's weak level of Rs. 501, Century shot up fifteen points to Rs. 516. Notable improvement was also recorded in Tata Mills, Swadeshi, Standard, Gokak and a few others in this section.

Steel shares also made good headway. On heavy bear covering on Calcutta account, Indian Iron firmed up by one and a half points. Tata Steel closed five points better over the week.

In the miscellaneous section, Associated Cement attracted good investment support. They appreciated by five points. Bombay Burma Old spurted twenty points on heavy bear covering while National Rayon rallied ten points on suggestion of increased dividend. Scindia, Tata Chemical and Premier Construction closed the week with a firm tone.

Cotton

Firm Trend

THE spot cotton market has been ruling firm of late. Demand for quality cotton like Vijay, Surati and Navsari continues unabated. During the week under review Kanpur, Ahmedabad and local spinners bought good many lots of these varieties of cotton at advanced rates. Broach Vijay, March delivery, went up from Rs 920 early in the week to Rs 982 towards the close, for five stations. Vijay, March delivery, any station, was bought at Rs 910. April delivery fetched Rs 900, any station.

Morvi, Manavadar and Jarilla varieties were also favoured by dealers and spinners alike.

In the export section, interest was shown in Moglais, Oomra Deshi, Bengal, C P I and C P II and Zodas. Wagad and Dhollera cotton was also purchased by shippers. According to market men, France showed keen interest in buying Bengals. Japan was in for Saurashtra varieties like Wagad and Mathia.

In the import section, mills evinced interest in African varieties.

Oils and Oilseeds

Boom in Oilseeds

PRICES of oilseeds and oils have been booming. There has been a scramble for castor and groundnut for quite some time. Owing to small floating stocks and the local market prices being lower than in the interior markets, dealers and speculators from Gujerat and Saurashtra were inspired to build heavy long position during the week. Punjab advices were also in favour of bulls. Thus castor and groundnut, ready and delivery, flared up to new high levels.

Groundnut ready were quoted higher initially. Millers and Vanaspati interests bought ready goods to keep their mills running. But, at higher levels, as the profit margin got thinner, the crushers turned to other edible seeds like Kardi. Kardi prices, therefore, moved up substantially. On the other hand, dealers of delivery seeds bought April-May groundnut which resulted in a further firming up of the rates.

Castor ready and futures shot up to dizzy heights. Britain bought about 500 tons of castor oil during last week at around £117 per ton. Business is expected to be done with America in the next few days. New York quoted from 13.80 cents to 14.00 per lb. Local castor stock is estimated to be small.

Castor May futures shot up from Rs 127 per candy on March 14 to as high as Rs 134-8 on March 20. During the last three weeks, it jumped seventeen points. Ready castor advanced from Rs 25 per cwt. to Rs. 26-8. During the last three weeks, it has risen by more than three points per cwt. Oil commercial shot up by one and a half points to Rs 14-6 per quarter during the last three weeks and ten annas over the week.

Groundnut ready advanced two points to Rs 35-4. April-May moved up to Rs 35-12 per cwt. from Rs 33-13 during the previous week. Oil ready jumped by a rupee to 19-2 per quarter over the week. Kardi and Linseed also moved up sharply, the former improving by three rupees to Rs 22-8 per cwt. and the latter by Rs 2-4 to Rs 35-4 per cwt.

MARKET LEADERS DURING THE WEEK

	March 20, 1956	Week's Range High	Low	Mar 14, 1956
Steel Shares :				
Tata Ordinary	240- 0	240-12	235-12	234- 4
Indian Iron	34-11	34-11	33-11	33- 3
Textile Shares :				
Bombay Dyeing	610- 0	610- 0	581- 4	577- 8
Century	516- 0	516- 0	501- 0	508- 0
Kohinoor	356- 0xd	356- 8xd	343- 0cd	343- 0
Simplex	212- 8	214- 8	210- 0	210- 8
Swadeshi	236- 8	236- 8	227- 0	225- 0
Miscellaneous Shares :				
Associated Cement	217- 0	218- 8	214- 8	213- 8
Belapur	234- 0	234- 8	228- 0	228- 0
Burma Old	613- 2	618-12	603- 2	597- 8
Scindia	17- 6	17- 8	17- 0½	17- 3½
Premier Const.	188- 4	189- 4	178- 0	177- 8
Tata Chemical	18-14	19- 5½	18-10	18-15
National Rayon	241- 0	241- 0	231- 8	232- 0
New India Assc.	40- 4	41-12	39-12	41-12

Sales Tax Laws Validation

THE Sales Tax Laws Validation Bill, validating the levy and collection, by States, of sales tax on inter-state trade between April 1, 1951 and September 6, 1955, has been passed by both Houses of Parliament and is now awaiting the President's assent. When it becomes an Act, it will replace the Presidential Ordinance issued in January to validate State laws on sales tax on inter-state trade, which had been declared by the Supreme Court as ultra vires of the Constitution in September last. Whatever hardships might have been caused by the Supreme Court judgment will be removed by this Act and the States concerned will be free to retain their tax collections, amounting to about Rs 5 crores.

Controversy about the taxation of inter-state trade or commerce revolves round two conflicting judgments of the Supreme Court, regarding the interpretation of Article 286 of the Constitution which says:

"(1) No law of a State shall impose, or authorise the imposition of, a tax on the sale or purchase of goods where such sale or purchase takes place—

(a) Outside the State; or

(b) In the course of the import of the goods into, or export of the goods out of, the territory of India.

Explanation:—For the purposes of sub-clause (a), a sale or purchase shall be deemed to have taken place in the State in which the goods have actually been delivered as a direct result of such sale or purchase for the purpose of consumption in that State, notwithstanding the fact that under the general law relating to sale of goods the property in the goods has by reason of such sale or purchase passed in another State.

(2) Except in so far as Parliament may by law otherwise provide, no law of a State shall impose, or authorise the imposition of, a tax on the sale or purchase of any goods where such sale or purchase takes place in the course of inter-state trade or commerce."

And the two judgments were in respect of (a) an appeal filed by the Bengal Immunity Company against the judgment of the Bihar High Court given in December 1952, regarding the competence of the Bihar Sales Tax authorities to levy sales tax on its transactions with customers in Bihar State, and (b) an appeal filed by the Bombay Government against the decision of the Bombay High Court in a similar case against the United Motors India Ltd, declaring the Bombay Sales Tax Act 1952, as invalid.

The Bengal Immunity Co. having its registered office, laboratory and factory in West Bengal was called upon in October 1951, under section 33 of the Bihar Sales Tax Act, 1947, to register itself as a dealer as it was selling its products for consumption in Bihar and as such, it was liable to tax. Subsequently, in December 1951, a notice was served on the company to apply for registration and to submit returns showing its turnover from January 26, 1950 to September 30, 1951. As the Company considered its transactions in Bihar as taking place in the course of inter-State trade, the taxation of which is prohibited by Article 286 (2), it did not respond to the notice. Thereafter there was some correspondence between the tax authorities and the company and eventually in May 1952, the company was told that if it did not comply with the authorities' notice, they would proceed to take steps for assessment to the best of their judgment. Against this, the company preferred a petition to the Bihar High Court under Article 226 of the Constitution, for the issue of a writ against the Bihar Sales Tax authorities, claiming that the action of the said authorities was ultra vires of the Constitution. The High Court took the view that the Bihar tax authorities were competent, under the State Sales Tax Act, to investigate the liability of a dealer to tax and that they were well within their jurisdiction in issuing the notice to the appellant company. It, therefore, dismissed the company's petition for a writ under Article 226, but granted a certificate to appeal to the Supreme Court, as the case involved a substantial question of law as to the interpretation of the Constitution.

After this decision of the Bihar High Court, the question came up before the Supreme Court early in 1953, in respect of the other case mentioned above, viz. the State of Bombay vs. United Motors India Ltd. In that case, the majority of the Constitution Bench held that Article 286(1)(a) read with the explanation thereto and construed in the light of Articles 301 and 304 prohibited the taxation of sales or purchase involving inter-state elements by all States except the State in which the goods were actually delivered for consumption. It further held that clause (2) of Article 286 did not affect the power of the State in which delivery of the goods was made to tax the sales or purchases of the kind mentioned in the Explantion, the effect of which was to convert such inter-state transactions into intra-state ones and to take them out of the operation of clause (2) of the Article. In other words, the view taken was that clause (2) of Article 286 prohibiting taxation on inter-state transactions was to be read in the light of the Explanation to clause (1), which stipulates that "a sale or purchase shall be deemed to have taken place in the State in which the goods have actually been delivered for the purpose of consumption in that State". This judgment set the controversy about the construction of Article 286 at rest for the time being, and many States began to levy and collect sales tax on inter-state trade.

The situation was reversed when the Supreme Court took up for consideration the appeal preferred by the Bengal Immunity Co. The court took the view that the earlier interpretation of Article 286 in the appeal of the Bombay State was untenable and therefore thought it necessary to reconsider the whole issue once again. As a fresh re-appraisal was contemplated, it invited other State Governments than Bihar, who were levying sales tax and a few private parties, Tata Iron and Steel Co. among others.

After examining the arguments put forward by the contending parties, the Supreme Court took the view that both clause(1)(a) and the Explanation thereof, of Article 286 was intended to impose restrictions on the taxation of inter-State commerce.

As a result of this judgment, the confusion over the interpretation of Article 286 was finally removed and the prohibition of States tax powers under clause (2) became absolute and as such the State sales tax laws became invalid. It was with a view to meet this difficulty that the Sales tax laws validation Bill has been passed:

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1448.85	1444.09	1406.82	1277.17
2. Rupee Coin	102.92	102.55	104.61	101.64
3. Deposits				
a) Central Government's	55.64	54.31	64.55	67.95
b) Banks'	46.54	47.40	54.12	47.71
c) Other Governments'	46.95	10.55	13.06	53.42
d) 'Others'	17.04	16.87	15.69	22.07
4. Foreign Securities	672.31	697.15	667.15	643.36
5. Balances held abroad	70.72	40.61	71.11	88.76
6. Rupee Securities	648.01	613.22	603.22	507.42
7. Investments	37.54	37.61	49.39	50.17
8. Loans and advances to Governments	0.34	4.37	3.84	0.52
Scheduled Banks				
1. Demand liabilities (net)	608.35	618.05	621.89	574.45
2. Time Liabilities	416.77	418.70	413.50	376.47
3. Cash on hand	33.91	34.78	34.93	34.47
4. Borrowings from Reserve Bank	53.70	48.47	39.46	26.43
of which against Usance Bills	23.46	25.32	19.41	18.61
5. Advances and Bills discounted	676.30	666.00	641.00	576.78
of which State Bank's	130.23	126.16	119.43	124.93
6. Invst. in Govt. Sec.	364.74	373.54	378.99	347.46
of which State Bank's	97.87	105.54	106.77	93.59
Cheque Clearance	161.65	149.04	148.31	166.05

†For Reserve Bank and Cheque Clearance week ended 16-3-56. Scheduled Banks week ended 9-3-56.

Bombay Money Rates	16-3-56	9-3-56	17-2-56	18-3-55
Inter-Bank Call Rate	3 3/16	3 3/16	3 1/16	2 7/8
3 months deposits	3 3/8	3 1/16	3 1/8	3
6 months deposits	3 3/8	3 3/16	3 1/16	3

Bombay Bullion — In Rupees and Annas

	22-3-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	105-15	105-1	99-7	93-10
Forward	105-11	104-4	98-13	92-9
Silver (per 100 tolas)				
Spot	182-0	178-12	175-4	166-15
Forward	182-11	179-6	176-4	165-1

JUTE STATISTICS

Production ('000 tons)

	Jan. 1956	Dec. 1955	Nov. 1955	July'55 to Jan. '56
Hessian	30.3	34.0	34.6	232.5
Sacking	52.6	56.6	49.9	338.5
Others	6.0	6.7	6.0	37.4
TOTAL	88.9	97.3	90.5	608.4
Total Production in the corresponding months of:				
1954-55	83.9	94.0	88.6	579.5
1953-54	67.3	77.8	69.0	500.9
Stocks at the end of the month ('000 tons)				
Hessian	25.6	23.5	27.9	—
Sacking	45.3	35.1	30.8	—
Others	7.5	5.6	4.3	—
TOTAL	78.4	64.2	63.0	—
Stocks at the end of the corresponding months of:				
1954-55	76.4	69.6	69.0	—
1953-54	95.7	98.6	98.3	—
Despatches:† ('000 tons)				
Hessian	32.3	38.5	36.0	255.5
Sacking	41.5	52.9	48.1	331.0
Rope, twine, etc.	3.1	3.9	4.1	26.9
TOTAL	72.9	95.3	88.2	613.4
Total despatches in the corresponding months of:				
1954-55	76.7	92.0	89.5	587.2
Raw Jute Consumption: (lakh bales of 400 lbs each)				
1955-56	5.18	5.64	5.38	35.19
1954-55	4.84	5.46	5.18	32.09
1953-54	4.03	4.53	4.15	29.05
IJMA Mills' purchases of raw jute (lakh bales)				
Pakistani	1.63	1.13	2.29	10.87
In corresponding periods of:				
1954-55	0.86	0.36	1.10	5.96
1953-54	0.45	1.12	0.94	5.16
Indian	5.97	3.91	5.79	30.80
In corresponding periods of:				
1954-55	5.42	4.11	6.84	31.36
1953-54	3.31	4.30	4.65	24.31

† Despatches include exports and sales for internal consumption

Source : Monthly Summary of Jute and Gunny Statistics issued by the Indian Jute Mills Association

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group	Week ending 3-3-56	Week Ago 25-2-56	Month Ago 4-2-56	Year Ago 5-3-56
I **Food Articles:**	**343.3**	**343.0**	**331.1**	**301.1**
Cereals	429	430	398	344
Pulses	368	359	345	230
Others	227	227	236	254
II **Industrial Raw Materials:**	**462.6**	**462.4**	**468.4**	**425.9**
Fibres	466	469	468	475
Oilseeds	471	465	490	350
Minerals	462	459	431	393
Others	409	409	441	482
III **Semi-Manufactures:**	**361.3**	**357.2**	**354.7**	**335.7**
Leather	405	408	394	388
Mineral Oils	208	208	202	221
Vegetable Oils	433	422	429	365
Cotton Yarn	453	446	439	441
Metals	282	281	280	242
Oilcakes	353	341	363	292
Others	365	365	364	336
IV **Manufactures:**	**375.4**	**375.3**	**375.3**	**378.3**
Textiles	409	409	409	423
Jute	416	415	418	474
Cotton	403	403	403	411
Rayon & Silk	502	502	494	468
Woollen	274	274	278	310
Metal Products	371	371	371	340
Others	285	285	285	287
V **Miscellaneous:**	**527.7**	**527.4**	**531.5**	**556.0**
All Commodities:	**381.9**	**380.9**	**377.3**	**358.3**

INDEX NUMBERS OF SECURITY PRICES

(Base : 1949-50 = 100)

	10-3-56	Week Ago	Month Ago	Year Ago
Industrial Debentures	**101.1**	**101.1**	**101.1**	**100.7**
Electricity	102.8	102.8	102.6	102.2
Jute	97.6	97.6	97.6	98.8
Plantations	99.1	99.1	99.1	99.6
Sugar	98.5	98.5	99.0	99.1
Coal	90.6	90.6	90.6	90.6
General Engineering	100.9	100.9	100.9	100.6
Shipping	102.3	102.3	102.3	100.2
Others	101.1	101.1	101.1	100.6
Preference Shares	**85.9**	**85.7**	**87.0**	**87.3**
Electricity	94.1	93.7	94.7	97.2
Cotton	79.0	78.8	80.2	78.5
Jute	83.6	83.6	86.7	85.4
Coal	90.4	90.4	90.3	92.3
Iron and Steel	87.4	86.9	87.7	89.9
Sugar	85.5	85.5	85.5	82.8
Paper	86.9	86.7	86.5	89.7
Plantations	101.3	101.3	101.3	97.8
Miscellaneous	83.3	83.3	84.4	85.6
Govt and Semi-Govt.				
Bombay	90.2	90.4	90.8	90.1
Calcutta	90.8	90.9	91.2	90.6
Madras	91.0	91.2	91.5	90.9

Source : Reserve Bank

PRODUCTION OF CLOTH AND YARN BY INDIAN MILLS, 1955

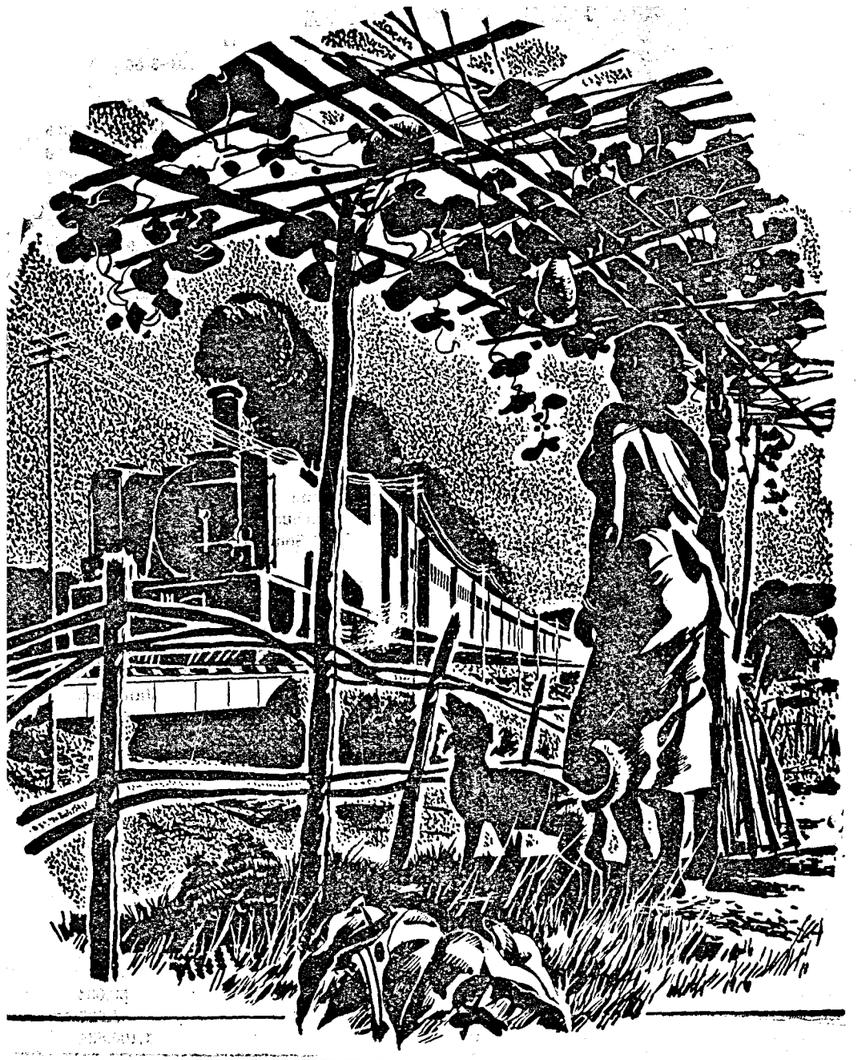
	Jan/Dec. 1955	Jan/Dec. 1954
Cloth ('000 yds.)		
(a) Loomstate production	5,094,475	4,997,712
(b) Quantity of cloth packed	5,146,912	4,952,366
(c) Delivered for :—		
(i) Export	839,281	918,096
(ii) Civil Consumption	4,483,959	4,047,437
(iii) Other purposes	29,069	28,972
Yarn (bales of 400 lbs.)		
(a) Production at spindlepoint	4,074,997	3,902,580
(b) Consumed :—		
(i) In Composite mills for weaving cloth	2,885,171	2,864,728
(ii) For Manufacturing hosiery and other articles	29,321	17,675
(c) Delivered for :—		
(i) Export	53,034	11,859
(ii) Other purposes excluding export and civil consumption	1,637	1,490
Yarn available for handlooms, powerlooms and others	1,106,834	1,006,833

VARIETIES OF CLOTH PACKED BY INDIAN MILLS IN DECEMBER 1955

(000 Yards)

Variety	Coarse	Medium	Fine	Superfine	Fents	Total
Dhoties	842	35,627	4,341	7,197	881	48,888
Sarees	284	44,620	7,493	3,047	1,341	56,785
Dupattas, Khes, Chola and Uparana	22	240	63	226	3	554
Mulls, Voils and Dorias	..	10,585	2,755	11,522	1,297	26,159
Poplin, Crepes, Twill and Haircords	25	17,414	8,722	1,076	1,025	28,262
Longcloth, Sheeting, Leopard cloth and Markin	11,312	90,355	956	52	2,559	105,234
Shirtings and Sucies	898	43,982	9.667	..	1,259	60,806
Madapalam, Cambrics and Lawns	..	183	202	826	134	1,345
Prints and Chints	204	32,352	1,290	4,852	1,766	40,464
Coating, Tussores, Corduroy and Bedford	5,339	7,045	547	87	400	13,418
Drills, Jeans, Satin Drill and Gaberdine	9,090	3,437	349	..	484	13,360
Other items	13,551	17,032	191	230	1,504	32,508
Total	41,567	307,872	36,576	29,115	12,653	427,783

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Concerning Prices

COMPARED to a year ago, there is now a tendency to view the future economic prospects in the country with a certain degree of cautiousness, if not apprehension. Last April, everything around one was just as it should be on the eve of a 'bolder' plan. Prices were conveniently low, production better than one had hoped for, the relaxation of controls had been smooth and welcome. True, the unemployment position was still bad enough; but it was something which argued for pushing ahead with investment spending. But since then, the situation seems to have changed though not in all respects. We still have the unemployment problem with us, and industrial production is maintaining its upward climb. But prices, particularly agricultural prices, have become wayward. The confidence with which one viewed the prospects of deficit-financing and increased money supply has been a lot shaken, on account of the effect it might have on these prices. Food prices have always had a portentous significance in India. And when, as in recent months, they start moving up, men's thoughts turn to inflation, though they may not talk openly about it.

Part of the difficulty is that it is so difficult to find the one, or even the primary, cause for the upsurge in agricultural prices. One could, of course, lay the blame on the weather to a certain extent. Had we not had unseasonal rains in the last quarter of 1955, raw cotton prices may not have turned out to be as intractable as they are at present. Had the Madras State not been visited by a vicious cyclone, rice prices may not have caused concern. These are not unimportant events, and maybe the realist would consider it intellectual snobbishness to bother about an underlying and pervading cause. But one cannot help bothering about the extreme sensitiveness of agricultural prices in general and seek a diagnosis which can help the evolution of a basically sound economic policy. Ad hoc measures would of course find a place in this policy; but they would not constitute the whole of it.

In a dynamic world, economic policy cannot be based on a set thesis about the characteristics and working of an economy. Even so, certain persistent and pervasive characters must be there, if only because of the continuity of the institutional framework within which the economic forces operate. For us in India, the way the money market has developed so far inevitably influences judgment on matters relating to money supply. Similarly, institutional arrangements regarding agricultural production, marketing and finance circumscribe both the analysis and the prescription in the matter of agricultural prices. Instances can be multiplied, but the point is that, given these facts of history and social arrangements, one has to pay attention to the effects they have on current actions and thinking in a variety of fields.

When one attempts to sort out the forces that have contributed to the present situation, certain elements stand out. We have in April 1956, a much larger money supply, and we can be reasonably certain that over a period, this will grow. This is a trend to which we might get partly reconciled, in view either of a continuous increase in the national product or a widening of the monetised sector or both. But the psychological effects of more money in the system can in the short term be such as to play tricks with the accepted indicators. In the second place, agricultural supplies are not so good as they were twelve months ago, whereas we have

more people and more money to spend now. Thirdly, inflationary pressures have reappeared in several countries of the world and there is no special reason why these should not have any impact on us now. They might, in fact, initiate a scramble for things in anticipation of future shortages and thus hasten the shortages. Against these factors, the old argument that deficit-spending is easily absorbed in the system has lost its edge.

For all one knows, it may be premature to have nightmares about spiralling prices. Agricultural supplies have been short, but not all that short. Nor has it been the case that price-rises have been associated with only those commodities whose output had suffered a setback. The remarkable increase in raw cotton prices is not attributable to total availabilities. Though output in the current season suffered from untimely rains, we started the cotton year with sufficiently large stocks. In market parlance, the statistical position is pretty strong. And yet, prices have gone up so sharply that special measures have had to be taken. Oilseeds prices, which always specialise in shooting up or diving down, have reacted more than proportionately to the reported short crop. Price rises in wheat have already brought forth counter-operations by Government in several States.

If price-rises are not just a reflection of the short-fall in supplies, what else are they due to? Anybody who has heard of the Marshallian scissors will say, increased demand. The only evidence we have for the latter is that there is more money with the public and the prices have gone up. The latter can, of course, be used for a circular argument which is not entirely satisfying. But the former, viz., the increased money supply, becomes valid if we can infer thereby that money incomes have increased, thus raising the demand for all sorts of consumption and investment goods. With all the spending that is going on, some incomes must have gone up. But in what measure these increased incomes contribute to an additional demand for staple agricultural goods nobody can estimate.

There is another line which could be pursued with some profit. Past experience has shown that the relation between spending by the public sector and banking activity is pretty close. Last year was an exceptionally good one for banks and it was also a year of much enlarged deficit in the Central budget. If this close relationship exists, those who rely on banks for their credit needs can hope for continued good times so long as the prospects for large deficit-spending are good. In so far as the agricultural market is concerned, the facility of abundant credit could well stimulate speculative demand. In other words, if the price movement is viewed as reflecting the combined impact of speculative and genuine consumption demand for agricultural goods, increased Government spending for development purposes could well stimulate both of them and thus cause a large enough excess in demand over supply. If this is what is happening, it is only right that the speculative factors should be curbed, and the increase in genuine consumption demand be met by increased production or import or dishoarding of stocks.

If current reports are correct, it would appear that the Reserve Bank has moved in, with a request to commercial banks to disclose their lending against commodities, bullion, shares and debentures. This, together with the Textile Commissioner's check on cotton purchases by mills, and the arrival of kharif crops should mitigate the speculative forces to some extent. But these may have little effect if the past price rises have already stimulated stock-building by primary producers and ultimate consumers. Considering the fact that in the past two weeks, grain prices in upcountry markets have not maintained the rate of increase obtaining earlier, we might be approaching some ease in prices. It may also be that Government policy regarding exports and imports of agricultural goods will be revised somewhat, to strengthen the other factors. Sensitive as they are, agricultural prices should react significantly even to small changes in the total situation. It has been so in the past and there has been no major institutional change in that sector to make it any the less possible now.

Looking back, price movements of a similar sort in the second quarter of 1953 had created apprehensions of a resurgence of inflationary pressures in some quarters; the upward movement received a check around August that year, and that was the beginning of the slide down. Whether the present wavering of grain prices is akin to that, one cannot say. This will be clear only a few weeks from now. Until then, it might be just as well to avoid jitters in anticipation of inflation and all that it implies.

Evil Omens

BETTER late than never. It is as well that New Delhi has, though belatedly, called Karachi's bluff. Pandit Nehru has made more than one major policy statement in the last few days. His statement on Kashmir is not as significant as his other recent observations, though the Prime Minister has done well in putting the Kashmir problem in its proper perspective. Pakistan had committed, as admitted by a U N Commission, acts of international aggression in Kashmir. At the request of the Maharaja of Kashmir, India offered military help to the people to defend the valley. Kashmir's Maharaja signed an Instrument of Accession by which Kashmir became legally acceded to India. Despite this legal aspect of the problem, India had, even before reference of the Kashmir issue to the United Nations, given an undertaking to the people of Jammu and Kashmir that they would have the right and freedom to decide their and their valley's future status. It was in pursuance of this voluntary commitment that India agreed to holding a plebiscite.

But India's agreement was conditional. She demanded that Pakistani forces must be withdrawn from the State before the plebiscite could be held. This condition was accepted by the U N Commission. "When the Commission shall have notified the Government of India that the Pakistani forces are being withdrawn from the State", it is explicitly stated in the August resolution, "the Government of India agree to begin to withdraw the bulk of their forces from the State in stages to be agreed upon with the Commission". It is clear that the August resolution does not envisage simultaneous withdrawal of troops by Pakistan and India. Pakistan is still in unlawful occupation of some parts of the State of Jammu and Kashmir. Pakistani forces have not been withdrawn from the State on the flimsy plea of simultaneity of evacuation by India and Pakistan. Because Pakistani forces have not been withdrawn from the State, India has not withdrawn the bulk of her forces from that State. As the prior condition has not been fulfilled by Pakistan, no plebiscite has been held.

These facts are beyond dispute. India's stand is clear. But it is not yet widely realised that circumstances have so changed that, as the Prime Minister explained, "the whole context of the question" has changed. Though the Prime Minister does not disown India's undertaking to abide by the wishes of the people of Jammu and Kashmir, he is emphatic that the conditions and circumstances have so changed that a plebiscite can no longer be regarded as a legitimate means of determining the wishes of the people. Under the August resolution, India was to withdraw the bulk, but not the whole, of her forces only after complete withdrawal of Pakistani troops. It is, therefore, evident that the UN Commission's plan for demilitarisation is based on the assumption that the relative military strength of India and Pakistan will remain as it was then. Pakistan has since received military aid from America, and through her membership of SEATO and the Baghdad Pact. This changes the circumstances under which the pre-condition to a plebiscite has to be fulfilled by Pakistan. That is why, the Prime Minister explains, "it makes little difference now to what extent Pakistan withdraws (from Kashmir)".

Besides this military factor, there have been other political developments which have made the plebiscite redundant. Soon, the people of Kashmir will adopt a Constitution. This will be followed by a general election. When the election is held the people will have an opportunity to express their wishes. India's undertaking to abide by the wishes of the people of Jammu and Kashmir will, thus, be implemented in a democratic manner. This does not mean that New Delhi is unwilling to discuss the Kashmir problem with Karachi. But the Prim Minister has made it clear that "we (India and Pakistan) have therefore, to discuss it (Kashmir) from another point of view in regard to conditions that have arisen now and try to come to an agreement".

American military aid to Pakistan and the latter's membership of SEATO and the Baghdad Pact not only change the Kashmir problem. These military developments call for a re-examination of India's defence and foreign policies. "With large bases surrounding India and also, as far as my knowledge goes, in the Pakistani-occupied territory of Kashmir, it makes a tremendous difference.... There is a much more military potential sitting there behind it. It makes a large difference". This assessment of the developing military situation in this sub-continent confirms the Prime Minister's earlier apprehension that India is under a threat of military encirclement. It would be rash to cry wolf. There may be no immediate threat of aggression from Pakistan. But, in a world plagued by rivalry between the two power blocs, a situation might develop in which India may experience difficulties in making defence preparations. Many years must elapse before India can become self-sufficient in her defence needs. Meanwhile, she will have to depend on Britain, her traditional source of supply, for arms, ammunition and military equipment.

Because Britain and Pakistan are members of SEATO and the Baghdad Pact while India pursues a policy of non-involvement, the question arises whether a situation may not develop in which India may find to her dismay that she cannot rely on her traditional source of supplies of arms and military equipment. There is urgent need to examine these problems from all the relevant aspects. But those who imply that the developing events call for severance of the Commonwealth link or for approach to the Soviet bloc for supplies of arms and military equipment would seem to ignore the realities of the situation. It would be unwise to quit the Commonwealth. Any such hasty action can only delay and hamper India's defence preparations. As a free, sovereign nation, India has every right to seek co-operation from all and every nation in her efforts to ensure adequate defence. These alternative sources of defence supplies should be explored. But it would be fatal for India to join an arms race, or to jettison her foreign policy of non-involvement. Panch Shila does not prevent India from building adequate military strength for defence purposes. Under the U N charter, India can rely on help from the member States to resist aggression. Military developments in this sub-continent do not justify a change in India's foreign policy, though these events emphasise the need for strengthening friendly relations with neighbouring like-minded nations.

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Weekly Notes

The Baby and the Bathwater

WHILE explaining the duties of the Forward Market Commission, Shri W R Natu displayed an ethical bias which is common among our civil servants who are largely drawn from the non-trading classes.

What Shri Natu says about the rationale of forward trading and of the necessity of regulating such trading through the statutory body of which he is the Chairman are unexceptionable. It is only in taking up a very partial attitude towards speculators that he trips. The sole rationale of forward trading is the provision of hedging. This is an important facility for those who have to carry stocks, in so far as it offers an insurance against price fluctuations. By eliminating some of the risks of carrying stocks, forward trading is also believed to help the grower who may not have the means of holding on for a better price. To what extent, in fact, it does so, however, is not so easy to ascertain statistically. But beyond this, it would be difficult to establish any further claim for forward trading such as that it tends to steady prices over time.

Now the role of outside participation in forward markets can be viewed from two stand points, one that of stabilising prices over time and the other of maintaining the liquidity of the market. The speculator unjustly comes in for blame for causing even wider fluctuations in prices than would be the case had he kept out. But except for over-trading, that is for taking risks beyond his capacity, he cannot very well be blamed for coming forward and shouldering the risk of price fluctuation which is the essence of forward trading and which gives it its sole justification. Without such outside participation, the market would be narrower and its liquidity will be greatly impaired. So by putting the blame on the outside operator, is not Shri Natu throwing out the baby with the bathwater? The organised markets are there with their rules and regulations to prevent over-trading and the Forward Markets Commission is there to see that these regulations are properly devised and implemented. Why then pick on the speculator?

To ascribe price disturbances to the outside operator is to subscribe to the fatuous theory that it is the successful speculator alone who plays a constructive role by correctly foreseeing the future movement of prices and making the transition gradual and steady, while the unsuccessful speculator who loses his own money—or rather should, if the markets are properly run—abuses the facilities of forward trading in that he only disturbs rather than smoothens price movements. As a criterion of social behaviour or of conduct in the market, this is not particularly helpful. There is, of course, nothing like leather and no harm in flattering the self-esteem of the professional market operators or in propping up their morale by holding up before them a high conception of their constructive role. But it is hardly necessary for the Chairman of the Forward Markets Commission to believe that this fiction is also a fact. Surely, operators do not participate with the sole object of enabling the farmer to get a better price for his crop. If hedge facilities are abused by persons who have no "direct interest except in making quick money", to quote Shri Natu, what would happen to forward trading if such trading was to be confined exclusively to producers and consumers? A narrower market, less liquidity and no stabler prices! Surely this cannot be Shri Natu's prescription.

Elucidation of a Complex Problem

THE combined effects of the Electricity (Supply) Act and the taxation measures on the electricity undertakings in the country are so complicated that it needs an expert to bring them out clearly. From this point of view, if not from any other, Mr K G Milne's speech at the annual general meeting of the Ahmedabad Electricity Company Limited last week was a major contribution. Analysing the working of that company last year, Mr Milne roamed over the entire question of price and taxation policy in respect of the electricity supply industry. Despite the fact that expansion of this industry is basic to economic development. Government policy continues to be rigid and unimaginative. It is true that supply of power should be as cheap as can be; but intense preoccupation with the price at which electricity should be sold to help the consumers should not blind one to the fact that the supplying firms, as long as they are in the private sector, ought to be remunerated sufficiently to make them willing and able to expand.

It may not be possible for Government to go the whole way with Mr Milne and give the electricity companies complete freedom to adjust their rates. But something should be done—and right speedily too—to remove the anomalies that have persisted so long in the calculation of the Standard Rate of return and the taxation liabilities of electricity supply companies.

Future of Banks Well Assured

IN his speech at the annual General Meeting of the Central Bank of India last week, the Chairman, Sir Homi Mody made, amongst others, two pregnant observations. He viewed increased public expenditure on development as a major contribution to the increase in the demand for bank credit last year, and felt that in the context of the large investment envisaged under the second Plan, the future growth of banking seemed well assured. It is good to see Sir Homi underlining the close connection between the operations of the public sector and the fortunes of banking institutions — though he could not resist the temptation of saying that had Government not chosen to expand their operations in certain spheres, things would have been even better. One might differ from Sir Homi on that; but one must be thankful that he was not, as is generally the fashion, bitter or complaining about it.

The second of his significant observations is in relation to the margins available to banks. He took the position, though not explicitly, that the growing scramble for deposits at steadily rising rates of interest was an unhealthy development. A scramble of this sort could, through an increase in lending rates, discourage borrowers more than it attracted fresh depositors. One wishes Sir Homi Mody had been more forthright on this and deprecated the tendency amongst bankers to consider deposits as highly interest-elastic.



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Tokyo greets you when you rise!

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Belated Realism

ON many of the issues on which there are substantial differences between India and Pakistan, New Delhi has adopted an attitude which has lacked consistency or firmness. This is not an argument for pursuing a bellicose attitude to Pakistan. But India has lost initiative on some issues because of her failure to realise that diplomacy is a game which two can play. Karachi has missed no opportunity to remind New Delhi that none of the issues in dispute between India and Pakistan could be solved effectively without a settlement of the Kashmir problem. New Delhi has never been, without an effective counter-argument. It could have retorted that the issues in dispute could not be settled without a solution of the two major problems of evacuee property and of displaced persons.

In his reply to the debate in Lok Sabha on the problem of rehabilitation of refugees, Shri Mehr Chand Khanna, Union Rehabilitation Minister, has sought to emphasise the relation between the problems of evacuee property and of displaced persons. Shri Khanna is a sadder but wiser man after his recent visit to Karachi. Unlike Shri C C Biswas, Minister for Minority Affairs, Shri Khanna has had the sense not to inform Parliament that New Delhi is helpless as the "remedy does not lie in our hands". Only Shri Khanna's Cabinet colleagues will be surprised to know that he does not entertain "high hopes" about the forthcoming talks between him and the Pakistani Foreign Minister on the Hindu exodus from East Bengal. Besides Shri Khanna and his Cabinet colleagues, there were not many others who could not have anticipated his disclosure that, during his recent visit to Karachi, he found the atmosphere "cold and uninviting".

Though the problem of the exodus of East Bengal Hindus has persisted almost since partition, the tragic story is neither unknown nor unfamiliar. New Delhi was prompt in undertaking the responsibility for relief and rehabilitation of refugees from West Pakistan. But, for the first few years, the problem of refugees from East Bengal was regarded as an issue for which the West Bengal Government was held responsible. Three years ago, New Delhi realised the seriousness of the problem. It has since shouldered increasing responsibilities for the relief and rehabilitation of East Bengal refugees. But there is no indication yet that New Delhi is prepared to tackle the problem as a national emergency. There are reasons which explain New Delhi's attitude. But these explanations do not justify New Delhi's inability or unwillingness to evolve a national solution for a problem which has become a national emergency.

These reasons and explanations are as tantalising as the problem is ominous. After his disappointing experience in Karachi, Shri Khanna is wise in not repeating the argument that Hindus are coming out of East Bengal because the Pakistani Government does nothing to stop the exodus. But the Union Rehabilitation Minister still thinks it necessary to emphasise the differences between the problems arising out of the inflow of displaced persons from West Pakistan and that of the exodus of Hindus from East Pakistan. In the west, it was a two-way traffic. So, displaced persons from West Pakistan could be rehabilitated on the lands left by evacuees who had left the country. In the east, it is a one-way traffic. There is not enough land on which East Bengal Hindus can be settled.

What can the Union Rehabilitation Minister mean by repeating this argument? This does not, surely, exonerate New Delhi of its responsibility to rehabilitate East Bengal refugees. Nor can there be any sense in repeating the argument that the East Bengal rehabilitation problem is still fluid. It is fluid in the sense that it is continuing. But, after Shri Khanna's admission of the "cold" attitude of Pakistan, he or New Delhi can no longer hope that the exodus can be ended or stopped. It is no use arguing or implying that India never accepted the two-nation theory. If East Bengal Hindus feel insecure in Islamic Pakistan, New Delhi will have to shoulder the full responsibility of rehabilitating them. East Bengal Hindus know why they are migrating to West Bengal. It is no solace to them to be told that Pakistan is responsible for their migration. They demand New Delhi's help and sympathy to solve the problem of their rehabilitation.

Off the Record

When Delhi Goes Red...

THERE is one day every year when Delhi literally goes red. That is the day of the Holi. To be in Delhi on this day is an experience never to be forgotten. As in other things, you have to be with the right people and in the right place. If you are, and if you allow yourself to be carried away by the spirit of the festivities and let yourself be led wherever the spirit of the festivities in a particular hierarchy of Delhi society happens to lead you, you see things with your own eyes which you had never quite believed to be possible. The round of festivities, of sprinkling colours and of being sprinkled on, includes in turn visits to the Prime Minister's House, the Rashtrapati Bhawán and the humbler, though fairly spacious, residence of the Vice-President. Cabinet Ministers and Ministers without Cabinet rank, not to speak of Members of Parliament and others, are thrown in in good measure into the round and need no separate mention nor do they demand a visit to their respective residences. You run into them as a matter of course in the Prime Minister's House, or rather on the lawn and the wide drive of that house which are crowded with merry-makers, with the Prime Minister parrying the crowd, following a technique not unlike that of the Rugby player who manages to get away with the ball, helped and aided by his expert and experienced aides. The reference earlier to being with the right people and the right crowd, however, needs a qualification. It is an important facility rather than an essential need. For, believe it or not, the Prime Minister is at home to everybody; so is the President, and so are most of the people who count. There may be some minor dignitaries who take shelter under the subterfuge of not being at home but they do not really matter. And so if one can get hold of some sort of transport—it is not easy as taxi-drivers do not ply on this day for fear of damage to their vehicles, a fear which is not fanciful by any-means—or if one is prepared to leg it—in Delhi, distances are long—one can get free access everywhere and participate in the merriment to the point of actually sprinkling colours on the Prime Minister or the President or anybody else and win an embrace from them, though one may not get actually sprinkled in return.

That is too much to expect, especially from the Prime Minister, considering the barrage that the latter has to face.

The gates of the Prime Minister's House are open to all. The police and sentries are there only to regulate the traffic not to stop it. The refugee demonstrators are there too, to plead their case but they observe the propriety of demonstrating in groups of three, so as not to obstruct the traffic or to interfere with the merriment generally.

If Hindu society thought out this deception in order to keep people in their proper places and to prevent the suppressed ones from revolting against their social oppressors, it has done so with devilish perfection. One can witness it on the lawn and the wide drive of the Prime-Minister's House on the day of the Holi. Such an uninhibited mingling of people can be seen in no other country with the possible exception of some Latin American countries on the day of the Fiesta. The common custom of embracing one another, high and low, irrespective of caste or social status on the Vijaya Dashami night is a mere formality by contrast with what transpires on the day of the Holi.

The assorted conglomeration of people in the Prime Minister's House is equally striking. Literally, the highest dignitaries of the land rub shoulders, embrace and wrestle, each trying to outwit the other in this smear campaign, and the sartorial assortment gives insight into our dress habits which is not to be had on any other ceremonial occasion. Practical convenience and drastically cutting down depreciation on clothing appear to be the key note in the choice of garments on this occasion, rather than informality. You wear whatever cast off clothes you can readily lay your hands on. In the process, for a significant proportion of the crowd, striped sleeping pyjamas and half-shirts come out as the second best as the National costume, though kurta and pyjamas lead, but sherwani and churidar disappear completely, particularly sherwanis.

In a continuous snake like movement, the crowd wriggles out from the gate of the Prime Minister's House and disperses in small groups. For though the Rashtrapati Bhavan is equally open to all, few of those who go to sprinkle colours at Pandit Nehru eventually find their way into and enter the more august portals of the Rashtrapati Bhavan. The Rashtrapati himself, affable and courteous, in a long coat and dhoti, stands in isolation at the inner veranda overlooking the lily pond of the Rashtrapati Bhavan. The contrast with the Prime Minister's House is striking. Here also the doors are open but the visitors, few and far between, file in singly or, in twos or threes; there the stream of people is unending and ever widening, completely blocking the entrances to the inner apartments. The Constitutional Head of a Parliamentary democracy, even though elected by the people, is a symbol which we have borrowed but sucked dry of content. One can sympathise with the Maulana Saheb when he says that he has no desire to look after a bigger garden or occupy a bigger house, however much one may regret his lack of discretion in giving public utterance to his feelings.

A word on what actually happens on the day of the Holi in New Delhi and what is reported in the papers about it. News papers have standardized their coverage so well that one misses much of the fun. Many people come and go. Prime Minister receives as many of them as is physically possible with open arms but cameras flash according to a predetermined pattern. Who gives the command? The Home Minister, Pandit Govind Ballabh Pant, put in an appearance with a great deal of physical effort. He was in no fit state to fall into the mood of the occasion but the cameras clicked dutifully and it came out in the papers. When Acharya Kriplani came with what looked like a sombrero but was in reality only a toka (sun hat—Santiniketan style and weave), Pandit Nehru lost no time in removing his headgear and took full advantage of the close crop that Acharya recently had during a course of Malabar massage, to give him a proper daubing. This was by no means the end of the matter, of course, for the crowd fell on the poor Acharya too. But cameras did not click or if they did, the negatives were not used by the news editors. Many other snaps were missing even from the illustrated papers, such as that of the Railway Minister in tight embrace with one of his worst critics, of the lady M Ps with the closest of Eton crops—which by the way, is the new style of hair-do, much favoured by the ladies—in unsophisticated wrangling with commoners with much longer hair and so on.

Out on the streets, the scene changes. What it is like for pedestrians may well be imagined, but even though fairly well protected by the all steel body and triplex glass, the passing motorist is not always quite safe. Crowds collect at street corners—some may let you off with a jet of coloured water from their squirt-gun, but some may be more bellicose, stop the car and force you to get down. The quality of the colours used also changes with the type of crowd and it ends up with coal-tar and mud. Indeed, it is by the coarser counterpart to its delicate, refined and highly stylized ritual that Holi in North India is better known. To some it is a sad reflection that it is only at the lower depths that men can meet without inhibition. They remain constrained and bound by rules at the conscious, responsible levels of behaviour. Some would go further and prefer to call it primal or primordial, rather than primitive—this display of feelings at the lower depth. The association of spring festivities with some form of orgy has been well-known. When the days begin to warm up in the North and fields lie bare waiting for the first shower before sowing can begin and there is little work to do, the rural population feels the disturbance in the air and responds to it without restraint. One aspect of it are the long idle days; the unusually high incidence of crime in U P, for instance, at this time of the year; the slack season of the agriculturist and the problem of finding subsidiary occupation for him. The horror of it is that some day the Bhoodanes or the Bharat Seva Sangh may sieze on the occasion and organize a Shramadan campaign to take advantage of the idle days of spring and that would be the end of Holi.

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Our Delhi Letter

Industrial Policy and the Public Sector

WITH Indo-Pakistani relations deteriorating in the context of increasing U. S. arms supply to Pakistan, pressure on the balance of payments is likely to develop from both ends. Increased defence requirements may add to the import list while political differences may make the flow of external aid uncertain. The foreign exchange position is thus causing considerable concern to the Government. It is in this context that Mikoyan came with his assurance that Russia would step up her purchases in this country so as to balance by and large her trade with India. Increased Russian purchases may even offset the likely imports of equipment and services for oil and minerals, the development of which is to be reserved for the State under the new industrial policy statement now being processed by the Planning Commission.

The problem that faces the Commission is to recast the industrial policy statement without disrupting continuity. This anxiety for continuity flows from the practical approach the Planning Commission and Government have in relation to economic matters. Contrary to what is often said, the need for restatement has arisen from practical considerations while the original 1948 resolution was a sop to a doctrinaire group inside the Congress. That is why the industrial policy statement could not be honoured in the spirit, and it is doubtful if it was respected in the letter, either.

Inadequate expansion and needs of general development have now persuaded the Government to decide to enter in a big way in a number of industries earlier reserved for the private sector. Minerals (excepting coal) which were left in the private sector are an instance in point. It is now realised that the exploitation of wasting assets by the State is feasible and necessary for a balanced development of the economy.' A draft of the new statement has been prepared by a committee of officials in the light of experience and economic requirements of today and is currently being examined by the Planning Commission. This declaration as finalised by the Union Cabinet will determine the limits within which the Second Plan will operate.

Industries are reported to have been grouped under three heads, depending upon the extent of State participation in them. The first category relates to those which are basic and strategic in character and their development will be the concern of the State only. The second category is of those which come next in importance; the State will take more and more initiative in them, though they will not be closed to private enterprise. The third category covers the rest and their development will be left to the private sector. It is learnt that the new policy statement like its predecessor does not envisage the taking over of existing concerns in the sphere reserved for the State nor even imposing a ban on their expansion.

If along with the decision to expand the public sector rapidly the Planning Commission are also thinking of improving the efficiency of public enterprises, they might think of utilising the services of Professor Galbraith who is now here at the invitation of the Indian Statistical Institute. What is more, the Planning Commission could also, if they wanted to, benefit from Galbraith's expert knowledge of railway economics. Few people here know perhaps that the author of 'American Capitalism', ex-Price Controller in the Roosevelt Administration during the World War II and Professor of Business Administration at Harvard, Galbraith is also a consultant to the Canadian Pacific Railway.

Both on public administration of business enterprises and on the operation of railways, Galbraith has some striking observations to make and eminently sensible measures to suggest which cannot be lightly dismissed as academic and unpractical. What he has to say about public enterprises is not so sensationally new either, though it is sharply at variance with the recommendations of another American expert on administration—Professor Appleby. The solution is to set up public corporations which would be really autonomous, not a separate corporation each time that a fresh undertaking is started in the public sector but one corporation for a whole group of allied undertakings. Departmental working of economic or industrial undertakings, which received the blessings of Appleby, has definitely to go.

Galbraith holds that the secret of efficiency in such matters is not the individual but organisation and though generally he is all for pragmatism in economics, on this question of corporations, he thinks, experience, whether in the capitalist United States or in Communist Russia, leaves no room for choice. The form of organisation has to be public corporation. But there's the rub. Will the Government departments give the public corporations enough freedom in day to day operation? Will the Parliament give them the chance to get on with their job?

Despite all the talk of decentralisation in the air, the tendency is more and more towards centralisation and direct control of the ministries which are responsible to Parliament and have to answer inconvenient questions. This is inevitable. So delegation of authority, which is essential for the working of corporations, meets resistance both from natural desire of Parliament to exercise control and the equally natural reluctance of the Government departments to part with power. A change of attitudes is, therefore, necessary. Popular sanction has to be created for that measure of freedom and non-interference without which corporations become, as they have already become in this country, a pale shadow of their true self.

But it is on the question of operation of railways that Galbraith's ideas and experience have something really new and vital to contribute. It so happens that this paper has been airing somewhat similar views, more from a hunch than from expert knowledge, guided by the experience of the war-time operation of the Assam-Bengal Railway under American management, where the carrying capacity was substantially augmented without any significant increase in investment of capital by changing the system of signalling, among other things. An American railway team is due to arrive here shortly. If only they are asked not to advise how we could get the best of all possible railway systems, but how we could meet the transport requirements of the Second Plan with the minimum of capital investment, probably the country would benefit a lot and so would the Railway Board, if only in the matter of new ideas. Strictly off the record, all the world over railway men love to run trains, but they do not like to think.

From the London End

Anglo-Maltese Integration Proposals

THE British Government have now finally acceded to the Maltese request to proceed with the integration proposals recommended by the round table conference of December last. The movement towards integration is, therefore, going on apace. In the Commons this week the Prime Minister announced Government's decision to introduce a Bill to carry out the December 1955 proposals.

The reasons impelling Britain towards integration are somewhat different from those which have caused the majority of the Maltese to seek such a solution. To the Maltese the need for more direct association with Britain arises out of the realisation that Malta by itself and in its existing status is doomed to carry a progressively impoverished people. Its whole economy has come to rest on the naval repair yards of the British Mediterranean fleet: over one-quarter of the adult working population finds employment in these yards. The rest of the population manages a precarious livelihood and a dismally low one at that, on small-scale farming.

Large-scale Emigration

The islands of Malta and Gozo cover a land area of 122 square miles (about the size of London) and support a population of 316,000. Population increase is high, but it has been offset by emigration. In the eight years from 1945, about 15 per cent of the working population emigrated, leaving the net population increase in these years at no more than one per cent. The Maltese islands are largely rocky; some parts are completely barren. The islands are almost treeless and no minerals or other natural resources have been discovered. Over a third of Malta's national income is derived from UK military expenditure, and some 90 per cent of the islands' imports are financed by these expenditures. These are Malta's compelling reasons for greater association with, and representation in, the House of Commons in London.

On the British side, the considerations appear to be solely strategic. It is difficult to conceive of any other considerations which could have compelled the present line of British policy. Unlike French colonial policy where 'integration' was and is actively pursued, the British solution on matters of colonial representation has always been based on 'constitution' for the colonies themselves. The strategic considerations are now fully visible against the background of British uncertainty and retreat in the Eastern Mediterranean. With the turmoil in Cyprus, the need for a stable naval base in the Mediterranean is satisfied (though not completely) by Malta. Already Malta provides the headquarters of Commander-in-Chief of the British Mediterranean fleet and Nato's Mediterranean Command.

Integral Part

The Maltese Labour Party, whose leader is Mr Dominic Mintoff, went into the February 1955 general election with a manifesto that advocated the 'gradual absorption of Malta into the political, financial and social institutions of the British Isles and a 20-year plan to turn Malta into an integral part of Great Britain with representatives in Westminster and enough safeguards to keep intact the full right and privileges of the Roman Catholic Church'. It also proposed that Malta should retain its own Parliament and promised that, if returned, it would submit its plan for integration to a national referendum. The Nationalist Party, the other of the two largest parties, on the other hand, advocated Dominion Status for Malta inside the Commonwealth. The elections increased the Labour Party representation to 23 as against 19 in the previous Parliament. The Nationalists reduced their representation to 17 (18 previously).

There followed from this Labour victory two crucial Anglo-Maltese conferences. The first was held in London in June last. At that Conference it was decided to convene a round table conference of 17 members from all the British parties to consider constitutional questions arising from proposals for closer association' by Malta and further to consult all the Maltese parties on these questions. At the same time Sir Anthony Eden announced in the Commons his welcome to the 'initiative' taken by the Maltese and his 'sympathetic response to the suggestion that the two peoples draw more closely together.' In December the report of the second (round table) conference was published. With two dissentients, it recommended that Malta should be represented at Westminster by three members of Parliament. It described Malta as 'a tower of strength to British causes' and went on to give some indication of the strategic factors which influenced their views:

> "Recent years have seen the decision to withdraw British forces from the Suez Canal zone; the growth of tension and unrest in the Middle East and North Africa; and the establishment in Malta of the Headquarters of the Nato C-in-C, Mediterranean. All these factors have combined to emphasize the continued importance of Malta as a pivotal point in the Mediterranean."

The local consequences of this position were noted. The Conference was 'impressed by the extent to which defence requirements in Malta .....impinged on the domestic concerns of the Maltese people' and in particular by the exercise of reserve powers by the Governor. Thus:

> "Nearly all the friction has arisen from disputes on the interpretation of the reserved matters.... The ever-widening sphere of defence has involved a practical restriction of Maltese self-government."

Having regard to these considerations, the Conference recommended that three Maltese, elected on the same basis as in the UK, should sit at Westminster and that the British Home Secretary should henceforth be responsible for Maltese affairs. The locally-elected Parliament should continue with clearly defined powers—powers which exclude external affairs, defence and ultimately taxation.

Swift Referendum

This report was the occasion for a quickly-conducted referendum—a referendum which not only was boycotted by the opposition Nationalists and the Roman Catholic Church, but was the subject of an unsuccessful litigation in the Maltese courts. The results of the referendum (held on February 11 and 12) are illuminating:

In favour of integration	67,607
Against integration	20,177
Invalid	2,559
Abstained	62,000

The opposition of the Church to such a quick referendum arose from the alleged absence of adequate safeguards in the integration proposals for the privileges and rights of the Roman Catholic Church. Although the Conference report recommended that matters of education, social welfare and marriage remain within the jurisdiction of the local parliament, the Roman Catholic Archbishop claimed, with full concurrence of the Vatican, that more explicit guarantees were necessary if the Church was to remain silent on the political issues. In a radio broadcast, the Archbishop declared that Mr Mintoff's failure to postpone the referendum constituted a 'declaration of war on the Church' and of 'vulgar insinuations against the Church and the clergy.'

Danger of Conflict

This, thus, represents the background to the British Government's announcement that a Bill accepting the conference proposals will be introduced in the Commons. The danger that may result from conflict with the established Church (as in Cyprus) has, however, forced the Prime Minister to state that British legislation on this matter will be brought into operation only if and when the Maltese people have shown their desire for integration in a general election after dissolution of the Maltese Parliament. In other words, the British Government are granting validity to the view that the results of the last referendum were indecisive — this concession, however, is being made, it is believed, to regain the confidence of the Church. Without the support of the Roman Catholics integration will be ineffective or may lead to what is happening in Cyprus. And with the accepted strategic value of Malta, the British now dare not allow themselves to fall foul of the Roman Catholic Archbishop or his superiors at the Vatican.

Russian Aid Through Trade

(From Our Delhi Correspondent)

IF any proof were needed to show how wrong was Western scepticism about the genuineness of the Soviet offer of trade and technical aid to underdeveloped countries—India in particular — Mr. Mikoyan's discussions with Shri Nehru and some Union Ministers and the negotiations for a shipping service between Russia and this country should suffice. Naturally, the details of the talks are not known. But the subject of the discussions was implementation of the December agreements, the visiting Soviet Vice-Premier stated to the journalists in New Delhi. This may mean that the purpose is to strengthen economic, commercial and technical collaboration. Anyway the selection of the Ministries with the heads of which Mr Mikoyan is conferring confirms such an interpretation. What is, however, still more important is the assurance the Soviet foreign trade expert is reported to have given about the method of paying off the rupee credits being extended to India.

Russia will thus have considerably to increase her purchases in this country if this commitment has to be met. The 1 million tons of steel India is to purchase from Russia during the current and the two following years will cost about Rs 60 to Rs 70 crores. The Bhilai plant will need Rs. 55 crore worth of Russian equipment and technical aid. Besides, India may receive equipment and technical aid for the development of minerals and oil in this country. Of these payments to be made in the rupee currency, only a small proportion is convertible into sterling. Now if India can pay off in goods, she will be able to bridge the gap in the balance of payments and, what is still more important, this expansion in foreign trade will decrease her dependence on the Western markets and the terms of trade will turn in her favour. It is these aspects of far-reaching significance and not the size of the Russian aid programme that are worrying the West.

Compared to what the USA has spent for India this aid may be small. But the difference in the nature of the aid is of great significance. Trade is always more honourable than the dole, even if the latter is of a big size. Even economically trade is very often better than grants, not to speak of loans. The assurance of an expanded market will enable the country to work on its development programme with less fear of supply out-stripping demand. Nothing can be a better incentive for increased production than the absence of a threat of falling prices. Technical advice, facilities for training as also capital goods were all this time a monopoly of the West which was extracting far too exacting a price. Now with Russia as a competitor in the field, the West will have to be reasonable in its dealings with underdeveloped countries.

That the question of expanding the trade between this country and Russia has been taken seriously is confirmed also by the decision to open a shipping service between the two countries. The proposals contemplate the regular operation between Indian ports and the Black Sea ports of Soviet Russia of a fleet of ten or twelve vessels. There is to be parity in tonnage between the two countries.

There is another proposal for the establishment of a shipping service between India and Yugoslavia as also for utilising spare capacity in Yugoslav shipping yards to meet the needs of India for additional shipping during the Second Plan period. Whether it is additional to the Plan target figure or additional to the ships available on the eve of the launching of the Plan—it is not clear. One thing is, however, certain. Delay in the attainment of the target is less likely this time although one cannot be very sure. Negotiations are reported to be making heavy weather. Bureaucratic red-tape and the interest of the shipping companies are slowing down the pace of negotiations. The First Plan target in shipping was not reached in time. The expected tonnage of Indian shipping at the end of March is of the order of 4,80,000 tons. A further 1,20,000 tons to complete the target of 6 lakh tons in the First Plan are now in different stages of construction in various yards, both in India and abroad. Construction is now scheduled to be completed by the middle of 1957. The economics of coexistence will justify itself in shipping if they force the pace of building this second line of defence.

Official Paper's

An Expanding Economy

Economic Report of the President transmitted to the Congress. United States Government Printing Office, Washington. 1956. Pages 248, Price 70 cents.

Reviewed by **T V Jayaraman**

THE American economy has in recent years excelled even its own records of prosperity. The recession that set in with the close of the Korean hostilities in mid-1953 proved to be no more than a mere economic contraction, one of the very briefest and mildest in the entire history of business fluctuations. So if this was an achievement of economic policy, any administration could justly be proud of it.

The President's economic report is in fact a closely detailed analysis of the working of the gigantic American economic machine. It provides an indication of the need for almost technical perfection both in the formulation and the application of methods of economic control. There could be no breakdown if correct policies were correctly applied. It would appear from the report that the market economy has in fact vindicated itself precisely when the socialist method of production is increasingly beginning to be taken as not merely inevitable in the long run, but also more efficient.

Growth with Stability

What the U S Administration is expected to do to keep the economy either from toppling over or grinding to a halt is sought to be brought out fairly convincingly by describing developments in the U S economy over the period of the one-year recession and explaining the measures taken by the Administration from time to time. Currently, prosperity, the prosperity of a record 400-billion dollar economy, is itself a challenge. The problems it poses are great. The Administration has to tend prosperity with as much care as it has to nurse back to vitality a sagging economy. The problem of maintaining prosperity is stated simply enough: The economy of free and competitive enterprise must continue to grow. But this objective is not to be achieved at the price of inflation, which not only creates inequities, but is likely, sooner or later, to be followed by depression. On the other hand great care must be exercised to ensure that a policy of avoiding inflation does not interfere with attaining a satisfactory rate of economic growth.

This is almost a text-book description of the task of a modern government which is charged with the maintenance of stability in a huge and growing economy. Mistakes in policy can be fatal. The contention of the President's report is that the Administration has been very successful while not attempting to maintain the good times by expanding already huge Governmental outlays or by permitting the value of money to depreciate.

The Role of the Consumer

Between the second quarter of 1954 and the final quarter of 1955, the annual rate of Federal spending on goods and services declined by 15 billion dollars, while spending by the rest of the economic community increased by 43 billion. "On an increasing scale, Americans have taken the initiative to make jobs for one another, instead of waiting for the Federal Government to do it for them." It is nowhere overlooked, however, that some people have not enjoyed a full measure of prosperity; and in the President's future programme are prominently included policies designed for their betterment, mainly by helping them to raise their productivity; for the disease here is the same as could be expected in the process of technological revolution, namely, that some have stayed behind and they have to be helped to catch up.

For purposes of control the indicators in the aggregate that need to be watched are chiefly gross national product, employment outside the Armed Forces, and the amount of income disbursed to people by private industry and Government. It was about mid-1954 that the symptoms indicated a resumption of advance. The decline of investments in business inventories stopped in October 1954. The process of rebuilding of stocks gradually got under way thereafter. The output of consumer good industries, which generally increased during 1954, rose more rapidly in the first half of 1955. Outlays on industrial plant, machinery and equipment, which kept on declining until the early months of 1955, joined the expansion in the spring. Total business expenditures on plant and equipment increased sharply after the first quarter of 1955, rising 20 per cent by the end of the year. The major impetus of expansion thus shifted increasingly from the automobile and home-building industries to business construction and the machinery and equipment trades.

Incipient Inflation

The tendency towards incipient inflation began to be seen in mid-1955. By that time many factors served to increase unit labour costs. The average of industrial prices in wholesale markets, which had increased only by about one per cent between August 1953 and June 1955, rose by 3½ per cent in the next six months. Profits continued to rise, but the rise in the aggregate profits tapered off after the first quarter of 1955.

A significant indication here was that while the annual rate of disbursement to individuals from production increased by 6.8 million dollars between the second quarter of 1954 and the first quarter of 1955, the disposable income, that is income after taxes, actually increased a little more. This was because the restraints on the growth of disposable income, which are ordinarily exercised during an economic expansion through a rise in income tax payments and a decline of unemployment compensation, were more than offset by the effects of the tax and social security legislation of 1954. After the first quarter of 1955, the normal fiscal restraints on the growth of disposable income became operative again; but in the meanwhile, personal income from production increased rapidly, and disposable income was able to grow at a much higher rate than before. Consumer spending naturally increased, but as confidence feeds on itself, credit had become a little too plenty, and credit purchases of expensive items, notably of 1955 automobile models, increased with special rapidity.

In a significant assessment of the situation, the report points out that by the late spring of 1955 the expanding demand for the products of industry, swollen by heavy borrowings, was already pressing against the nation's industrial capacity. Shortages of steel, nickel, copper, paperboard, cement, plumbing fixtures, some

types of lumber and other materials developed. Unemployment was low, overtime extensive, and many types of skilled labour scarce. Wages and prices were beginning to stir. Accommodation of the pressing demands of borrowers by any substantial increase in the money supply would, in these circumstances, have served to raise prices rather than increase production.

The Credit Situation

The growing demand for credit began to push up interest rates towards the end of 1954. Until the end of the year, there was little increase in money supply. Conditions in the latter half of 1954 did not call for a policy of restraint, but a mild change in the degree of credit ease, which had prevailed so far seemed desirable in the light of the unfolding economic situation. Accordingly the Federal Reserve System restricted its purchases of Government securities in December 1954. Another action taken by the Administration was to ask Congress to postpone the tax reductions already scheduled to take effect from April 1955. The Congress accepted the recommendation. The move from active ease to moderate restraint in credit policy was executed in several stages. By November the discount rate had been raised to 2½ per cent. Demand for credit remained high. It was only at this time that the commercial banks themselves began to screen their loans more carefully. This appeared to have a salutary effect on the whole credit situation.

Among the credit policies of the Federal Government, the most important relates to the field of consumer credit. A particular difficulty in this connection was that the authority of the Board of Governors of the Federal Reserve System to control consumer credit had ceased in 1953. Restraint could only be applied by persuasion. The need for the Federal Reserve to have powers of control over consumer credit terms is emphasised in the President's report. Another important type of specific credit relates to mortgages, where the authority of the Federal Government is already broad. Some extension of these powers is also recommended.

The weakest part of the report, as could be expected, relates to the action on the farm front. The Federal Government has assumed heavy financial burdens on behalf of agriculture. Yet farm incomes have declined; but it is contended, rightly, that these consequences have flowed from price supports that are out of line with market conditions and from production restraints that do not work well. The recommendations call for a realisation that annual surpluses of important products must be cut at their source, and soil conservation must be extended on land now contributing to such surpluses. The recommendations in this field were contained in a special message on agriculture sent to Congress on January 9 this year, the king-pin of which is the Soil Bank Programme.

The President's report provides also a confirmation of Eisenhower's well-known recipes for expansion of International trade and investment. The report must be considered as one of the most important documents available on the American economy and on the U S Government's policy. The present report contains all the features for which this document has become justly famous.

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Deficit Financing in the Second Plan and Prices

S N Sen

THE Draft Second Plan has proposed to raise Rs 1,200 crores through the creation of new money for financing the aggregate investment expenditure. What is going to be the impact of the injection of this amount of new money on prices in the next five years? The relation between money and prices is extremely loose and is one of the most difficult things to predict. So are the relationships between many other variables in the economic system.

But planners have to proceed somehow, and make the best of many such bad situations by taking shelter behind a number of heroic assumptions. One would have to do the same thing if he is to estimate the effects on prices of the additions to the money supply proposed in the second Plan. Two recent estimates—one by Prof Milton Friedman and the other by Dr A K Das Gupta—have revived interest in this matter.

In a privately-circulated paper, Prof Friedman has calculated that since the aggregate output is expected to rise by 5 per cent per year, the money supply, corrected for the decline in the income velocity, should also increase by this ratio. As the income velocity declined in the United States of America by an average of one per cent per year during the period, 1860 to date, when the average annual increase in real income was of the order of 3 to 4 per cent, he has sought to apply this trend to the Indian case. Thus the money supply should increase by 6 per cent per year, and on the basis of an average money supply of Rs 2,000 crores in 1955-56, an increase in the money supply by Rs 120 crores or Rs 600 crores in five years would be needed to keep prices at their present level. This is what he regards as the safe limit of increase in money supply. He then estimates the share of Government-created money in the total money supply to be about 70.5 per cent, and so calculates that the safe amount of new Government-created money in the next five years would be about Rs 475 crores. The rest is excess money, and would drive up prices by about 28 per cent, if deficit-financing (the Indian model) is limited to Rs 1,000 crores as originally proposed, and by about 35 per cent if the limit is raised to Rs 1,200 crores.

Slightly Different Basis

Dr Das Gupta has proceeded on a slightly different basis in his article in the **Economic Weekly** (January 26, 1956). After stating that the proposed using up of the sterling balances would absorb Rs 200 crores, he calculated the net addition to the money supply to be about Rs 1,000 crores. Assuming no change in the income velocity (he actually envisaged the possibility of some rise in income velocity if the attempt to establish a socialist pattern of society caused the share of wages in the national income to go up at the cost of profits), and in the relative proportions of currency and deposit money in the money supply, he made an attempt to estimate the impact of this addition to the money supply on the consumer goods market, where, with a possible 5 per cent infiltration of money economy into the non-monetary sector, the output is expected to rise by 25 per cent. The result would be an increase in prices of the order of 35 to 45 per cent in the next five years.

The coincidence of these two estimates is certainly remarkable, especially when one remembers the differences in their assumptions. In the Friedman model the increase in the money supply is set against the increase in the aggregate output, whereas in the Das Gupta model, it is assumed to impinge only on the consumer goods market. The former assumes a steady rate of decline in the income velocity, whereas the second estimate takes the latter as constant. The increase in the monetary sector at the cost of the non-monetary one, which has been an important factor in causing a decline in income velocity, is however, taken account of by Dr Das Gupta through his assumption that this would lead to an increase in the output of consumers' goods by about 5 per cent. But the decline in income velocity with rising national incomes on account of the increased desire of the people to indulge in the luxury or larger cash balances has been one of the most well-known facts acknowledged by monetary theorists.

All Factors Not Considered

Both these estimates are no doubt highly useful. But they have not taken note of all the factors at work in the money-prices nexus. My own estimate, published in a previous paper was to the effect that the rise in prices would be of a smaller order than these calculations warrant. In the first place, when Government spends Rs 1,200 crores by borrowing this amount from the Reserve Bank, the money supply will not necessarily rise by this amount Experience tells us that the net addition to the money supply may be quite different from the original amount borrowed from the Reserve Bank after we take account of all the factors bearing on the aggregate money supply. Secondly, the decline in the income velocity will be of a larger order than is postulated in the Friedman model on account of the operation of a number of factors at work in the very pattern of our economic development, factors which were not operative in the case of the American economy.

The Draft Second Plan has assumed that out of Rs 4,800 crores to be spent in the public sector, it would be necessary to have recourse to deficit-financing to the extent of Rs 1,200 crores If deficit-financing means Government borrowing from the central bank, or the running down of cash balances of Government, this statement may be accepted as valid. But if deficit-financing is understood in the sense of additions to the money supply, it is quite definite that it would not amount to Rs 1,200 crores. The calculations given in the financial budget of the Draft Plan do not take account of the fact that the aggregate investment of Rs 4,800 crores in the public sector has an import content of Rs 1,100 crores, which is expected to be financed mainly through the foreign aid of Rs 800 crores. The additional Rs 300 crores would have to be sought by Government from the Reserve Bank.

Whatever the source from which the Reserve Bank supplies this amount of foreign exchange, the process need not, and would not, involve the creation of new money, though it would imply that government would be borrowing this amount from the Reserve Bank. If the import content of public investment is Rs 1,100 crores, the net domestic expenditure will amount only to Rs

3,700 crores. With additional revenue from taxes and other sources estimated at Rs 1,200 crores, borrowings at Rs 1,200 crores, and a gap left at Rs 400 crores, the actual amount of deficit-financing involving the creation of new money will be Rs 900 crores instead of Rs 1,200 crores. While Government borrowing from the Reserve Bank would no doubt amount to Rs 1,200 crores, money supply would be increased in the first instance by only Rs 900 crores, the additional Rs 300 crores being spent in foreign countries on the purchase of the necessary capital goods. The revised financial budget would be of the type shown in the Table below:

(Rupees crores)	
Investment at home	
1. Revenue from taxes at existing rates	350
2. Additional Taxes	450
3. Railways & Miscellaneous sources	400
4. Loans & Small savings	1,200
Total budgetary resources	2,400
Deficit-financing	900
Balance to be made good from internal or external sources	400
	3,700
Imports	
1. Foreign aid	800
2. Borrowings from the Reserve Bank	300
	1,100
Total Investment	4,800

If, in addition, there is any deficit in the balance of payments, the total money supply will be reduced by the amount of such deficit.

Confusion in Sense

Thus there is confusion between the two senses in which the term deficit-financing has been used in the Plan. Government borrowing from the Reserve Bank and additions to the money supply need not always amount to the same thing. If, to meet import requirements, Government borrowed a particular sum from the market or raised it through taxes, and handed over the proceeds to the Reserve Bank to buy foreign exchange, money supply would have fallen by this amount against the cancellation of an equivalent amount of sterling balances. Government borrowing from the Reserve Bank will not, however, be followed by any such contraction in the money supply. It will leave the aggregate money supply as it was before these operations took place. But there would be no net addition to the existing money supply because of this method of financing imports on Government account. The additions to the existing money supply will thus be limited in the first instance to only Rs 900 crores.

The confusion arose from the idea that all Government borrowing from the central bank involved an increase in the money supply. It does no doubt when properly interpreted. But it does not always involve an addition to the existing money supply. This mistake committed by the Planning Commission has resulted in the propagation of the wrong idea that the Draft Second Plan involved deficit-financing with the creation of new money to the extent of Rs 1,200 crores. The psychological impact on the market, and in the inflation camp would have been more favourable if it was stated that the proposed deficit-financing would involve an addition to the existing money supply to the extent of only Rs 900 crores.

When Government investment expenditure results in an injection of Rs 900 crores of new money into circulation, what will be the likely increase in the net or active money supply? The first step is to estimate the amount of deposit money with the public that may be created on the basis of the proposed increase in currency. To do that we have to estimate the ratio between these two constituents of the money supply likely to prevail in 1960-61.

Deposit Money with the Public and Currency Supply

Average in December	Money supply (1)	Deposit money (2)	(2) as percentage of (1)
	(Rupees Crores)		
1935	285.2	122.04	42.0
1939	383.7	158.5	41.0
1942	913.7	359.9	39.3
1943	1477.4	540.4	37.2
1946	2138.9	804.4	37.6
1948	1976.3	706.1	35.7
1950	1832.7	630.1	34.3
1951	1773.5	603.1	33.9
1952	1682.5	560.5	33.3
1953	1714.9	561.9	32.9
1954	1848.9	624.3	33.7
1955	2058.7	670.9	32.5

As can be seen from the Table, the average ratio of the deposit money to the money supply was 42.3 per cent in the five years 1935-39, 39.9 per cent in 1940-45, 35.9 per cent in 1946-50, and 33.2 per cent in 1951-55. Thus contrary to the general tendency in advanced countries, the trend in this country has been definitely towards a decrease in the share of deposit money in the aggregate money supply. Actually in 1955 the total money supply increased by Rs 209.8 crores, of which the share of currency was Rs 163.2 crores, i.e., 77.7 per cent, the share of deposit money with the public being 22.3 per cent. Thus the ratio has fallen by a little above 10 per cent in the last 20 years, and in the last five years also, the ratio has been falling at the average rate of 0.35 per cent per year. If this trend continues, the ratio of deposit money in the total money supply would be of the order of 30 per cent in 1960-61.* Thus if the volume of currency in 1960-61 increased by Rs 900 crores, i.e., by the total amount of new money, the demand deposits with the public would probably increase by about Rs 390 crores.

Falling Trend

A portion of the gross money supply would be absorbed in the cash reserves of the banking system on account of the rise in the total volume of deposits. A rough estimate of the amount so involved may be made on the basis of the ratio between the demand deposits and total deposits in the last 20 years. During the five pre-war years, 1935-39, demand deposits of the scheduled banks formed about 56 per cent of the total deposits. From 1939 this ratio began to climb up until it reached the maximum at 76.6 in 1943. Since then there has been a slow, falling trend until the ratio stood at 66 in 1950. In the next five years the ratio has continually declined, and in 1955 it formed 59.3 per cent. In the last five years the decline proceeded at the rate of 1.3 per cent on average per year. In the 12 years from 1943 when the ratio reached the maximum, the average rate of decline has been 1.4 per cent per year.

There is no reason why this tendency should not continue in the next five years, provided the rates of interest continue at their present levels (the decline in the ratio took place also during years of cheap money). It is, therefore, quite possible that by the end of 1960-61 the ratio of demand deposits to total deposits would decline to 57-58. An increase in demand deposits by Rs 390 crores would then mean a rise in total deposits by about 670 crores. In the last three years the average ratio betwen the cash reserves and the total liabilities of the banking system lay between 9 to 9.5 per cent. In other words, the cash reserves of the banking system would probably rise by about Rs 60 crores by the end of 1960-61. The net money supply will then rise by about Rs 1,230 crores in 1960-61. If the average money supply in 1955-56 is estimated at Rs 2,000 crores, it will rise to Rs 3,230 crores by the end of the next five years.

With an average money supply of Rs 2,000 crores in 1955-56, the proposed expansion in the national output by 5 per cent per year would need a corresponding increase in the money supply. This means that the money supply should increase by Rs 500 crores during the next five years. Accepting for the present Prof Friedman's estimate of one per cent decline in the income velocity, it would be necessary to add another Rs 100 crores to the money supply to neutralise the effect of this factor on prices. Compounded annually, the aggregate money supply would have to be increased to Rs 2,670 crores to support prices at their 1955-56 level. Other things remaining constant, a rise in the money supply to Rs 3,230 crores would, therefore, raise prices by about 21 per cent in five years. In other words, the general index of wholesale prices would then rise to 444 in 1960-61 from its present level at 368 in December, 1955, an increase of about 15 points per year.

A Distinction

It is necessary at this stage to make a distinction between planned deficit-financing and ex post deficit-financing, the difference depending upon the rates at which planned borrowings from the public differ from the net absorption of securities by the latter. There are also other items in the financial budget which may have some bearing on the volume of net deficit-financing. If, for example, the different Governments fail to raise Rs 450 crores through additional taxation, the rate of deficit-financing may have to be increased. There is also the gap in resources to the extent of Rs 400 crores which may have to be bridged possibly through more deficit-financing. Lastly, there is the ex ante foreign aid of Rs 800 crores, which may not be available to the full, making it necessary either to cut down the aggregate investment figures or to change the pattern of development so as to reduce the need for imports. In what follows it is proposed to compound all these factors in ceteris paribus and examine the impact of the difference between ex ante public borrowing and ex post absorption of securities on the volume of deficit-financing.

That the ex ante public borrowings may differ from the ex post absorption of securities by the public may be illustrated from an analysis of the figures relating to the year 1954-55. The revised estimates for that year have placed the amount of deficit-financing at Rs 222 crores. This has probably been financed partly by drawing down cash balances and partly by the creation of ad hoc Treasury Bills. The deposits and cash balances of the Central Government declined, during this year, by about Rs 7.7 crores, and so the rest (i.e. about Rs 214 crores) were probably financed by the issue of ad hoc Treasury Bills to the Reserve Bank. The gross amount of Treasury Bills sold in favour of the Issue Department of the Reserve Bank increased by about Rs 214 crores above the amount sold in 1953-54. The amount of Treasury Bills outstanding at the end of the year has, however, increased by only Rs 137 crores, out of which ad hoes held by the Reserve Bank of India were Rs 103 crores.

Market Loans

Over the year as a whole, the Reserve Bank's holdings of Government securities rose by only Rs 65.8 crores. Thus the Reserve Bank must have sold Government securities (including Treasury Bills*) worth about Rs 37 crores to the public. If the Reserve Bank succeeds in unloading a part of its security holdings among the public, the money supply in the hands of the public would decline to that extent. The Draft Second Plan has assumed that the proceeds of the market loans during the next five years would amount to Rs 700 crores. It is not clear whether the Commision has referred only to the proceeds of new loans raised from the market, net of any repayment during the period, or whether they have arrived at this figure after estimating the total absorption of securities by the public. If it is the former, the additions to the money supply would be reduced by the amount by which the absorption of securities by the public exceeds the estimates of new loans from the market. But it would be difficult to give any estimate of the amount of new money that may be neutralised through the operation of this factor, unless we know something definite about the exact composition of the estimates for public borrowing.

The analysis has been made on the assumption of a decline in the income velocity by one per cent per year. There are, however, reasons to believe that the actual decline in income velocity may be more than that assumed in the Friedman model. Prof Friedman arrived at the figure of one per cent decline in income velocity on the basis of the American experience from 1860 to date. Even in the USA, the decline has been, according to Prof Warburton, at rates varying between one to one and a half per cent. In India, there are special factors at work which may result in a higher rate of decline in income velocity.

Increase in Liquidity Needs

In the first place, though the percentage of population engaged in agriculture in the USA in 1860 was about the same as that in India to-day, it is extremely doubtful whether the USA possessed a non-monetary sector as large as that in India at the present moment. As the process of economic development leads to the enlargement of the monetary sector, which is likely to be the case in India, the liquidity needs of the people would increase correspondingly. Secondly, the pattern of development proposed in the Draft Second Plan will lead to a widening of the liquidity needs of the economy. The plan has provided for the large-scale expansion of small-scale industries and for securing some amount of decentralisation of industries. About 39 per cent of the additional income to be generated in the next five years would accrue to persons engaged in agriculture and allied pursuits (31 per cent) and in small enterprises (8 per cent). A decentralised industrial structure needs more money

* Between December 1952 (when the money supply touched the bottom in the last five years) and December 1955, money supply rose by Rs 375.8 crores of which the share of deposit money was 29.6 per cent.

* In 1954, the value of Treasury Bills held by the scheduled banks actually declined from Rs 9.58 crores to Rs 6.69 crores.

for the satisfaction of all the three motives for holding cash balances. As the money economy penetrates into the non-monetary sector, as the industrial structure tends to be decentralised into small units, the process of development would call for a large rate of creation of money if prices are not to decline and the income targets laid down in the plan are to be realised in actual practice. The larger proportion of currency in the money supply in recent years may be regarded as providing evidence of the spread of the money economy into the rural areas. The necessity for taking account of this factor has been recognised by Dr Das Gupta who has assumed that the extension of the monetary sector would result in an increase in the volume of consumers' goods to be exchanged against money by one per cent per year.

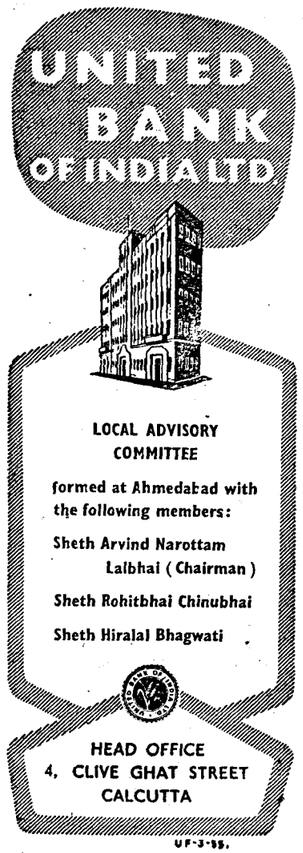
Special Reasons

But the decline in income velocity may be the result not only of the widening of the liquidity needs of the people, but also because of the deepening factor. As is well known, people have been found to be keeping a larger proportion of their incomes in cash balances as their incomes rise in course of time. Apart from this general tendency, there are special reasons for a comparatively faster rate of growth in cash balances in the case of under-developed and poor countries. When the average income is low, the propensity to save is also extremely low. Cash balances represent saving as well as convenience. Whatever the strength of the motives of convenience and prudence, the amount of cash balances held on average would be comparatively low in the poor countries. As income rises, making it possible on the part of income-earners to hoard (in the Robertsonian sense) a portion, however small, of their incomes, these two motives would join hands to induce the people to build up their cash balances at a comparatively rapid rate. Only after the amount of cash balances rises to a certain minimum level, representing on average a larger proportion of the money incomes, it would become possible for income-earners to think of other available opportunities for the investment of the surplus balance. Even then, in view of the lack of the ready alternative opportunities for safe investment, income-earners may be forced to continue keeping large cash balances. This is specially the case in rural areas where banking institutions have not penetrated, and consequently banking habits are not widespread. Thus the general poverty and the underdeveloped nature of these countries impinge on the liquidity preference of the people in two ways: a rise in incomes enables and induces them to keep larger cash balances, and forces them, because of the absence of adequate opportunities for good investment, to go on retaining such balances. Hence a rise in incomes will be followed by a more than proportionate increase in the holdings of cash balances.

In fact, in the last two years, 1954 and 1955, the total money supply has increased by about 13 per cent, and the general index of prices declined by about 5.4 per cent. If we assume that the national output increased by about 5 to 6 per cent in these years, the income velocity must have declined by more than one per cent per year. Between the five years, December 1950 to December 1955, the total money supply has increased by 12.3 per cent and the general price index has declined by 10.6 per cent. If the national output is assumed to have increased during this period by about 11 per cent, as is the expectation under the First Plan, it is quite clear that the income velocity must have declined by more than one per cent per year. Coming to the organised sector, the average velocity of circulation of bank deposits has declined from an average of 15.6 in the four years before the War to 12.7 in the four-year period, 1951 to 1954.

While a decline in income velocity by more than one per cent per year may thus be envisaged as a probability, it would be necessary for the velocity to fall by about 5 per cent per year if prices are to remain stable with money supply varying between Rs 3,100 to Rs 3,200 crores. A decline of this order may not materialise. What will probably happen, as the result of the combined operation of the last two factors, is that prices will rise by about 14-15 per cent in the next five years, i.e., by about 3 per cent or 11 points per year.

These conclusions, as has been noted at the outset, rest on a number of heroic assumptions. One of the most important is the assumption regarding the comparative elasticity of output, at least up to the level of the various targets. If, for example, agricultural production becomes temporarily inelastic on account of seasonal factors, the prices of agricultural crops may go up, bringing about a temporary rise in the general index of prices, as has been the case in the last 10 months. These cycles of good and bad weather conditions are the inevitable concomitants of our agricultural system; and unless we are exceptionally unlucky, the present bad weather would be followed by at least moderately good conditions within a year or two, when the pressure of another good harvest would bring down agricultural prices. There is as yet no evidence that the supply of the essential agricultural commodities has become so inelastic as to give rise to fears of inflation. On the other hand, the present rise in prices shows a welcome trend in securing a better adjustment between the relative prices of agricultural and manufactured goods.



Reserve Bank of India

APPLICATIONS are invited for the following posts in the various departments of the Reserve Bank of India:

(A) **Posts and Scales of Pay:**

1. Research Officers, Department of Research & Statistics. — Rs 375-55-815 EB 55-925-60-1045.

The appointments to the above posts will be made on a temporary basis in the first instance but are likely to be made permanent.

Note: Candidates possessing exceptionally good qualifications and experience may be given a higher starting salary in the prescribed scale.

2. Probationary Assistants. — Rs 250-25-450 EB 25-650.

Note: Promising Probationary Assistants will be eligible for promotion as officers in the scale of Rs 375-55-815 EB 55-925-60-1045.

(B) **Additions to Pay:**

1. **Local pay:** 10% of pay with a minimum of Rs 10|- per mensem rounded up to next higher complete rupee to the staff working at Bombay, Calcutta, Madras, Delhi, Kanpur and Ahmedabad.
2. **House rent allowance:**
   - Research Officers: 15% of pay with a minimum of Rs 60|- and a maximum of Rs 300|- per mensem
   - Probationary Assistants: 10% of pay with a maximum of Rs 50|- per mensem.
3. **Dearness Allowance:**
   - Research Officers: At prescribed rates. The present rate is 16-2|3% of pay with a maximum of Rs 125|- per mensem.
   - Probationary Assistants: Rs. 65|- per mensem for pay (including local pay) upto Rs 300|- per mensem.

(The rate of Dearness Allowance is subject to revision from time to time).

(C) **Age Limit as on 1st May 1956:**

- Research Officers: Candidates should not ordinarily be over 30 years of age. The age limit may be extended upto 35 years in the case of candidates with exceptional qualifications and/or research experience of value to the Bank.
- Probationary Assistants: Candidates should not ordinarily be over 24 years of age.
  Age limit may be extended but not beyond 30 years in the case of candidates possessing special qualifications and experience of value to the Bank and also in the case of
  (i) candidates with approved war service
  (ii) ex-employees of Banking Institutions whose services have had to be terminated for reasons of economy or as consequence of the closure of unremunerative branches or as a result of the Banks going into liquidation,
  (iii) personnel retrenched from Government offices after at least one year's service, applying through the Employment Exchange, and
  (iv) candidates belonging to the Scheduled Castes or Scheduled Tribes

(D) **Qualifications:**

1. Research Officers, Department of Research & Statistics:

First or high second class Master's degree in Economics, or Commerce or Statistics/Mathematics of an Indian or foreign University or a Doctorate degree in Economics or Statistics of an Indian or foreign University and a period of research work in one or more of the subjects, viz, (a) monetary economics, (b) banking theory and practice, (c) international finance, and (d) sampling theory and econometrics etc; a period of practical banking training will be an additional qualification in respect of applicants with specialisation in (a) and (b).

2. Probationary Assistants:

Applicants should have had a brilliant academic record and must possess a first or very high second class Master's degree or a first class Bachelor's degree of a recognised Indian or foreign University in Econo-

mics, Commerce, Banking, Accountancy, or Law as a special subject of study.

The Board will insist on a very high standard of suitability in making selections for the above posts and only candidates who possess good Academic Qualifications and adequate experience of the type specified are advised to apply. Candidates who wish to apply for more than one category of posts must submit separate applications accompanied by separate application fees.

The selected candidates for the posts of Research Officers will ordinarily be on probation for a period of 3 years which may be reduced or extended at the Banks' discretion. Candidates selected for the Probationary Assistants' posts will also be on probation for a period of 3 years during which they will be liable to be discharged at one month's notice or pay in lieu thereof. Candidates selected for the Research Officers' posts will ordinarily be stationed in Bombay but those selected for the Probationary Assistant's' posts must be prepared to serve in any office of the Bank in India.

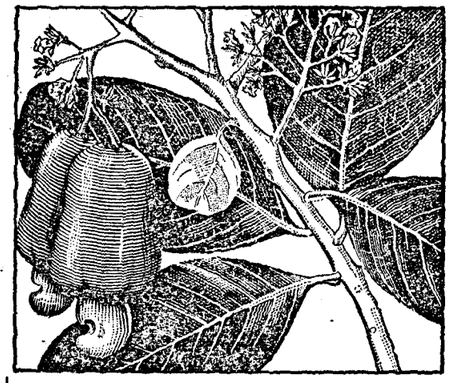
Applications should be in a special form to be obtained from any office of the Reserve Bank. All the applications should be accompanied by copies of two testimonials (originals should not be sent; the Bank does NOT accept responsibility for returning the originals if sent through oversight) and forwarded to the Secretary, Central Recruitment Board, Reserve Bank of India, Central Office, Post Box No. 406, Bombay No. 1 so as to reach him on or before 1st May 1956. Candidates already in service must submit their applications through their employers. Candidates belonging to Scheduled Castes or Scheduled Tribes should mention this fact prominently on their applications.

Applicants for the above posts must remit application fees of Rs 7-8-0 per application by Postal Order, Chegue or Bank Draft on a **Scheduled Bank payable at Bombay** along with the application. The application fee is in no case refundable. Bonafide refugee candidates who are not in employment applying through any of the Government Employment Exchanges are exempted from payment of application fees while in the case of Scheduled Caste/Scheduled Tribes candidates the fee will be reduced to ¼th.

Appointments will be subject to candidates being found medically fit for service in the Bank. If any candidate desires to have his application acknowledged he should enclose a stamped self-addressed envelope or a post-card. Apart from those who may be specially called, interviews will not be granted to candidates nor will the Bank enter into any correspondence with them.

Canvassing in any form will be regarded a disqualification.

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Book Review

Bombay Middle Class

Report on the Survey into the Economic Conditions of Middle Class Families in Bombay City, published by K C Cheriyan, Joint Secretary, Indian Statistical Institute, Bombay Branch, c/o Reserve Bank of India, Mint Road, Bombay; pages 63 price Re 1.

Reviewed by **K C Chanda**

SOCIO-ECONOMIC surveys, especially those which are meant to study the economic conditions of middle class people of our country, are always welcome. But as the definition of a middle class family is rather difficult and varies frequently from place to place and even from time to time, the planning of such a survey is difficult too. Even if we accept almost all the families for which the chief earning member is a salaried employee as distinct from a wage earner, the question arises as to what should be the maximum income above which a middle class family ceases to be such. The economist can, of course, have his own definition and accordingly modify his population frame, but unless some standard definition is adopted, at least for the same locality or localities with allied economic conditions prevailing, the results of the survey cannot be reduced to a comparable form and hence, to that extent, fail to be of any use whatsoever.

Survey and Results

Again, since the ultimate aim of all Socio-economic surveys is to bring out the underlying continuity and trend of relevant economic activities, in short, to discover and co-ordinate economic laws, it is desirable that the results of the survey be published immediately after the field work and laboratory analyses are over, in order that these may serve as starting points for more improved investigations planned along identical lines. It is, however, an established fact that almost all Indian Surveys suffer from a conspicuous time lag between the completion of the survey and the publication of the final results and if we turn to the present report we find no exception to this rule. As the text of the report indicates, the Survey was conducted over the 12 months commencing in July 1949, the foreword written in 1952 and the general results published only in 1955. There must have been some good reasons for such a long gap in time, as is apparent from the preface itself, but it is to be borne in mind that as there have been large changes since 1949 in the country's economic system, the findings of the report may not now be of so much interest.

Otherwise, however, the report is quite good and we can certainly regard it as having definitely contributed to our general understanding of family conditions of middle class people in Bombay.

It is apparent from the report that the present survey is based on information gathered in the course of a small exploratory survey, conducted in the early post-war years and whose findings were published in 1949. The smaller survey was entitled "Report on the Diet and Health Survey of Middle Class families in Bombay City". Both the Surveys were undertaken by the Bombay Branch of the Indian Statistical Institute. The present survey is larger in its scope and covers 1,024 middle class households distributed over the entire city area of Bombay, a middle class household being defined as one occupying residential tenements having rents between Rs 16 and Rs 75 and for which the chief earning member or the head is a salaried employee.

Design of the Survey

A stratified sampling technique was adopted for the selection of households and although nothing has been mentioned in the text, the selection was presumably without replacement. There were four primary strata and each primary stratum was further subdivided into five sub-strata. The primary strata were formed on the basis of proportion of residential tenements belonging to the lowest rent group viz Rs 16 to Rs 20. The first excluded city wards and sections into which the wards were divided, containing 60 per cent or more tenements belonging to this rent group. The other three were composed of sections containing tenements of which respectively 40 per cent to 60 per cent, 20 per cent to 40 per cent, and 20 per cent and less belong to the lowest rent group. On the other hand those buildings which had the largest number of tenements in the rent groups (1) Rs 16 to Rs 20 (2) Rs 20 to Rs 30, (3) Rs 30 to Rs 50 and (4) Rs 50 to Rs 75 were classified under the sub-strata 1,2,3 and 4, respectively. Those which had fairly uniform distribution of residential tenements over all the rent groups were classified under the fifth sub-stratum. It is claimed that such stratification ensured greater homogeneity of middle class families inside each sub-stratum and at the same time rendered administrative work easier.

The sample of residential tenements to be drawn from each sub stratum was fixed proportional to the total number of residential tenements in the sub-stratum and divided into four sub-samples which were distributed among four, at first, and later among eight investigators engaged for this purpose. Altogether 4,316 tenements were selected for investigation, but partly because the head of the family was not a salaried employee or was a retired person and partly because of non-response, several households had to be rejected and the total number of completed schedules which were finally analysed was 1,024.

The schedule consisted of several main parts and they were (1) general information (2) housing (3) expenditure incurred during the month on different items (4) expenditure incurred during the past 12 months on a few selected items (5) details of income and savings (6) details of liabilities and (7) questions of general interest.

Broad Classifications

For detailed examination of data collected the households sampled were classified

(1) according to per capita expenditure level
(2) according to type of employment of the head of the household, and
(3) according to community.

The six per capita expenditure groups were defined as follows:

(1) Rs. 50 or less
(2) Rs. 50 to Rs. 75
(3) Rs. 75 to Rs. 99

(4) Rs. 100 to Rs. 149
(5) Rs. 150 to Rs. 199
(6) Rs. 200 and above

There were four categories of employments: (i) Government (ii) Railway (iii) Commercial firms and (iv) other institutions.

The five communities were:
(i) Hindus
(ii) Muslims
(iii) Parsi
(iv) Christian, and
(v) others

Chapter one of the report describes, in detail, the various aspects of the design and chapter two discusses the economic significance of the three different classifications defined above and contains a brief summary of the information embodied in tables 1.1 to 2.2 in the appendix at the end of the report. The tables contain details about the formation of the primary and substrata in respect of the city wards, sections and the number of buildings and residential tenements, both in the population and in the sample. Tables 2.1 and 2.2 show distribution in sample of residents per tenement classified according to expenditure level and type of employment.

Chapter three contains some observations on the composition of sampled households, and refers to tables 3.1 to 3.6 in the appendix. Details about the average number of adult males, adult females and children per household corresponding to the different expenditure levels and classified according to community and type of employment have been discussed in these tables. Further information such as the marital status of the head of the household, the number of children he has if he is married and the average number of dependents are given in tables 3.4 to 3.6. A separate section in this chapter has been devoted to a discussion of employment incidence, of course in sample, among adult males and adult females of middle class households classified according to community and per capita expenditure level. The results confirm the popular belief that the number of children per household is smallest among the most affluent middle class families and the largest among the poorest section and that the Parsis and Christians have smaller number of children, partly because the percentage of unmarried is larger among them and partly because the percentage of employed for both males and females is higher.

Chapter four discusses the types of residences in which middle class families live. Tables 4.1 to 4.6 in the appendix to which this chapter refers contain information about the type of residential buildings, the average number of living rooms per tenement, average living area per household and per resident, classified employment and expenditure-wise as also the information about kitchens or store-rooms, municipal water supply, arrangements for washing clothes and cleansing utensils, conditions of the floors, walls, ceilings etc and availability of such amenities as open space in the compound, garden, reading room etc. The author of the report concludes that 60 per cent of the middle class families live in chawls sharing common w c and bath rooms and only 28 per cent can afford the luxury of self contained flats. The average living area per person for the richest class, although almost twice as much as that for the poorest, is not quite adequate, which goes to prove the acute shortage of accommodation in the city of Bombay.

Consumption Patterns

Chapters five and six constitute the most important sections of the report. Chapter five summarises the information as given in the tables 5.1 to 5.8 in the appendix. The tables show the monthly expenditure in rupees on different food items of middle class households classified according to community and per capita expenditure level and give figures both for consumption per person and per consumption unit, which has been defined suitably in the introduction of the report. Further information is available in the form of average monthly expenditure per household on all the different items, food and non-food, over which the households distribute their total disbursements. The results indicate that the expenditure on food items increases with increasing expenditure level, but that the proportion of total expenditure on staple items like cereals, sugar and gur is lowest for the richest class, because of substantial transfer of expenditure towards milk and milk products, fruits and foods taken outside. The consumption pattern is almost the same for the different communities except that Christians, Parsis and Muslims take more of meat, fish and eggs, a fact which is well known and that expenditure on items like clothing and footwear, services, rent, amusement, medicines and miscellaneous are slightly higher among Parsis and Christians. Educational expenses are highest among the Hindus and expenses for ceremonials and religious activities are least among the Muslims.

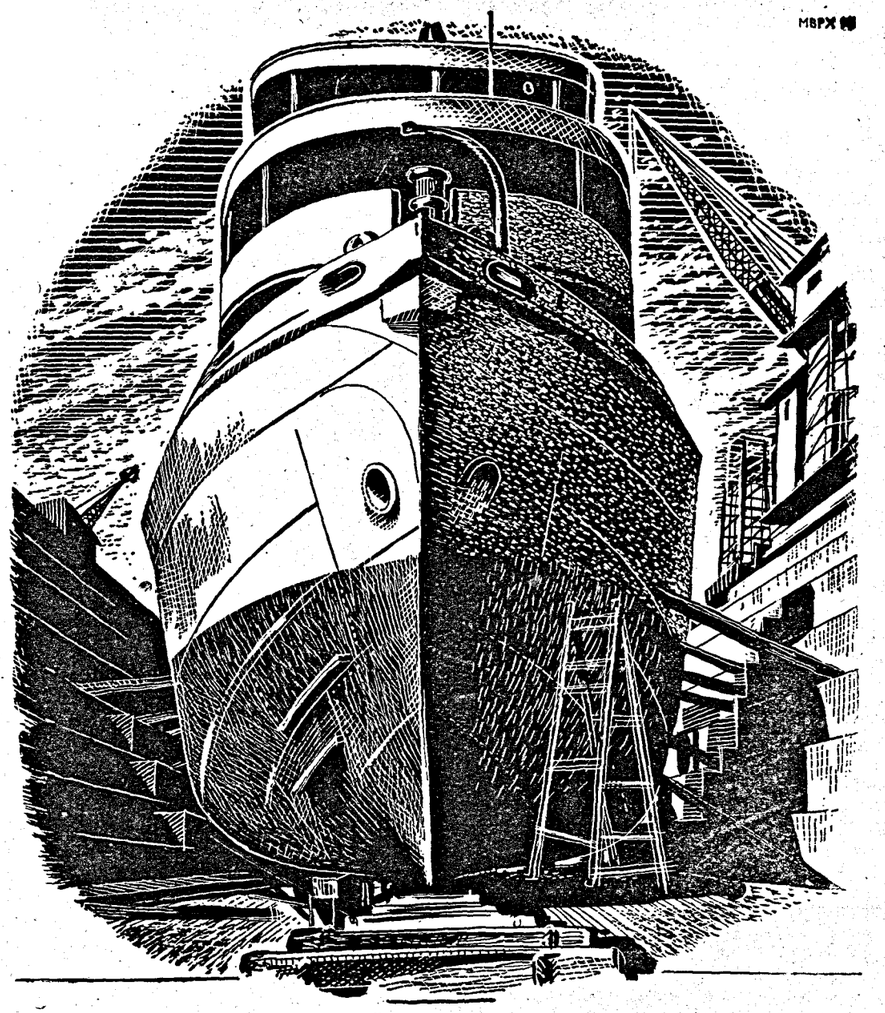
Chapter six is complementary to chapter five and discusses in detail the income and earnings of middle class households. It is found that there is a large concentration (almost 70 per cent) of households in the monthly income group Rs. 100 to Rs. 300, that the main occupation of the head of the household accounts for about 92 per cent of the total income and that the monthly budget of an average middle class household always shows a deficit of about 17 per cent.

Chapter seven contains a summary of the answers to some questions of general interest which form the last page of the schedule and refers to tables 7.1 to 7.9 in the appendix.

Although much care has been taken to prepare the final report, the reviewer is of opinion that there are certain fundamental points which have not been properly attended to.

The greatest drawback of the report is that all the detailed information that is given in the different tables refers invariably to the sample of size 1,024 and no indications have been given as to how the corresponding population figures can be estimated. The estimation problem is no doubt, rather difficult, because the number of middle class households in the different categories are not known and have to be estimated on the basis of the sample drawn. These estimates will then serve as inflating factors for the sample totals or averages for such characteristics as the number of residents per tenement, the living area inside each tenement for a single person, monthly expenditure per household on the different items, food and non-food etc. The problem can be written down mathematically as follows:

Let there be 'k' categories in a given population and let 'Ni' be the total number of units belonging to the 'i'th category. A sample of size 'n' has been selected from the total number $N = \sum_{i=1}^{k} Ni$ of units and the number of units in the sample belonging to the 'i'th category is denoted by ni. Ni's are not known but the total N, is known. The problem is to estimate both Ni and



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the total $\sum_{j=1}^{Ni}$ Xij where Xij is the observation on the jth individual of the 'i'th category, on the basis of ni and $\sum_{j=1}^{Ni}$ Yij, Yij being observations in the sample and equal to a certain ni-set belonging to the Xij's $(j=1,2,\ldots Ni)$ determined entirely by chance.

The solution is not difficult, although a bit complicated and can be found in any ordinary text book on sample surveys. The standard error of the estimates can also be calculated likewise.

Even if we turn to less fundamental points, we can find several important omissions. For example, the educational level of persons belonging to the different middle class households was not recorded in the schedule although it must be admitted that this is a very significant factor influencing a middle class household.

Non-Response

Another important characteristic of the reports is the absence of charts and graphs. It is known that data represented diagrammatically always help to understand the underlying picture and may substitute for explanations in words and figures, thereby saving both time and space devoted for such explanatory statements.

As in other surveys, the problem of non-response was rather acute in present survey too, although a valid procedure could have been adopted by following up a few of the non-responses whereby estimates for the sub-population of potential non-responses could have been formed. Otherwise, if the non-responses themselves have a random character, in the sense that the total number of responses form a random sub-sample of the bigger sample chosen earlier, the analysis would be the same as if we are working on the sub-sample instead of the sample itself, but then, no such problems disturbed the minds of the statisticians in charge of the survey in as much as they preferred to keep the results as they are without bothering about the population.

Small-Scale Industries

Problem of Technological Change

K N Raj

THE controversy regarding the policy to be adopted towards household and small-scale enterprises in the second Plan has now gone on for over a year. In this controversy, there has been a tendency on the part of economists to take the view that the case for fostering such industries through protection depends primarily on humanitarian and political considerations. They seem to argue that on "strict economic considerations" there is no case for such protection, and that where this policy involves preventing or regulating the introduction of improved technology (as in the standard issue of handlooms versus automatic looms), it is positively injurious to economic progress.

This approach needs to be scrutinised a little more closely, particularly because it is a line which satisfies, almost instinctively, the intellectual and emotional needs of most of those who are called upon to deal with the problem. Economic progress has been historically associated with improved technology, and so it seems logical to them that any policy which retards or slows down the pace of technological change is necessarily detrimental to development. At the same time, it is obvious that the displacement of labour from existing techniques carries with it a certain amount of dislocation and human misery which, in all conscience, cannot be ignored. It does not, therefore, seem to them as inconsistent or opportunist to hunt with the hounds, advocating the need for technological change, and simultaneously run with the hares, openly declaring support for "the man behind the loom". The whole approach leaves so much elbow room and flexibility as to permit one to take positions on a purely *ad hoc* basis, which is its advantage and also its danger.

It is not necessary, in an analysis of this problem, to disavow the importance of humanitarian and political considerations. Indeed, the distinction that is sought to be drawn between them and what are referred to as "strict economic considerations" does not make much sense in terms of pure logic. But it is important to be clear about the assumptions and the criteria that are applied, and perhaps the best way of making them clear would be by defining precisely what one means by "economic" considerations and by being explicit about the assumptions regarding wage levels, minimum subsistence requirements, and the agencies which would maintain those displaced from employment.

There are two criteria which are often mixed up when people speak of economic considerations. One is the maximisation of output and the other is the maximisation of the rate of growth of output. These have different implications, as we shall presently see.

It is not clear from the 'Draft of the Draft Plan-frame' which of the two criteria was the one in terms of which small-scale enterprises were favoured initially. The first impression one gets from a general reading of this Draft is that maximisation of output was the criterion. For it speaks of the need 'to increase the production of consumer goods as much as possible through the household or hand industries', and explains how this increased supply will meet the additional demand generated by investments in heavy industries and thus prevent undesirable inflationary pressures.

But elsewhere in the same Draft there is evidence of an uneasy recognition that perhaps maximisation of the output of consumer goods will not by itself be sufficient to curb the inflationary pressures generated by increases in investment in the heavy industries. For it goes on to say that 'the greater the marketed surplus of consumer goods in the household or hand industries the greater will be the possibilities of investments in heavy industries without any fear of inflation' (emphasis mine). To what extent such marketed surplus is likely to emerge, and whether it would be adequate for sustaining the rate of investment visualised, are not however pursued any further. Indeed, the whole problem raised here is forgotten in the very next sentence, which claims with satisfaction that 'by expanding the household and hand industries and construction work, the aggregate national consumption would increase continually'.

The lack of clarity in this matter is perhaps explained by an unconscious effort on the part of the framers to be loyal to both Keynesian and Marxist tools of analysis. In terms of the Keynesian system, savings from current income are merely 'leakages', and the problem is primarily to match the increases in demand generated by the initial dose of additional investment with increases in supply. If, therefore, the required elasticity of supply is assured, there is little more to worry about. But in the Marxist model, it is the surplus in one Department (i.e., in consumption goods industries) which maintains consumption in the other (i.e., in producer goods industries); accordingly, the size of the surplus, rather than the volume of the output which yields this surplus, is what matters; and if this surplus is small no increase in the rate of investment activity is possible.

Since the different modes of reasoning represented by these two theoretical systems entered, apparently un-noticed, into the exposition of the logic of the Plan-frame, it is no wonder that a sharp difference of opinion regarding the role of small-scale enterprises has been quick to develop even among those who are otherwise agreed in their support of the Plan-frame. Those with a Keynesian bias have, on the whole, tended to support the emphasis on small-scale enterprises (in company with the Gandhians), partly because of their larger employment potential, but more so on the ground that the low capital-output ratios in these enterprises will help to meet more adequately, with a minimum of investment, the demand generated by investment expenditures. On the other hand, those who have been applying the Marxist model (not all of whom are, by any means, Marxists!) have been, by and large, inclined to deflate the importance of small-scale enterprises and the advantage of low capital-output ratios. They see an inconsistency in the logic of the Draft Plan-frame, and argue that expansion of marketed surpluses implies more and not less capital-using techniques of production, since these surpluses can emerge only through rapid increases in the productivity of labour.

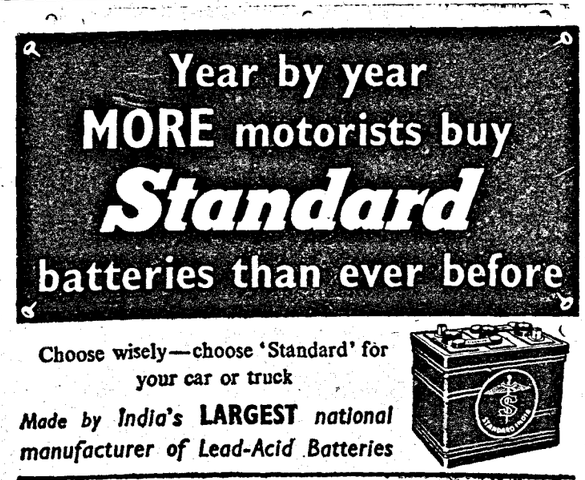
The reasoning on Keynesian lines is all right as far as it goes: if increases in demand generated by additional investment can be matched by increases in supply, the rate of investment and the volume of employment can both be raised without adding to inflationary pressures. In fact, if there are fairly long lags between successive rounds of expenditure and income generation in an economy, the rate of investment and the volume of employment can be raised in this way even when the marginal propensity to save of the income recipients is nil. But there are two points which are often overlooked in using this line of reasoning for supporting the role allotted to small-scale enterprises in the Draft Plan-frame.

The first is that, even if there are time-lags to prevent explosive increases in demand, it will be necessary to have a constantly rising volume of output to sustain the same rate of investment year after year, as long as the marginal propensity to save is itself small. The Plan-frame visualises not merely a rise in the rate of investment but a steadily rising rate of investment, and so one may enquire whether the increases in the output of consumer goods, planned for, would be adequate to meet the cumulative growth of demand. Secondly, even if the increases in output planned for are adequate, it does not follow that the minimum investment with which these increases can be realised is necessarily through relying on small-scale enterprises. For there is no reason to believe that the capital-output ratio is, or should be, always higher for the more advanced techniques involving larger units of equipment and organisation.

It follows from these two considerations that, even though an adequate elasticity of output can, upto a point, be depended on for initiating higher rates of investment, we cannot either ignore the importance of creating surpluses in order to sustain steady increases in the rate of investment or even take for granted that small-scale enterprises have, in all cases, the merit of economy in capital. This much must be conceded to those who argue against relying on small-scale enterprises for promoting a process of growth.

But the line of reasoning developed with reference to the problem of surpluses, and in terms of which unfettered technological change is advocated, needs also to be scrutinised more closely. For it has not been uncommon for those who have put this forward to ignore all the really significant issues involved by making two assumptions: (i) that the income of those engaged in small-scale enterprises is likely to be very small, that this is likely to be spent away entirely in consumption, and that, therefore, these enterprises cannot yield any surpluses at all, and (ii) that, when new techniques yielding larger output per unit of labour employed are introduced, the wage rates in these establishments will not rise, and also that the minimum subsistence requirements of those who are displaced from productive employment will not be a drain on the surplus yielded.

(To be Continued)



Around Calcutta Markets

Continued Recovery

Wednesday, Evening

TOO many holidays have intervened to distort the pattern of price movements on stock markets. During the holidays, equities moved up in kerb dealings. On the settlement day, clearing shares developed an easier trend. In sympathy, equities in general turned hesitant. To-day's price movements were rather surprising. Clearing shares fluctuated erratically, but closed above the day's bottom levels. There were, of course, reasons for this down and-up movement.

Even after the end of the payments crisis, "budla" charges have remained heavy. This does not necessarily mean that the market in, say, Indian Iron is in an overbought position. But it does mean that there are many weak, speculative buyers of Indian Iron. To-day, as also on the previous settlement day, there were erratic fluctuations in all the clearing shares. It is evident that the position in Indian Iron still remains delicate.

Bank Rate

In the last two days, there was another factor which influenced price movements in equities. On Tuesday, the stock market here closed steady. Later, in kerb dealings, Indian Iron slid back on rumours of a rise in Bank Rate. In the last three weeks, such rumours have invariably affected equities on Tuesdays and Wednesdays. To-day, again, Indian Iron firmed up in late kerb dealing as Reserve Bank returns did not disclose a higher Bank Rate.

Bullion prices continue to soar. Commodity prices are rising gently. Recent banking statistics disclose continued heavy borrowings by banks from the Reserve Bank under the Bill Market Scheme. Banks' balances with the Reserve Bank are being consistently depleted. These customary symptoms of inflation have been in evidence for sometime now. This explains periodic market rumours about a higher Bank Rate.

Speculation

Such rumours should have had an adverse effect on equities. Market commentators have been discussing the need to check inflation. But speculators do not seem impressed with their arguments. Nor is there any indication yet that New Delhi is alarmed over recent economic developments. It will be conceded that the time for a higher Bank Rate may not be yet. Yet it is widely believed that the time has already come for the Reserve Bank to introduce qualitative control of bank credits.

In the recent spurt, Dalal Street has moved ahead of Lyons Range. Investors here are, apparently, suspicious of the rapid rise in equities in recent weeks. On the Calcutta Stock Exchange, only the speculative clearing shares are moving up. Cash scrips continue to be relatively stable. It is clear that speculators have not yet succeeded in inducing investors to take interest in the market, though there is evidence that public buying is again on the increase.

Suggestions have been made that the relative buoyancy of Dalal Street is due to investment of nationalised life funds in equities listed there. This report, if true, should cause surprise. Scope of investment is wider in Lyons Range. Calcutta's commercial circles resent the gradual concentration of New Delhi's economic activities in Bombay. It was not without significance that West Bengal's Chief Minister suggested, in one of his recent speeches before a local Chamber of Commerce, that the head office of the Custodian of Life Insurance should be located in Calcutta.

Recent Trends

In the context of these wider issues, the recent behaviour of investment scrips may be analysed. Until a week ago, Tea shares were slowly moving up. Though the spurt in forward shares helped the improvement in Tea shares, the recovery was relatively slow. With the continued increase in auction prices, Tea shares experienced some spurt. But it was not without significance that these shares were marking time in the current week as the weekly auctions indicated an irregularly downward trend in prices.

In Paper and Coal shares, speculative investors have been testing the market for some weeks now. There are enquiries, but neither Paper nor Coal shares are confidently moving up. Investors seem interested in picking up sound shares in these groups, but not at prices dictated by the market. This has been a significant feature of recent price movements on the Calcutta Stock Exchange. No less significant is the behaviour of sound Miscellaneous and Engineering Shares.

These latter groups of shares used to respond quickly to movement in clearing shares. Forward shares have been moving up. Those Paper, Coal and Engineering shares which are included in the forward list are also moving up. But cash scrips in these groups remain relatively stable at lower levels. These are revealing features of the current phase of the Calcutta Stock Exchange. These are features which cannot be ignored by genuine investors.

Company Notes

United Commercial Bank

BECAUSE of the improved working results, United Commercial have raised the dividend from 5 to 5½ per cent free of income-tax, for the year 1955. In the year under review, the bank's deposits increased by Rs 7.27 crores. In terms of percentage, the increase in 1955 was higher than in 1954, and was also higher than the increase in the deposits of scheduled banks as a whole for the last year.

Of the increase in deposits, the bulk was invested in Government and other approved securities, as such investments showed a rise of Rs 5 crores. Including cash resources and unencumbered investments, the bank's liquidity ratio worked out at 50.62 per cent. Citing the increase in the bill business of the bank, Shri G D Birla, the Chairman, stressed that it was the aim of the United Commercial to maintain a high liquidity ratio.

Shri Birla expressed satisfaction at the continued improvement of foreign exchange business of the bank. He referred to the constantly expanding network of foreign correspondents and overseas connections in order always to be ready to handle any business that might be offered to the bank.

Around Bombay Markets

Impressive Performance

Thursday, Morning

DALAL STREET gave an impressive performance once again and is determined not to be outdone by the commodity markets, oilseeds, cotton, bullion and others. It appears to read an inflationary meaning in the trend of commodity prices and is in no mood to stop and ponder that commodities have a busy season as well as a slack season. The strength which was displayed during the brief spell of trading in the previous week asserted itself with renewed vigour.

Apart from general prospects of deficit financing concretized in the steady increase in currency circulation, speculative fervour has been kindled by prospects of higher cloth prices and dizzy profits of cotton mills. While the general temper of the stock market can be gauged from the height to which Tata Ordinary was lifted viz the record level of Rs 253 cum-rights, compared to some Rs 220 before the budget, it is Bombay Dyeing's last year's performance which has been directly feeding speculation at the moment.

Bombay Dyeing shot up by nearly Rs 50 to the record level of Rs 665 before closing at Rs 653-12. The company has made a profit of Rs 25.30 lakhs after providing as much as Rs 29.5 lakhs for taxation and a similar amount for depreciation. A notable feature of the company's report was the disclosure that shipments of automatic looms would commence from the middle of the current year and that deliveries will be completed by the end of 1957. There had been prolonged discussions between the company and the Government over this question, but it is only now that doubts about expansion are finally laid to rest. The company has been granted import licence for the installation of 1206 automatic looms for their Spring Mills. These will be of the latest type and of the highest quality obtainable and will replace 1742 existing obsolete power looms. A second shift, it is reported, will be started immediately the installation is completed and if this is done, production may be easily doubled by the end of 1957.

Led by Bombay Dyeing, other mill shares also forged ahead, the more notable being Century, Kohinoor, Gokak and Finlay. However, towards the end of the week, there was some reaction.

In the miscellaneous group, ACC, which had been rather quiet following the announcement of new issues at Rs. 20 premium, firmed up on investment and speculative support, and fully recovered their losses. Belapur, Bombay Burmah, and Premier Construction also received considerable bull support.

Cotton

Above Price Ceiling

The spot market in Sewri remained somewhat subdued during the week. Nevertheless, prices in most cases, remained well above their official ceilings. Towards the close of the week, however, prices sagged a little, except for Vijay, which continued to get good support.

The resumption of futures trading is still hanging fire. Although this is the longest period for which cotton has been without a futures contract—it is over three months—there is no sign yet of any move forward. This prolonged deadlock is causing considerable concern in trade quarters. Speaking at the annual meeting of the Dawn Mills, Shri Ramanarain Ruia, said "I feel the forward market is not likely to reopen unless the Government revises its policy in consonance with the market trends". Naturally, he found it "difficult to understand the policy behind the Government's action". If all other commodity prices are allowed to rise, he argued, why should Government single out cotton for special treatment? In short, Shri Ruia and the cotton trade generally want the Government to revise its price policy and forget all about maintaining prices at a "reasonable level". More pertinent, however, is his complaint that the cotton trade in general as well as the textile manufacturers are suffering in the absence of hedge facilities, and that some thing should be done to help them with a forward contract.

The pattern of trading in the spot market in the past two to three weeks has been such as to make the Government sit up and take notice. Prices of all popular varieties have pierced the official ceilings. Had the futures market been functioning, the trend of cotton prices would have been even higher if the general belief is accepted that the forward contract acts as a price support. Judged from this angle, Government is not likely to take any steps to effect resumption of forward trading in cotton.

What about prospects of a decline in prices in the spot market in the near future? As spot prices were not affected even by the refusal of the Government to extend a period of grace to shippers in respect of their export licences which expired on March 31, it is unlikely that they will now come down much below the ceilings. One may therefore safely predict a continuation of the stalemate in cotton, but nothing more positive than that.

Oilseeds

Export Policy Uncertainty

In contrast to the stock exchange and the cotton market, oilseeds had rather a dull week and the undertone was quiet. The statistical position in respect of almost all seeds is tight; this is no doubt a factor of considerable bullish significance. Nevertheless, the market is hesitant and apprehensive. There are reports that Government may shortly change its export policy and traders fear that these changes would adversely affect their interests. In the event, there was nervous trading, particularly towards the close of the week which brought about a sharp decline in rates for castor, groundnut and linseeds. That interest rates charged by banks may be raised further was another factor which made buyers hesitate to enter into fresh commitments, while operators were eager to dispose of their contracts.

Castor May opened very firm at Rs. 138-8 and went as high as Rs. 139-4 but lost nearly Rs. 4 to Rs. 134-10 and closed on a subdued note at Rs. 136-4. Meanwhile the Ministry of Food and Agriculture has reported an increase both in area and production of castor seed during the current year, the final estimate being 4.9 per cent higher in acreage and 2000 tons or 1.6 per cent. in production.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1466.64	1453.78	1418.66	1277.09
2. Rupee Coin	103.16	103.28	103.98	102.20
3. Deposits				
a) Central Government's	67.34	52.69	59.56	59.45
b) Banks'	53.24	49.72	49.35	47.72
c) Other Governments'	62.03	48.52	18.03	60.24
d) Others'	16.68	17.25	16.81	21.53
4. Foreign Securities	656.42	676.29	682.16	646.85
5. Balances held abroad	89.72	71.54	53.93	83.15
6. Rupee Securities	678.82	644.04	603.23	503.95
7. Investments	47.19	37.42	47.42	49.38
8. Loans and advances to Governments		0.20	2.89	0.45
Scheduled Banks				
1. Demand liabilities (net)	621.35	610.67	626.65	565.16
2. Time Liabilities	412.92	413.73	418.08	375.80
3. Cash on hand	34.63	35.26	34.82	32.41
4. Borrowings from Reserve Bank	66.93	61.59	40.82	35.43
of which against Usance Bills	32.46	24.62	21.65	24.42
5. Advances and Bills discounted	703.20	689.81	651.99	615.00
of which State Bank's	141.14	141.15	120.42	127.87
6. Invst. in Govt. Sec.	362.13	363.84	375.26	345.89
of which State Bank's	97.37	97.93	105.12	93.91
Cheque Clearance	154.90	161.65	160.00	137.51

†For Reserve Bank week ended 30-3-56. Scheduled Banks and Cheque Clearance week ended 23-3-56.

Bombay Money Rates	23-3-56	16-3-56	24-2-56	25-3-55
Inter-Bank Call Rate	$3\frac{5}{16}$	$3\frac{5}{16}$	3	$2\frac{7}{8}$
3 months deposits	$3\frac{3}{8}$	$3\frac{3}{8}$	$3\frac{5}{16}$	3
6 months deposits	$3\frac{3}{8}$	$3\frac{3}{8}$	$3\frac{5}{16}$	3

Bombay Bullion — In Rupees and Annas

	5-4-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	104-13	105-5	99-3	93-11
Forward	105-2	105-5	98-13	93-3
Silver (per 100 tolas)				
Spot	180-10	181-14	173-13	165-6
Forward	180-15	182-8	174-1	164-8

COTTON STATISTICS

MILL CONSUMPTION

(in '000 bales of 400 lbs each)

Description:	Jan '56	Dec '55	Nov '55	Oct '55	Sept '55	Sept '55 to Jan '56
Indian	353.26	397.24	352.68	386.0	382.97	1872.06
Foreign	49.60	51.65	42.88	45.94	45.17	235.25
of which American*	3.02	3.35	2.70	3.72	4.40	17.14
Egyptian	15.60	15.97	13.56	13.93	15.04	74.10
E. African	21.40	20.07	16.47	17.95	17.05	92.93
Sudan†	9.46	10.84	9.68	9.94	8.44	48.47
Pakistan	—	—	—	—	xx	—
TOTAL	402.86	448.89	395.56	431.94	428.14	2107.31
Consumption in corresponding periods a year ago:						
Indian	348.64	363.46	348.93	311.31	328.02	1700.35
Foreign	57.34	59.50	62.11	55.01	60.78	294.74
TOTAL	405.98	422.96	411.04	366.52	388.80	1995.09

* Includes both United States and Peruvian cotton.
† Includes both Sudan Egyptian and Sudan American
xx Negligible

MILL STOCKS OF COTTON

(in '000 bales of 400 lbs each)

	Jan '56	Dec '55	Nov '55	Oct '55	Sept '55
Indian:					
1955-56	1137.91	1083.36	1035.21	1125.55	1278.13
1954-55	1043.85	942.26	850.22	861.05	916.00
Foreign:					
1955-56	156.44	159.22	167.86	169.34	172.30
1954-55	135.69	152.34	161.14	173.90	169.21

Source : **East India Cotton Association**

COTTON IMPORTS

(in '000 bales of 392 lbs each)

Source	Dec '55	Nov '55	Oct '55	Sept '55	Sept.'55 Dec '55
USA	—	1	—	1	2
East Africa*	3	7	11	6	27
Egypt & Sudan	31	29	22	21	103
Other countries	1	—	2	2	5
TOTAL	35	37	35	30	137
Total imports in corresponding months of the previous year	38	33	44	28	143

*Includes Kenya, Tanganyika and Uganda.

Source : **Indian Trade Journal**

COTTON EXPORTS

(in bales)

Destination	Exports from 1st Sept. to 29th March 1955-56 (a)	1954-55	1953-54
United Kingdom	53,908	16,902	11,005
Continent	74,727	28,692	20,116
China	53,973	1,509	251
Hongkong	29,281	—	—
Japan	216,676	59,049	51,009
USA	3,991	13,340	12,283
Other countries	3,733	1,258	1,452
Total all foreign countries	436,289	120,650	96,116
Coast Ports	72,922	82,802	95,408
TOTAL	509,211	203,452	191,524

(a) Excluding Zoda and yellow pickings etc.

Source : **East India Cotton Association.**

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group	Week ending 24-3-56	Week Ago	Month Ago	Year Ago
I **Food Articles:**	**362.9**	**354.0**	**343.0**	**293.0**
Cereals	449	444	430	336
Pulses	389	384	359	227
Others	244	232	227	245
II **Industrial Raw Materials:**	**485.4**	**474.6**	**464.5**	**400.1**
Fibres	470	470(R)	473(R)	429
Oilseeds	543	509(R)	465(R)	334
Minerals	471	453	459	423
Others	400	405	409	475
III **Semi-Manufactures:**	**374.8**	**369.5**	**357.2**	**332.0**
Leather	410	408	408	391
Mineral Oils	208	208	202	221
Vegetable Oils	529	485	422	348
Cotton Yarn	453	451	446	439
Metals	282	282	281	243
Oilcakes	402	391	341	277
Others	364	364	365	331
IV **Manufactures:**	**374.0**	**375.3**	**375.2**	**376.1**
Textiles	406	408	409	419
Jute	400	412	415	450
Cotton	403	403	403	411
Rayon & Silk	502	502	502	468
Woollen	274	274	274	310
Metal Products	371	371	371	340
Others	285	286	284	287
V **Miscellaneous:**	**494.3**	**512.9**	**528.3**	**545.6**
All Commodities:	**392.8**	**388.3**	**381.3**	**349.7**

INDUSTRIAL DISPUTES IN BOMBAY STATE

	No. of disputes	No. of workers involved	No. of working days lost
1947	650	726,594	3,783,817
1948	536	384,385	1,810,793
1949	376	279,883	1,765,583
1950	271	374,649	10,251,718
1951	315	206,645	1,112,972
1952	265	428,649	1,207,753
1953	179	141,525	618,192
1954	201	111,273	396,187
1955	255	103,319	361.249
1955:			
January	21	10,149	26,221
February	27	7,337	11,461
March	24	27,915	34,630
April	28	9,260	43,927
May	27	8,182	25,153
June	27	6,214	50,092
July	27	3,329	19,168
August	30	7,623	53,425
Sept.	28	3,370	7,340
October	22	5,268	15,743
November	28	6,630	16,629
December	38	21,237	57,460
1956 :			
January	29	26,289	45,872

Source : **Bombay Labour Gazette**

ELECTRICITY GENERATION AND DISTRIBUTION

(Monthly Average or Calendar Month)

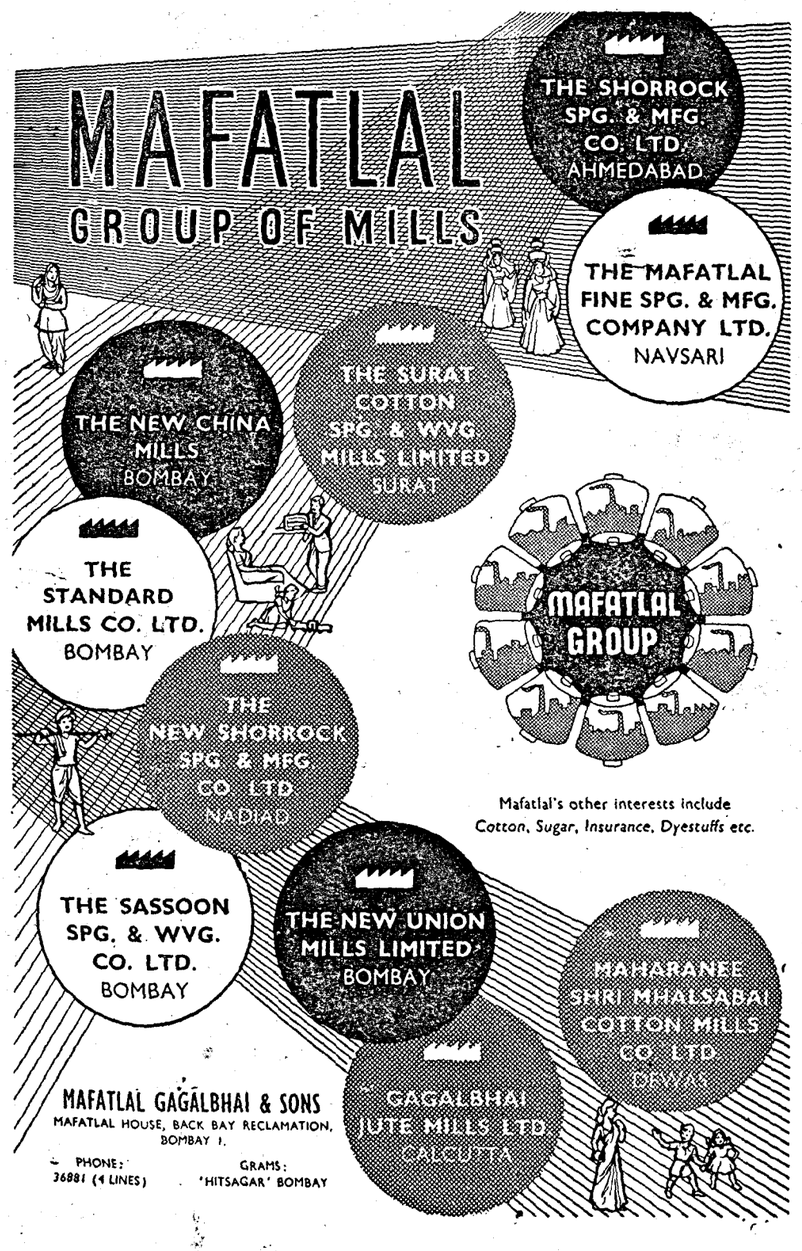
(in million kwh)

	Generation	Distribution: Domestic consumption	Commercial light and small power	Industrial power	Public lighting	Traction	Irrigation	Public works & sewage pumping	Total
1948-49 ..	390.1	34.8	20.3	206.0	4.2	23.8	11.0	14.7	427.9
1952-53 ..	525.1	51.5	29.2	275.6	6.0	27.7	19.2	19.4	464.4
1953-54 ..	573.1	68.3	31.7	298.1	6.5	29.7	19.1	20.6	474.0
1954-55 ..	646.6	62.6	28.9	344.6	7.5	31.7	20.0	22.1	517.4
July	633.4	62.3	37.5	338.6	7.1	31.9	15.6	22.9	515.8
August ..	635.0	64.9	37.2	338.8	7.3	27.3	11.7	23.2	510.5
September	647.6	65.0	37.4	344.6	7.4	27.6	18.4	23.1	523.3
October ..	626.5	63.7	35.3	336.6	7.7	30.8	14.9	22.6	511.6
November	656.5	63.4	35.2	351.2	7.7	31.9	22.5	22.6	534.6
December	683.5	63.2	36.2	370.9	8.1	33.2	23.0	23.5	558.0
1955 January	668.5	62.1	36.3	362.5	8.0	32.1	21.4	22.9	545.2
February	628.7	60.8	35.1	346.7	7.5	29.4	20.7	21.5	521.8
March ..	698.7	63.3	38.7	375.5	7.9	35.2	24.2	23.6	568.3
April ..	691.1	62.6	43.6	368.9	7.6	32.0	25.6	23.7	563.9
May ..	706.5	64.2	39.7	377.2	7.8	34.1	21.5	24.9	569.4
June ..	716.2	67.8	38.5	379.7	7.6	33.2	24.7	24.6	576.1
July ..	724.8	67.6	38.3	390.2	7.8	34.2	20.8	24.5	583.3
August ..	708.9	69.5	39.6	380.4	8.3	34.2	17.3	25.1	574.4
September	719.3	70.0	40.2	390.8	8.3	33.6	19.8	24.3	587.0
October	720.7	72.6	40.0	394.4	8.6	34.8	16.5	25.0	591.9
November	725.5	73.6	40.5	397.0	8.8	34.1	16.5	26.5	597.0

Source : **Ministry of Irrigation & Power**

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Ceylon Goes Socialist

FOREIGN correspondents, though not the world's chancelleries, may interpret Ceylon's election verdict as a Buddhist revolt against that country's Christian politicians. Superficial commentators may explain the ignominious defeat of the ruling United Nationalist Party by emphasising the language problem. They may stress the obvious fact that Sir John Kotelawala and his UNP have lost touch with the people. Apologists have remarked that the defeat of the ruling party after a long spell in office is neither surprising nor unexpected. But those who are aware of social, political and economic trends in post-war Asia will not miss the significance of Ceylon's election verdict, even as they will not be surprised by the sweeping victory of Mr S W R D Bandarnaike and his Mahajana Eksath Peramuna. Social, political and economic compulsions explain why Asia leans towards Socialism. Ceylon is no exception.

All newly-independent Asian countries have a bias to the Left in politics. In all Asian countries, there is an urge to eliminate poverty, resentment against vested interests, foreign and national, and a determined desire among the people to vote that party or coalition to power which promises to fulfil these wishes of the people. It is so in Burma, India and Indonesia. Ceylon's elections conform to this pattern of development. This socio-political trend is spreading in west Asia. Pakistan, though not necessarily eastern Pakistan, Thailand, South Vietnam and the Phillippines are exceptions. It is not without significance that these latter countries are either members of regional military pacts or have bilateral military aid arrangements with America, and that these countries alone in Asia pursue a policy of alignment with either of the rival power blocs.

Sir John and his United Nationalist Party have lost the elections in Ceylon because they have not learnt the lessons of post-war history in Asia. Ceylon's UNP has some similarity with the ruling parties in India, Burma and Indonesia. It fought for independence. It became the party in power after independence. But, unlike Congress in India or U Nu and his party in Burma, UNP has not adjusted its policies to changing conditions and circumstances. Congress won the first general elections in India by formulating the first Five-Year Plan. If Congress wins the second elections, it will be because of Avadi. U Nu has remained in power because of his bias to Socialism. Indonesia tells the same political tale. Only the Muslim League in Pakistan is an exception to this political trend, though the rout of the Muslim League in the elections in eastern Pakistan, explains the defeat of UNP in the Ceylonese elections.

Issues on which Mr Bandarnaike and his United Front have fought and won the elections are symbolic of the political cross-currents in south-east Asia. It was inevitable that in Ceylon, a former crown colony, the precise relationship with Britain was a minor issue in the elections. There were immediate circumstances associated with the transfer of power in Burma which influenced her decision to opt out of the Commonwealth. Ceylon's Communists and Trotskyists are in favour of severing the Commonwealth link. But, along with Congress, Mr Bandarnaike's United Front is not opposed to the Commonwealth concept, though the Front is committed to declaring Ceylon a Republic. On this

issue, Ceylon's United Front is in agreement with Congress in India. Even Pakistan has emerged as a Republic. In India, Burma and Ceylon, the Republic is popular as a political concept, and for similar reasons.

Though Asia leans to the Left in politics, it is not Communist. In Burma, the armed Communist revolt has lost much of its force. The Communist Party has lost its hold in India. Ceylon's Communists and Trotskyists have not gained ground in the elections. U Nu overcame the Communist opposition by turning to Socialism. CPI's discomfiture stems from the Congress policy of ensuring a socialistic pattern of society. This same political trend explains Mr. Bandarnaike's election success. He is not a Communist. But he and his United Front have a bias to Socialism. It is, therefore, natural that he will have a bias against vested interests. But Ceylon's tea and rubber planters have the assurance that the United Front will pay legitimate compensation in cases of nationalisation. Ceylon's election verdict confirms the major political trends in Asia. Her people have an affinity to Socialism. They and their Government believe in peaceful co-existence. It, therefore, follows that they are in favour of closer relations with both Communist States and Western Powers, and that they are opposed to regional military pacts. Because these are the election programmes of the United Front, Mr Bandarnaike and his party have been voted to power.

New Delhi will welcome Mr Bandarnaike's election success. In his election speeches, he has emphasised his endorsement of New Delhi's foreign policy. Mr Dulles may feel angry that the defeat of Sir John means that Ceylon will not join SEATO. But Ceylon's neighbours will welcome Mr Bandarnaike's foreign policy of non-involvement. Her people will hope that trade will follow the United Front's election pledge to have closer relations with Peking and Moscow. Equally welcome to New Delhi is Mr Bandarnaike's liberal attitude to the problem of Indians in Ceylon. He is committed to a policy of absorbing the maximum number of Indians on socio-economic grounds and to make arrangements for repatriation of the rest under an agreed basis of compensation. He has expressed the hope that his endorsement of Pandit Nehru's political and foreign policies will facilitate an agreement between the two countries on the problem of Indians in Ceylon. New Delhi will welcome the United Front's victory in the hope that it will strengthen the forces of peace in south-east Asia, besides leading to a solution of the issue in dispute between India and Ceylon. And the people of India will hope that Mr Bandarnaike will fulfill his election pledges so that Ceylon and her people can enjoy peace through prosperity.

Unutilised Capacity

HOW well are our industries working? To what extent is the production capacity in the country being actually utilized? For an answer to some of these questions, one has to wait for the administrative report of the Ministry of Commerce and Industry which gives in a convenient form information on some of these points. The story has been for the last couple of years of increasing utilisation of capacity in engineering, chemical and other industries. In this respect, there is no change to report; the same trend has been maintained. In order to get an idea of the progress during the first Plan period, the installed capacity of these industries and the actual production year by year has been brought together elsewhere in this issue (see pp. 451-53). These figures of production generally indicate increases in output without any increases in capacity in most cases. The extent of idle capacity in the industrial sector is a very important indicator, particularly when a large measure of deficit financing is being planned. The rationale of deficit financing would be seriously called into question, unless there was substantial idle capacity in the economy to draw upon, and of the latter, naturally, the idle capacity in industry is easier to determine as also to utilise, than capacity of other kinds.

To repeat, the data released by the Ministry of Commerce and Industry suggests a welcome improvement in the utilisation of capacity. To these, two qualifications are necessary. First the data presented here cover only a part of the industrial sector; major industries like cotton textiles, jute, and iron and steel are left out from them. Secondly, the determination of capacity leaves much to be desired. The point has been raised many times in these columns. How unhelpful the official rating of capacity could be was brought out sharply in the controversy over the future of the cotton textile industry when the Ministers of Commerce and Industry and of Planning came out with widely varying estimates. It is not necessary to labour the point further since the Ministry itself has accepted the necessity of a proper re-assessment of capacity. A re-assessment, we are told, is actually under way in a number of industries. But it will serve little purpose unless the basis on which it is being carried out is made public so that finally not only a technical but also an economic assessment of the problem is made possible.

Here we have a flattering record of steadily increasing utilization of capacity while only the other day Prof Paul Baran from Stanford referred approvingly in these columns to a statistical study by the ISI which had shown that "the under-utilization of existing productive capacity in India reaches as much as 40 per cent. The situation is even worse in some individual industries". Despite the accent on increasing utilization of capacity, if the data in the Ministry report is taken as a whole, the estimate would not differ from the above very substantially.

How useless a merely numerical assessment can be would be apparent when it is reported for instance that 30 of the cotton mills are too uneconomic to continue in production, that nearly a third of them has been condemned as hopeless, while about an equal number have been given assistance to enable them to resume production, and the fate of the balance still remains to be decided. Estimates of capacity, therefore, would not be meaningful without some idea of the magnitude of effort that would be necessary for the full exploitation of this capacity. There is another sort of problem in industry which, of course, is not brought out by figures of actual production or of the statistical measurement of capacity, viz., the degree of interdependence, extent of decentralization of production and a full knowledge of the many gaps that have to be filled before capacity can be utilized to the maximum advantage. The Ministry report is least helpful in throwing any light on this group of problems.

To turn to the data presented in the report:

In the enginering group, increases ranging from 50 per cent to 100 per cent of the 1954 output are reported in the production of ring spinning frames, electric winding wire, machine screws, duplicators, automobiles, sparking plugs, fuel injection equipment, electric house service meters, incandescent lamps carding engines, and small and hand tools. Apart from these, there was a 310 per cent increase in the output of steel structures, a 35 per cent increase in the output of bicycles and a 25 per cent increase in the output of sewing machines. Ball bearings which had shown a substantial increase in output during 1954, showed a further 11 per cent increase during 1955.

As increase in production has been achieved during these years without any increases in capacity in most cases, a natural consequence of this tendency has been the formulation of plans for expanding the capacity of those industries which have reached near their limits of capacity. Some of these plans have already fructified during the year, notably in the ball bearings industry, and the consequent fall in the ratio of output to capacity, in spite of further increase in production during 1955, indicates a reversal in the trend towards an increasing utilisation of capacity in all such industries which have programmes of expansion. In the ball bearings industry, for example, the single unit which had a capacity of 600,000 in 1954, actually produced 702,309 during that year. While production increased by a further 11 per cent in 1955 to 806,232, the fact that capacity was raised in the meantime by 50 per cent to 900,000 has meant a fall in the ratio of utilisation of capacity.

In the meantime, capacity did not prove to be any hindrance to expansion of output. The output of woodscrews which was already higher than capacity during 1954, showed a further increase from 5,196.7 thousand gross to 5,743.9 thousand gross during the year. This was possible because of the working of two or even three shifts by many industries. Last year, the Ministry report had referred to several industries in the Engineering groups that had worked extra shifts. This year's report does not mention the subject at all. It would certainly be worthwhile for the Ministry to carry out a study of shift working in different industries today and examine the possibilities of its extension to others. More light on this subject would be welcome. After all, increasing capacity may not always be necessary or desirable merely because production was reaching capacity, if the possibilities of shift working had not been explored. In the light of the capital shortage in the country, there is much to be said for approaching the problems of industry from this direction also, along with that of decentralisation on the one hand and closer integration on the other.



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WEST END WATCH Co
BOMBAY CALCUTTA

Weekly Notes

Mahindra Scholarships

AT an informal function at the Taj, Shri K C Mahindra, of Mahindra & Mahindra Ltd, explained the objects of the Trust which he has endowed for promoting engineering education in this country. The Trust was actually established a couple of years ago, but the Trustees preferred to accumulate the incomes of the Trust to a substantial sum before setting about implementing the objects. Among the objects of the Trust are to create a Chair or Professorship for some specialised branch of engineering technology, to award scholarships to suitable Indian candidates for the study of engineering in India or abroad and thirdly, to bring out publications for the advancement of engineering technology.

The Trustees have been given a great deal of discretion and they have decided to make a beginning by awarding for advanced education in engineering:

(a) Two Senior Scholarships for Oversea study or training valued at £450/500 per annum for three years, and

(b) Three Junior Scholarships for training within India valued at Rs 250 per month for two years

Applications for these scholarships will be invited shortly.

The growth of corporate finance and the position that big corporations have come to occupy in the life of modern communities have made them take up more and more the patronage of art and science which had formerly been the privilege as well as the obligation of princes and wealthy men to discharge. So there is nothing surprising that Mahindra and Mahindra should enter the field, following the footsteps of the Tatas and a few others, unfortunately too few. The point should be noted, however, that the Trust is a creation of Shri K C Mahindra himself; it has nothing to do with the firm bearing the same name. There is nothing especial either in the award of scholarships for study overseas. These are intended for those who have already acquired high qualifications, a first class honours degree in engineering or science, or an equivalent attainment is expected of the candidates. There is something very especial, however, in the junior scholarships which are to be awarded for training in India. The amount of the scholarship has been fixed at a sum which will relieve the student or trainee of all financial worries during the period of its tenure so that he may concentrate fully on his work and give a good account of himself. And Shri Mahindra entertains the hope that it may be possible to pick out for this purpose promising young men and help them to acquire the training which will enable them to meet a crippling shortage in the present organisation of industry, viz, that of supervisory staff of the foreman class. It is to be devoutly wished that the experiment succeeds. If it does, it will remove a very serious lacuna.

As industrialists know it to their cost what even the casual observer does not fail to notice, though we are short of properly trained men in almost every sphere, the worst shortage is not in the ranks of the MIT trained boys or engineering graduates. The rank and file of workers are not throwing up the right type of supervisors because factory hands do not have the requisite education to start with, and workers' education through evening classes and other means has not yet been organised efficiently enough to be able to remove this lacuna. This is to put it rather mildly; hardly a beginning has been made yet in this direction. But true to the kindred point of heaven and home, however keenly Shri Mahindra may feel the lack of suitable supervisory staff, he does not think that we can afford to slacken in the search for the highest technique, if standards are to be raised; and they have to be raised if we are to get somewhere. Hence the necessity of keeping the doors open for oversea studies and providing facilities for acquiring the highest qualifications in technical education.

ICIC and Ministry of Finance

THOUGH it handles a lot of public funds—what else are the World Bank loans to it and the counterpart funds from the sale of U S steel?—the Industrial Credit and Investment Corporation, Sir Ramaswamy Mudaliar was at some pains to explain at its first annual general meeting, was very much in the private sector and should remain so, if it was to serve the purpose for which it had been set up. There was real danger of its losing its private character since now, after the nationalisation of insurance, Government has come to own 18 per cent of its share capital. But Sir Ramaswamy has had an assurance from the Finance Minister that as a major shareholder, Government has no intention of influencing the day to day working of the Corporation. Granted its private character, it does not follow, however, that the decision of its Board of Directors to withhold from the public the names of companies with whom they do business is wise or that it will be possible to maintain this secrecy in the future. Taking the industrial scene as it is today, it is unlikely in the extreme that the Corporation will be able to maintain it for long.

In another way, nationalisation of insurance has affected the Corporation. It has, at least for the time being at any rate, put an end to a very interesting and promising experiment in underwriting and floatation of new issues in which the Corporation, reading between the lines, appears to have worked out a successful technique largely with the co-operation of a select group of insurance companies. Evidence accumulates, and Sir Ramaswamy lends his powerful weight to the contention that it is high time for the Finance Ministry to straighten out the investment policy of the insurance companies which it has taken over. To the general complaint of the loss of influential support to the Stock Exchange, Sir Ramaswamy adds a more specific one. If a healthy investment market is to be maintained and new issues are not to be written off as a source for mobilising savings, it should be looked into without further delay. But against unsolicited advice from busybodies on how the private sector should be run, however, even Sir Ramaswamy's powerful voice will not be a deterrent. That delicate plant, the investment market, one should have thought, must have acquired some measure of immunity from such things by now.

Independent Morocco

GIDI MOHAMMED BEN YOUSSEF, Morocco's popular Sultan, is an able negotiator. Both Paris and Madrid have yielded to his demands. Both France and Spain will quit Morocco. As soon as France decided to transfer power to the Sultan, it became evident that Spain will have to withdraw from Spanish Morocco. General Franco has, in recent years, been a champion of Arab rights. There have been conflicts between Paris and Madrid because of the Caudillo's pro-Arab policy. It was not without significance that, in transferring power to the Sultan, France promised to secure recognition of the integrity of the Moroccan territory by others. Franco might have disliked this oblique hint by Paris, but he could not refuse recognition of Spanish Morocco's independent status after the French decision to withdraw from French Morocco. His gesture will be widely welcomed. There will be hope in New Delhi that the Portuguese dictator will have the wisdom to profit by the Caudillo's tactful diplomacy.

In pursuance of Franco's pro-Arab policy, Spain has given an undertaking to make "Moroccan independence effective" Paris had agreed earlier that the future relationship between France and French Morocco would be based on an equal and sovereign status. France will no longer have the right of veto over legislation. Morocco will have control over its foreign affairs, and will be allowed to build its own Army. But, as in Tunisia, the Sultan of Morocco has agreed to ensure the "inter-dependence" between France and Morocco. In Tunisia as well as in Morocco, the future depends on three factors. Recent demonstrations in Tunis are reminders to both France and Spain that there are influential political elements in both Tunisia and Morocco who are suspicious of the treaty provisions relating to continued 'inter-dependence' between France and these two countries. Paris and Madrid can help assure smooth relations between the metropolitan powers and their former colonies in North Africa by transfer of power without any political or economic reservations. In both Morocco and Tunisia, the colonists will have to adopt a conciliatory attitude to avert future racial or political conflicts. No less significant are the policies pursued by those who have now gained power in Tunisia and Morocco. Both M Habib Bourguib and Sultan Ben Youssef are popular. Both, and particularly the Sultan of Morocco, will need statesmanship to establish governments which are democratic, and are representative of the people.

Cambodia in Trouble

TROUBLE has been brewing in Cambodia for some time. Cambodia is the only State in Indo-China which has held free elections as envisaged in the Geneva Agreement. Cambodia and Laos are not members of SEATO, but these two States are within the orbit of SEATO. This focuses attention on an intriguing aspect of America's pressure tactics. Prince Norodom Sihanouk has had occasion to complain that though Cambodia is not a member of SEATO, the Western Powers "want that I should not declare that I am outside SEATO". Prince Norodom and his party won a decisive victory in the elections held last September. He is opposed to alignment with either of the power blocs During his recent visit to Peking, he signed a joint declaration accepting **Panch Shila** as the basis of relations between nations. Prince Norodom's visit to Peking caused irritation in Washington America has threatened to withdraw military and economic aid from Cambodia.

Thailand is a member of SEATO. In South Vietnam, Mr Diem has established a regime which has the active support of America. Threatened by military encirclement and economic blocade by Cambodia's neighbours, Thailand and south Vietnam, Prince Norodom has resigned. Soon, the Cambodian Popular Congress will meet. Prince Norodom seems confident that his foreign policy will be endorsed by the Popular Congress. At the time of his resignation, Prince Norodom issued a warning to the Western Powers and their SEATO allies that, in the event of continued military and economic blocade by her neighbours, Cambodia will be forced to change her foreign and economic policies. Mr Diem is evidently angry that Prince Norodom is unwilling to recognise his regime in south Vietnam. What provoked Thailand to close its borders with Cambodia is not known. But the tension in Cambodia raises the question about America's responsibility to ensure that countries receiving military aid from her do not abuse such help in pursuing an aggressive policy to their neighbours. Prince Norodom is not a Communist. Cambodia's neutrality has the support of New Delhi and Bandung countries. Cambodia is not under any threat of aggression from Communist China. Prince Norodom has the diplomacy to be aware that, threatened with Communist aggression, Cambodia can defend herself by joining SEATO. Mr Dulles misses no opportunity in emphasising the dangers of Communist infiltration tactics. Developments in Cambodia raise the question of military, political and economic pressures by some countries in Asia which are members of military alliances in this region, or which receive military and economic help from America under bilateral arrangements.

Indian Aluminium

WORKING results of the Indian Aluminium Company Ltd., for the year to December last were encouraging. Sales of the Company's products improved. Efforts towards new uses of aluminium in railway coaches and wagons, bus bodies and various kinds of buildings and structures met with considerable success. Higher sales were possible because of improved production.

In 1954, the expansion of the Alupuram plant was completed. But only in March, 1955, was sufficient power available to raise the output of aluminium ingots to 5,000 tons per annum. At the Belur fabricating plant, additional machinery was installed to increase the range of aluminium alloy products. With the help of technical experts, the Company continued to make progress with the production of medium-and high-strength alloy materials for use by transportation industries. At the Kalwar works, the production of aluminium paste reached installed capacity. To cope with the increased demand for aluminium paste, measures were taken to improve output capacity. These arrangements to raise output of aluminium paste will begin to take effect from the current year.

Encouraged by the growing demand for aluminium, the directors have been considering the erection of another smelter besides the Alupuram plant. They have decided to erect a plant at Hirakud with an initial annual capacity of 10,000 tons. A plan for raising the annual capacity to 20,000 tons is under examination. This factory is expected to start operation by the end of 1953.

After the Hirakud smelter starts functioning, the major bauxite—aluminium expansion programme will begin. These expansion plans are likely to be completed by the end of 1961.

Indian Aluminium's share capital has been increased by Rs 4 crores to Rs 6 crores. Ordinary shares of Rs 100 each have been split into ten shares of Rs 10 each. During the year under review, the Company distributed a dividend of nine per cent. In the previous year, no dividend was declared.

Indian Oil Tankers

THERE has been quite a stir in the otherwise placid waters of Indian shipping. It was announced in a Press Conference last week that Great Eastern had acquired an oil tanker and chartered it to Standard Vacuum for carrying gasolene, kerosene and diesel oil from the Stanvac refinery in Bombay to all the coastal ports. The tanker, christened 'Jagjyoti', has a deadweight tonnage of 13,125 and a draught of 27' 9½". Great Eastern have chartered ships themselves very successfully and have even succeeded in selling the idea to the other members of the Coastal Shipping Association who had at first not only resisted but had actually put their foot down against it. They have been the first not only to own an oil tanker in this country but also the first to charter out their vessel successfully, presumably on a long term contract. Eastern Shipping Corporation, it is understood, will soon follow suit and acquire an oil tanker and charter it out to Burmah-Shell.

Thus has been solved, to the complete satisfaction of all the parties concerned, it seems, the dispute raised by the shipping companies when refineries first came to be established in India. Their contention was that much oil and oil products from the refineries would have to be transported from Bombay to the coastal ports. And for it, coastal tankers were the obvious answer. Why should they not get a cut on it by having tankers of their own? Failing that, they were even prepared to let the Government handle the transport of oil, so long it was carried in Indian bottoms. It has actually worked out fifty-fifty for Great Eastern is very much private enterprise and Eastern Shipping Corporation is now almost wholly public owned, or is soon going to be.

This is not the first time, however, that Indian shipping would be carrying oil. The credit for pioneering in this field and diverting from dry-cargo tonnage also goes to Great Eastern who first started carrying edible oils in bulk on the Indian coast some five years ago.

Why not for Foreign Trade?

THIS much about the tankers for coastal shipping. What about tankers under Indian Flag for the transport of oil overseas? With two of the refineries in operation, we have already developed a considerable export trade in petroleum products. This must have come as a surprise to many. Partly, the exports are fortuitous and may be only temporary, so long as Caltex refinery does not go into operation. For the present, production is somewhat unbalanced. We have an excess of petrol and a very great shortage of kerosene, the bulk of which has now to be imported. There being no refinery east of Abadan until one comes to Japan, we are exporting petrol, diesel and industrial fuel oils to Pakistan, Ceylon, Burma—in fact, as far as Indonesia and Phillipines. On the contrary, except 5 to 7 per cent of our requirements which is met from the Digboy Oil field, the whole of our requirements of crude has to be imported, as well as the bulk of our kerosene requirements. According to the latest report of the Ministry of Production:

"The production of the existing refineries has made the country surplus in motor spirit and furnace oil. This surplus is being exported to other countries. There is, however, still deficiency of kerosene, diesel oils and bitumen.

"Aviation spirit also continues to be imported to the extent of our requirements. Lubricating oils, too, are imported, except for the small production available from the Digboi refinery."

It seems, however, since we are already surplus in motor spirit, when Caltex refinery goes into operation—its erection is scheduled to be completed by the new year—we shall continue to maintain considerable exports. It is time, therefore, for Indian shipping to try to have a cut on the transport of oil products to and from India also.

Indo-Soviet Shipping Services

AS trade followed the flag and the flag followed shipping, one of the legacies we have inherited from the past is the present alignment of shipping routes, which radiate from British and West European ports and girdle the globe. The lack of regular shipping services between India and her neighbouring countries with which she wants to cultivate closer economic and commercial relations is to-day a serious impediment. Except for Ceylon and Burma which come within the orbit of our coastal shipping, we have no regular sailings with the Middle East or South East Asia. Partly the reason is that there is no adequate trade to support regular sailings. But partly also there is little or no trade, because there are no regular shipping services. As the pattern of trade changes, shipping must follow suit. In fact, it has often to initiate the change. This is going to happen in a spectacular manner in India's trade with the Soviet block in Europe. This was heralded by the agreement which was signed this week between the Governments of India and U S S R, establishing a regular shipping service between India and Soviet ports, with the object of expansion of trade between the two countries. In fact, the services are called for for the implementation of our existing trade agreements.

India and U S S R are to provide six ships each of a total tonnage of about 55,000 DWT and the volume of transport that is currently envisaged, it is expected, will keep all the 12 ships fully busy. More ships may be assigned to the service by mutual agreement, if the volume of cargo makes it necessary to do so. The Indian ships which are to serve on this route have been drawn from different Indian shipping companies, the vessels listed being Jalamohan, Jalajyoti, Indian Importer, Indian Endeavour, Bharat Bhushan and Bharat Veer. The schedule of sailings will be jointly drawn up by the representatives of the two Governments who will also distribute the cargo between the vessels of the two countries on a parity basis, revise freight rates and solve other questions connected with the operation of the service. Indian vessels in Soviet ports, and Soviet vessels in Indian ports shall enjoy the most favourable conditions allowed by the laws, rules and regulations applicable to those ports and will be provided with full service and receive all the provisions necessary for normal sailing.

There is one snag, however. While Indian ships at Soviet ports will be handled by the Soviet agency "Infloat', Soviet vessels in Indian ports will be handled by Indian firms to be appointed by the Soviet agency. It is a normal practice, of course, for foreign shipping companies to select their own shipping agents in India but since India has no choice in this matter for her own ships in Soviet ports and has necessarily to entrust them to the Soviet agency, why should the relationship not be reciprocal and India appoint the agent for handling Soviet ships? This is not an unimportant matter for the progress of Indian shipping can be greatly expedited if Government were to make it obligatory on foreign shipping services to employ Indian agents only.

The agreement comes into force with immediate effect and will be terminable by either party on three months' notice.

Our Delhi Letter

The New Industrial Policy

Wednesday, Afternoon.

THE Lok Sabha debate on the demands for grants for the Food and Agriculture Ministry pin-pointed the recent rise in food prices. This was but natural. With food prices moving up during the last few months hand in hand with a comparatively big rise in currency circulation, fears of inflation have seized many minds. Once bitten, twice shy. The memories of wartime inflation are still too fresh in the minds of members of Parliament to enable them to view the recent rise in prices without concern. The Food and Agriculture Minister, however, was categorical in his reply that there was no apprehension of prices going up too high, though he hastened to add that the Government was carefully watching the situation and corrective action would be taken when it became necessary. The answer which Sri Baliram Bhagat, the new Deputy Minister in the Finance Ministry gave was, however, less assuring. If one took a long-term view, he said, there was practically no inflation yet in this country. That there was an undertone of anxiety even in Sri Jain's reply cannot be denied. The fact of the matter is that nobody knows for certain what is the safe limit of deficit financing. In the circumstances, financial pundits, if they choose to take it upon themselves, can easily raise a scare by crying inflation every now and then. This cry may not be just cussedness as in the Aesop's Fable; it may well be a covert attack on the contemplated rapid expansion of the public sector.

Buffer Stocks of Foodgrains

Whatever may be the motive behind raising this scare, a closer look at the situation is warranted. Food prices, to be sure, have been rising since the middle of last year. Yet they are much lower than in 1953. And nobody has claimed that the 1953 food prices were out of parity. Furthermore, the rise in prices in the Hapur market seems to have been halted; to this the release of stocks by the Government must have contributed. Supply of food today, however, is not as ample as it was early last year. North Indian floods and South Indian cyclones have probably restored the balance between supply and demand which was lacking last year. This explanation fits in with the situation in the cloth market also. True, last year's cloth exports were slightly lower. But what is often lost sight of is that cloth exports of all the major exporting countries suffered in 1955; while the relative position of these countries as exporters of cloth remained unchanged. It is, however, probable that speculative interests have to an extent been influencing cloth prices. They have certainly been influencing food prices. The answer to that is the release of stocks and credit control. Sri Jain in his reply referred to the Reserve Bank watch on bank advances to traders and the proposal for the building of buffer stocks of one million tons of wheat and one million tons of rice, not out of home production but through purchases abroad. Already negotiations are afoot for the purchase of U. S. wheat. There are reports that plans are about completed in Washington for a large transfer of surplus food to India. The Government proposes to have an assured supply for a number of years and to make purchases at a price comparable to the internal price of wheat. Similar negotiations are being carried on with Burma for a long-term agreement for rice imports.

The Plan in Parliament

The Draft Plan is proposed to be presented to Parliament on May 7 after being processed by the National Development Council on May 2 and 3. The outlays under other heads are not likely to change but it is a certainty now that defence expenditure will go up. This will reduce the expected revenue surplus and widen the gap between the estimated resources and expenditure. Attention naturally has been paid to tax sources. The measures recommended by Kaldor could have considerably increased tax receipts. But the administration thinks there are practical difficulties in implementing the recommendations. New tax measures are, therefore, under contemplation and fresh tax proposals may come to Parliament by the middle of the current year.

A chapter on State Trading has been added to the Draft Plan. The task of the proposed State Trading Corporation will be to handle trade with Communist countries, to import commodities under the T.C.A. programme and do business in a number of commodities with non-Communist countries as well. The immediate task of the Corporation will, however, be a modest one. Existing trade channels are not to be disturbed and are to be used, wherever possible. If trade enquiries from Communist countries can be suitably directed to established traders, the Corporation itself will not undertake any commercial transaction.

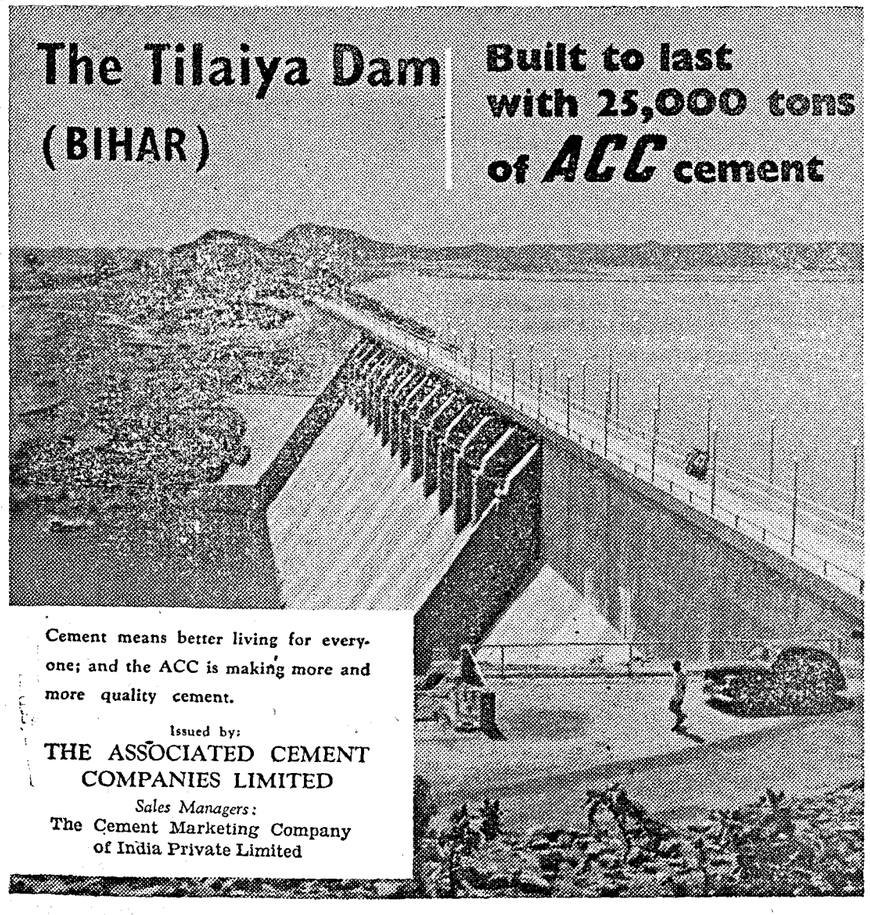
New Industrial Policy

The new industrial policy statement is awaiting Pandit Nehru's

approval. It may be released before these lines get into print. The main purpose of restatement is supposed to be the removal of all ambiguity and to bring the policy in line with the objective of a socialist society. The new statement is also understood to have enunciated the Government's concept of mixed economy. As before, industries will be divided into three groups, though the number of items in the three groups has been changed. List one, containing those industries whose development is exclusively reserved for the State is understood to have been enlarged. List two, which may be called the concurrent list, is also said to have undergone expansion. List three, i.e. of industries reserved for the private sector, has consequently shrunk. An important change is the emphasis on co-operatives in this category of industries e.g. cotton textile and sugar. If the plans materialise, co-operatives will develop very considerably. Fears of competition with the existing units are discounted. Increased incomes in an expanding economy will not find it difficult to absorb the additional output. In developing small industries, the emphasis will be both on improved techniques and decentralisation. Consistent with decentralisation, the latest techniques will be adopted and here also co-operatives are expected to play an increasingly important part.

Disparity Between States

The revised industrial policy statement recognises the need for the removal of unevenness of development. It draws attention to the glaring disparities in the development of the various States, showing how the presence of accelerating factors like capital, enterprise, transport and power have resulted in the concentration of industries in a few areas. "In the location of new enterprises, whether public or private, special consideration will be given to those areas which are less developed industrially, or where there is a greater need for providing opportunities for employment. Only by securing a balanced and co-ordinated development of the industrial and agricultural economy in each region can the whole country attain a higher standard of living." By recognizing the necessity for regional development implicit in which are the terms of trade as between regions and comparative costs as applied to the various parts of the same country, the policy statement breaks new ground.



Small-Scale Industries

Problem of Technological Change

K N Raj

(*Continued from last issue*)

Given these two assumptions, the case for unfettered technological change is of course unchallengeable, because not only will those displaced by the change be inevitably re-absorbed but their re-absorption will go alongside the higher rates of investment sustained by the larger surpluses. It is then only if the capital-output ratio is higher in the more advanced techniques that one need even make a choice between maximisation of output and maximisation of the rate of growth of output, and since differences in capital-output ratios are not usually brought into the model, the 'economic' considerations are in perfect harmony with the 'humanitarian' and 'political' considerations.

But when we are concerned with applying a theoretical model to a specific situation—particularly in the context of a Plan—we need to be more careful about our assumptions.

In the first place, there is very little basis for the assumption that the incomes of those engaged in small-scale enterprises will necessarily leave no margin for saving. Indeed, as a matter of historical experience, the instinct for accumulation has been found to be as strong among small craftsmen and traders as among the larger capitalists. It is the institutional setting, and the incentives which it provides, that is of importance from this point of view rather than the size of the productive units or even the levels of income of those engaged in them.

Secondly, it is a fact which cannot be ignored that there are considerable differences in wage rates as between different types of organisation. Wage rates in factory enterprises are invariably higher than wage rates in small workshops, and wage rates in small workshops are higher than can be imputed to family labour in productive households. A change-over in techniques and in the type of organisation cannot, therefore, be assumed to leave wage rates constant.

It is also a fact that there is no clear tendency on the part of capital to move towards areas and types of organisation in which wage rates are low. This may have something to do with railways and other 'overhead' facilities being available only in certain concentrated urban areas, but obviously there are also various kinds of imperfections in the capital markets, attributable to a variety of social phenomena and motivations, which work in the same direction.

It is clear from these two considerations that the consequences of immobility of labour and capital cannot be ignored, particularly in under-developed economies, in any analysis of the means for maximising rates of growth. Technological progress in limited sectors, we must remember, means also usually higher wage rates in these sectors, and this reduces the surplus available for investment. The fact that, despite this, the capitalists want to introduce new techniques does not, by any means, prove that the surplus yielded by investment in these techniques is larger than could have been tapped with less advanced techniques in the low-wage types of organisation. It is a tenable thesis that, in pressing forward with technological change, the capitalists are more concerned with reducing the labour force in their establishments (for fear of possible conflicts with labour in the future) and ensuring for themselves a reasonable rate of profit than with maximisation of profits as is often taken for granted.

We must also take into account the likely leakages from the surpluses for maintaining, at the minimum subsistence standards, those displaced from employment through introduction of new techniques. When the problem is looked at from the point of view of only one industry or firm, it may be legitimate to assume that the surplus will not be affected as a result of the change in techniques. But if the labour displaced by technological change in one industry has to be maintained in one way or another by those engaged in another, the consequent reduction in the surplus of the latter will at least off-set to some extent the increase in the surplus of the former.

It is very often implicitly assumed in this context that, when technological change displaces labour in under-developed economies, the amounts available for consumption in the productive households will somehow be re-distributed among a larger number, and that the surpluses created will not therefore be drawn upon to any significant extent. This implies two things:

(i) that the productive households which are compelled to carry a larger number of dependants do not have, and are not expected to have, any surplus which they might be otherwise inclined to draw upon; and

(ii) The minimum subsistence requirements of all those involved are lower than the standards they enjoyed prior to the displacement of labour from productive employment. Taking the two together, it will be clear that what is really assumed is that there is a surplus available for being extracted from existing levels of output, but that the only practical way of getting at this surplus is by pushing out some of those at near-subsistence levels to be maintained for a time by others who are also at near-subsistence levels. This is, by no means, an 'economic' consideration; it is essentially a political and administrative judgment.

It will be, on the whole, more realistic and appropriate to allow for some leakage on this account. For if labour is displaced on any significant scale through technological change, it will either become necessary for the State to provide relief of some kind for the unemployed or the households still in productive activity, which could otherwise have some surplus (i.e., in agriculture), will be compelled to divert part of it for maintaining the additional dependants.

When considering the case for technological change from the point of view of maximising the rate of growth of output, we must, therefore, take into account all these factors, because they are relevant to the size of the surplus that will be available for investment under alternative techniques. To begin with, we must remember that we are concerned with improvements in technology which, even if they do not involve more capital per unit of output, imply certainly more capital per unit of labour employed (for, otherwise, the problem of technological unemployment does not

arise). This means that though a larger surplus may be generated per unit of labour employed through improved technology, the number that can be provided employment with a given initial investment ceiling will be smaller. The aggregate surplus thus thrown up will also be smaller the larger the leakage we have considered, namely those on account of (a) higher wage rates under the improved techniques, and (b) diversion of resources, directly or indirectly, made necessary for the maintenance of those displaced from employment. If, in addition, the capital-output ratio is also higher in the more advanced techniques (as may well be the case, though not necessarily), the aggregate surplus will be reduced still further. It follows that, even if the surplus per unit of labour employed in the less efficient variants is only a fraction of that possible on the basis of the more efficient ones, the total surplus available for capital accumulation in the former case could still be larger.

The simplest way of bringing all these considerations together, and of stating the conditions in which introduction of improved technology can be justified on grounds of maximising the rate of growth of the economy, might be as follows: Given two alternative technical variants, A and B, the former involving higher capital cost per unit of labour and also a somewhat higher wage rate for the labour employed than the latter, Variant A would be preferable to Variant B only if the proportion of the surplus per worker in the former (after making an allowance for the leakage for maintaining the labour displaced by its introduction)* to the surplus per worker in the latter is larger than the proportion of the capital cost for employing a worker in Variant A to the capital cost for employing a worker in Variant B.

If this formula is applied to the possible variants in each industry, and it is observed that there are tendencies towards introduction of techniques which do not satisfy the condition laid down, there is indisputably a case for arresting such tendencies through State intervention, even on the 'economic' criterion of maximisation of the rate of growth of the economy.

Thus, to give an illustrative example, let us take three alternative techniques in weaving in the textile industry, and see how it would work out on the basis of certain assumed values for the relevant variables in each case (see table below).

This is probably not an altogether unrealistic representation of the relative magnitudes involved today in the choice between different types of technology in the textile industry (though no specific claim of that kind is implied here). For, Technique I conforms broadly to the more primitive type of fly-shuttle handloom which is now surviving on a very precarious and unsatisfactory basis; Technique II to the improved 'Banaras' semi-automatic loom referred to in the Report of the Textile Enquiry Committee (1954); and Technique III to the advanced automatic loom, several of which can be operated simultaneously by one worker (assumed here to be 16 per worker).

It will be seen that it is advantageous to move from Technique I to Technique II, because there is no surplus whatever in the former, while a relatively small investment per worker yields a substantial surplus in the latter. But it is not worthwhile to shift from Technique II to Technique III (except to the extent necessary for earning foreign exchange)**. For, though the surplus per worker in Technique III is considerably larger, the increase in the capital cost per worker, involved in the shift, is even larger. Or, to put it in another way, if the amount available initially for investment is Rs 160,000, not only is the employment provided by Technique III limited to one worker but the surplus thrown up with this investment will be only Rs 94,500, while, if Technique II is adopted, employment will

* This deduction from the surplus per worker will be greater the larger the number displaced by the introduction of the technique, but it will also depend on the institutional set-up.

**The concession to be made in regard to production for foreign markets depends on the premium which it is necessary to place on foreign exchange in the context of the investment programme. The greater this premium, the greater is, in effect, the imputed value of the products earmarked for exports.

	Technique I	Technique II	Technique III
Capital cost per loom	Rs 50	Rs 200	Rs 10,000
Capital cost per worker	Rs 50	Rs 200	Rs 160,000
Output per loom per day	4 yds	20 yds	80 yds
Net value added per loom per year (on the assumption of four annas per yard and 300 working days per year)	Rs 300	Rs 1,500	Rs 6,000
Net value added per worker per year	Rs 300	Rs 1,500	Rs 96,000
Wage per worker per year	Rs 300	Rs 900	Rs 1,500
Surplus per worker per year	Nil	Rs *600	Rs *94,500

(*No allowance is made here for 'leakages' on account of the need to maintain the labour displaced from employment)



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J. R. Lowell.

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be available for 800 workers and, at the same time, the surplus will add up to Rs 480,000. If, nevertheless, there is not evident a strong tendency to move into Technique II, it can be only because of imperfectness of competition and insufficient private enterprise, which it is the business of a Plan to remedy.

On this line of reasoning, there is of course no case for "freezing" technological change, but regulation of such change, and active measures to prevent the introduction of certain types of advanced techniques, appear entirely justified. For it shows that there is such a thing as an optimum technique from the larger social point of view in any given set of conditions, and the techniques actually adopted by private entrepreneurs may not conform to it. It is, therefore, the function of the planning authority to take such positive and negative measures as may be necessary to bring about movement towards the optimum.

That it is not their inherent technical inferiority so much as organisational deficiencies which stand in the way of certain techniques, close to the optimum, appearing to be "inefficient" is again illustrated by the references in the Report of the Textile Enquiry Committee to certain experiments with improved handlooms organised on the basis of co-operative societies. For instance, Annexure E to the Report gives the history and the details of the working of the Yemmiganur Weavers' Co-operative Society. This Society was started in 1938, with a paid-up capital of Rs 170, when most of the looms in the area were throw-shuttle looms. In the course of the last two decades, the only important technical change introduced has been their replacement with fly-shuttle looms. But the Society has, in the process, accumulated a paid-up capital of over Rs 1 lakh (almost wholly out of a Thrift Fund into which one anna in every rupee of the wage earned by members is paid), developed another Common Good Fund which meets the expenses of a comprehensive system of health insurance among the members, established its own dye factory, printing section, and a factory for the manufacture of furnishing fabrics, and also initiated a scheme by which houses are built by the Society and the members purchase them over a period on an instalment basis—all of which, obviously, is attributable to the surpluses created by its 1800 members.

On the line of reasoning advanced here, it will be also obvious that, while positive steps are being taken for a planned transition from one technique to another, it is not inconsistent with the objectives implicit in such a policy to give a measure of protection to those who are to be assisted to move into the better techniques but who may, in the absence of protection, be displaced in the meanwhile. The case for such protection, whether it involves direct subsidisation or not, is no less strong than the infant-industries argument which has been accepted for some time as respective economics.

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From the London End

Prelude to the Budget

THE economic events of the last three months are likely to be more decisive in determining the Budget proposals (to be made on April 17) than what had happened in 1955 as a whole. After all, the year 1955 saw two budgets and a series of quick changes in monetary policy and this most disagreeable experience is something that the Eden Government would wish to forget. The **Economic Survey** published last week is, therefore, a quick survey with no prescriptions and little indication of how the Treasury officials are thinking.

The pertinent facts of the economic situation over the past two months reflect the typical cyclical behaviour of the British economy which we are all accustomed to in the post-war years. For 1955 as a whole the gold and dollar reserves fell at a monthly rate of £19 million. In the first three months of 1956, the reserves increased at an average monthly rate of £20 million. Correspondingly, the trade gap in 1955 ran at a monthly rate of £72 million (£50 million in 1954) while in the first quarter of 1956, the corresponding gap fell to £60 million. This improvement was occasioned both by a fall in imports and a rise in exports.

Such improvements as that experienced in the past quarter have in the past always been associated with some decline in industrial activity and in sales turnover. This correlation was again repeated on this occasion. Industrial production in the first quarter of 1956 showed no change compared to the previous quarter and the pressure on labour has been markedly reduced. The home market, particularly for semi-durable goods and textiles has fallen with radios and television recording a decline of as much as 30 per cent. All these factors indicate the abatement of the inflationary pressures of 1955 leading to coresponding improvements in the external payments situation.

The abatement of the inflationary pressures has been particularly marked in the vehicle industry. The industry is a somewhat sensitive one and as in the United States, the level of its activity is one of the crucial guides of how the entire economy is faring. In the first quarter of 1956 vehicle production fell by some 2,00,000 per week compared with the last quarter of 1955. This drastic fall has been accompanied by the abandonment of overtime and the introduction of short-time and some fall in absolute employment not only in the vehicle producing industry but in a whole series of allied industries. Some 20,000 workers are involved in this downward slide of vehicle production.

While little concrete information is available on private industry's investment intentions, there is a marked absence of confidence that the 1955 rise of 18 per cent in such investment expenditure will be maintained in 1956. Allied to this is the sharp fall in bank advances. During December last, Bank advances fell by £63 million to £1851 million. They were then £335 million below their June peak and £46 million below a year earlier. In January, they fell a further £25 million and rose in February by £39 million, compared with a rise of £108 million a year earlier. Between February 1955 and February 1956, bank advances fell by 135 per cent.

All these factors would allow one to believe that the April 1956 Budget should be a "no-change Budget" —a budget of consolidation rather than one of exacerbating the decline in economic activity. In fact, however, this is not expected to take place unless, of course, the authorities are satisfied with the international economic situation, and in particular the trend in the major export markets.

Decline in Exports

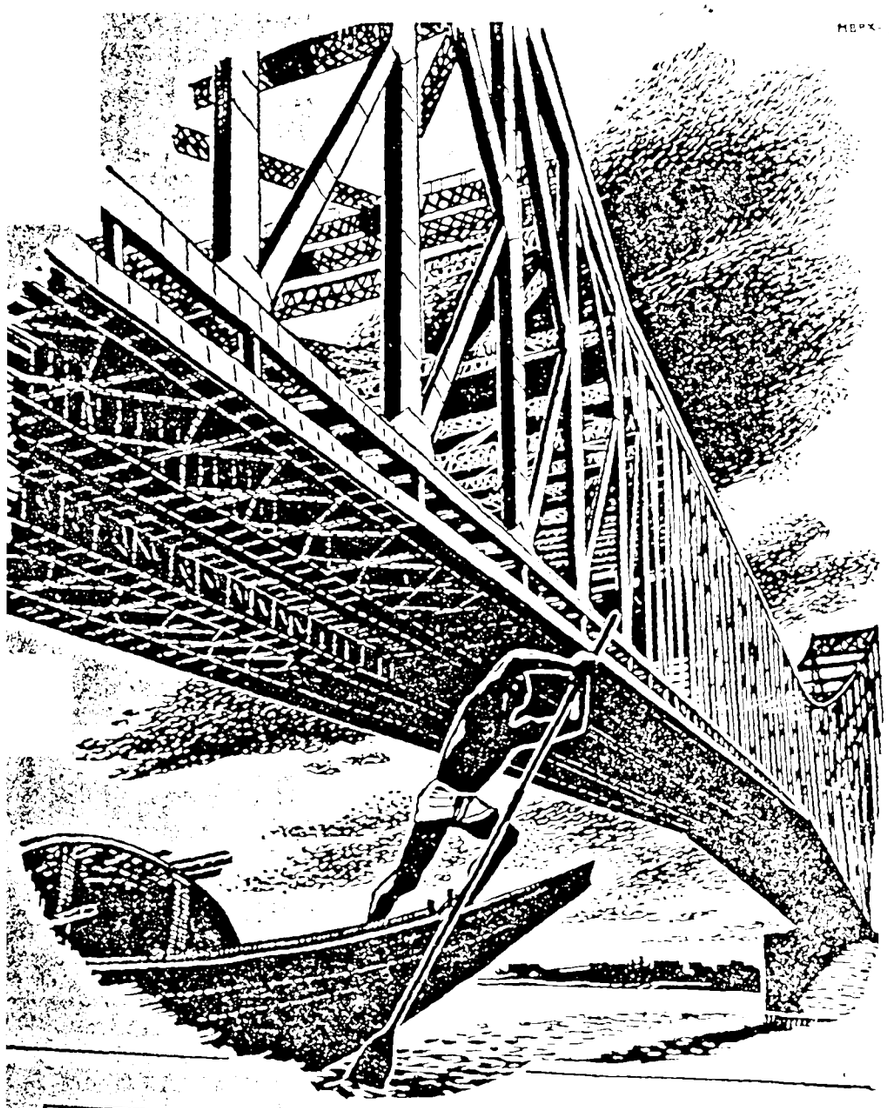
An examination of the export data of the main trading nations of the world shows that while world trade in exports rose by about 12 per cent in 1955, Britain's share in this increase was no more than 5 per cent compared to 17 per cent, 24 per cent and 12 per cent for West Germany, Japan and the U. S. A. respectively. This problem for Britain was particularly acute in the sheltered Sterling Area markets. To such markets increase in the U.K.'s exports was less than 4 per cent compared with an increase to all other countries of 11 per cent. Britain's reduced share in the world market related to almost all commodities; for textiles, Britain's international supply fell by 6 per cent compared with a West German and Japanese rise of 12 per cent and 4 per cent respectively. These adverse trends in Britain's international economic situation probably arose out of the fact that the home market took up too much of the national output. If this is true, then the drive to reduce the aggregate home demand should be justifiably speeded by harsher Budgetary Proposals.

Another possible cause for an active Budgetary policy may be occasioned by the international investment requirements of the U. K. The **Balance of Payments White Paper (Cmd 973)** gives for the first time the total U. K. annual net long-term overseas investment since 1952:

1955	£125 million
1954	200 million
1953	175 million
1952	150 million

These totals exclude government-to-government lending. The sharp decline between 1954 and 1955 may have reflected the diversion of resources towards internal consumption when the need for sustained overseas investment became recognized as a basic determinant of the international status of the United Kingdom. Thus, the revival of a high level of overseas investment may be regarded as a State obligation falling within the purview of the Budget.

Within the country there continues to exist a particularly large body of informed opinion holding the view that taxation in the U. K. serves as a disincentive, leading to inefficiency and making for price-increases. This view was recently bolstered by the report of the Royal Commission on taxation. Many now await a concrete change in the tax-structure of the U. K. It is, however, difficult to imagine the authorities embarking on so major a change when the economy is in mid-stream. That some small change towards an incentive-creating public finance system may be introduced is, however, not outside the realms of reality in the coming Budget.



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Book Review

Gandhiji— A Personal Approach

Reviewed by **Nirmal Kumar Bose**

Mahatma Gandhi: The Last Phase Vol I By Pyarelal. Navajivan Publishing House, Ahmedabad. 1956. 16 pages of illustration, pp. XXIX plus 750. Rupees 20.

IN writing the present account of the last years of Gandhiji's life, the author has had two special advantages, namely, his intense personal devotion to Gandhiji, and his intimate knowledge of men and of events in which he himself did not play an inconsiderable part. In presenting the story, he has again kept before himself two, more or less, distinct aims. One was to present a factual account of the political happenings in India between late 1944 and middle 1947 in which Gandhiji was personally involved, and the other was to discuss the theoretical aspects of the technique of satyagraha, as Gandhiji gradually developed it under the circumstances prevailing in India.

Such aims are praiseworthy, and the Navajivan Publishing House entrusted the job to able hands. But the over-all feeling of the reviewer has been that the narrative portion of the book has been overburdened by the author's desire to show how, throughout his many-sided political and social activities, Gandhiji consistently tried to attain his ideal of the sthitaprajna, or the man of unruffled intellect. There has been a greater concern to demonstrate how satyagraha rests upon an abiding faith in God, and how prayer or fasting is integrally related to it, than a desire to examine and assess it as a means of social action. This cannot, of course, be a matter of complaint; but the unfortunate part of it is that the author has frequently permitted himself to stray off tangentially into an attitude of moralising at the expense of the weaknesses of individuals or of groups whenever an opportunity has presented itself. A particularly unfortunate example may be cited from page 323, where in connection with the 'defect of will-to-resist' among the female victims of the communal riot in Noakhali, he wanders and goes on to quote what Gandhiji said in a completely different context how 'the modern girl loves to be Juliet to half a dozen Romeos'.

This temptation to moralize, or even to enjoy the weaknesses of others, would be merely innocent, had it not been responsible for much unconscious distortion of facts. Thus on pages 612-13, the author has drawn a picture of an interview of Maulvi Fazlul Huq with Mahatma Gandhi in which the former has been presented as nothing more than a comical figure. This is completely at variance with another account of the same interview published by someone belonging to Gandhiji's company, and who was present at the time, in which significant events of great political import alone were brought out. A subjective concern has thus materially affected the objective quality of the book in so far as history is concerned.

While on this topic, we may as well draw attention to another serious matter. In terms of the author's presentation of the theory and practice of satyagraha, one is led to believe that in the years covered by the book, Gandhiji principally tried to bring down complicated social and political questions to the personal level for purposes of solution. As Pyarelal presents it, the implication is that if relations can be set right on the personal level, they can also be set right on the organizational level. Perhaps this is the reason why he has taken so much pains in describing in detail how Gandhiji dealt with those who differed from him, how he tried to make them 'prisoners of (his) love' (p. 335) by showing them extra-courtesy and giving them extra-consideration. It is the reviewer's feeling that in describing this part of the Gandhian technique, one can err on the side of exaggeration. In one or two places, this implied subordination of the 'public' to the 'private' has led the author into statements which leave the reader mystified by their excessive demands upon logic. Thus, with regard to the practice of Brahmacharya or continence, the author says with reference to Gandhiji's lessons in this respect to one of his grand-daughters in Noakhali:

> The step which he (Gandhiji) had taken was not taken to prove what he could do, but rather a necessary stage in his grand-daughter's discipline. It was intended to test the full sincerity of her assurance to him. Incidentally, it would provide a test of his own. If his sincerity could impress itself upon her and evoke in her all the excellences that he aimed at, it would show that his quest of truth had been successful. **His sincerity should then impress itself upon the Muslims, his opponents in the Muslim League, and even Jinnah,** who doubted his sincerity to their own and India's harm (p. 580, bold as in the original).

The endeavour to reduce public questions to the level of relation between personalities, has been carried further by the author in respect of graver questions than that referred to above. In the detailed description of negotiations between the Congress and the Muslim League, the impression is conveyed that political problems could not be solved because they foundered on the rock of personal relations. This unfinished story of events which led to the partition of India henceforth begins to take on a portentious or rather ominous significance.

There are indications in the present volume to show that, in the opinion of the author, partition was becoming historically inevitable long before it had become a serious political issue, as about the middle of 1947. Thus we are told that:

> On the day when the Muslim League was admitted into the Interim Government on the Viceroy's initiative and invitation, the battle of undivided India was irretrievably lost (p. 289).

Again:

> The Bihar disturbances of 1946 finally shattered the dream of an undivided India (p. 641).

One may reasonably ask, how and why?

Anyway, in relation to the growing difference in political outlook between the leaders of the Congress and Gandhiji, the author has taken recourse to a curious strategy of explanation. We are told that

> The members of the Working Committee with their purely political approach, felt out of depth in these uncharted waters (of non-violence—N.K.B.) (p. 240).

While

> By unflinching adherence to truth, Gandhiji found a fourth-dimensional way of escape, as it were, out of the impenetrable steel ring that had been thrown round the Congress etc. (p. 483).

When Gandhiji said to the Cabinet Mission that

> If his advice ran counter to that of Pandit Nehru, for instance, they should follow Pandit Nehru's advice rather than his (p. 204),

it is obvious that Gandhiji was, for the time being, withdrawing himself from the trust and responsibility reposed upon him by the entire nation. Instead of dealing with this extremely significant event with scientific objectivity, we are treated with a dose of mystic jargon which can never be a substitute for honest historical explanation.

This desire to escape into mystic words from logic has been carried, we believe, to comical excess in relation to *brahmacharya* or continence. We are told:

> The central meaning and significance of the testimony of Gandhiji's striving for the attainment of Brahmacharya would seem to be this that the practice of Ramanama can serve as a "moderator element" in a nuclear reactor to convert the high explosive potential into an inexhaustible, steady current of controlled energy (p. 604).

Similarly, when describing Gandhiji's influence upon the maddened rioters of Delhi, the author tells us how the last fast was

> the culmination of that power which showed all the characteristics of an atomic chain-reaction (p. 605).

One may reasonably ask, why has the author taken so much pains to show that the growing difference between the Congress leaders and Gandhiji lay in the last analysis in their incapacity to appreciate the mystical religious qualities of non-violence? Was the non-violence presented by Gandhiji to the Congress *so mystical after all*? Could not the growing opposition be referred to the growing divergence between 'national' interests as represented by the Congress and Gandhiji's concern to build up a new India based upon the growing and organized non-violent power of the masses? It appeared to some that, for the time being, at least, Gandhiji permitted himself to go into the wilderness. It was only in the last week of his life that he seems to have decided to assert himself once more. This was evident when he advised that the Congress should be wound up, now that its objective had been attained. But we are anticipating events which would come up in the second volume. In any case, the 'mystic' explanation of divergence seems to us to be *unhistorical*. One can be completely sympathetic towards the Congress leaders even without trying to defend their obvious weaknesses.

Incidentally, we discover in the present book how far astray a man can be led if his purpose is to 'defend' and not to find out the truth and nothing but the truth. We are referring this time to what the author has done not in respect of the political leaders of the land but in connection with Gandhiji himself. There is a curious chapter in the book entitled **Brahmacharya** in which Gandhiji's endeavours to attain the perfect state of continence has been described. We are firmly of opinion that the references to his grand-daughter, as presented in this chapter, are not only uncharitable but also very partially true. It has been made out that the opposition of some of Gandhiji's co-workers to some of the actions of Gandhiji centred on the figure of the grand-daughter in question. But those who have read the **Harijan** of 1935 or 1939, when Pyarelal was intimately associated with that paper, know it well enough that the opposition which raised its head once more in Noakhali was of ancient origin. Moreover, certain things happened in Sevagram which led to the withdrawal from the Ashram of men like Kishorelal Mashruwala, who thenceforward lived outside the precincts of the Ashram. With the author's personal knowledge of these events, we are decidedly of opinion that it has been wrong for him to make of the poor grand-daughter a scapegoat, as has been done in Chapter XXIII of the book under review. This is as unfair to those who cannot now open their lips for one reason or another, as it is unhistorical. If one could not bring to bear upon the question all the facts of the case, then why try to deal with the question at all? A poor defence does not become stronger when fortified by the certificates of people like Badshah Khan or "an English lady", none of whom were in possession of all the facts. Gandhiji needed no laboured defence. The desire to defend him arose in the mind of the author because Gandhiji's practice was beyond the depth of ordinary minds.

In spite of all that has been said above in regard to either fact or theory, Shri Pyarelal has succeeded in giving us much that is valuable and much that is enjoyable. He may have lapsed now and then into unnecessary gossip or irrelevant detail; but barring such occasional blemishes, Gandhiji has been presented to us as a great spiritual personality, and his desperate endeavour to build up a new India from the bottom upwards draws our unstinted admiration. We are indeed thankful to the author for his long-drawn labours; but we must not forget that a good pile of well-burnt bricks does not necessarily make good architecture.



Indian Agricultural Labourer

A Soviet View

G G Kotovskii

The following is a translation from the Introduction to the Russian version of "Agricultural Labourers in Modern India and Pakistan" by Surendra J. Patel.

It is an independent assessment from the Soviet stand-point of the conditions of agricultural labour in India by a distinguished Russian Economist who bases his findings on data from the 1951 census and from the Agricultural Labour Enquiry conducted by the Ministry of Labour.

IN the foreign literature concerning India, this book by the Indian economist, Mr Surendra J. Patel, which is being brought to the attention of the Soviet readers, is the first monographic research on the problem of the formation of the agricultural proletariat in India. Other economists, pursuing this theme have, as is known, based their work on the material relating to various regions or even villages; they have restricted themselves from probing into the historical setting. Compared with these researchers, Patel takes a decisive step forward. His work relates to the whole of India comprising the present area of the Republics of India and Pakistan. The author traces the formation of the class of agricultural labourers over a long historical period—ranging from the sixties of the nineteenth century up to the period after the second world war. Patel has given an extremely interesting account of the disintegration of the Indian agrarian society during the nineteenth century. The historical-economic character of Patel's monograph significantly enhances its perceptive and scientific value.

Many British and Indian bourgeois economists have looked upon the appearance and the growth of the agricultural proletariat in India as some "accidental" and "undesirable" fact. Patel, on the other hand, rightly regards this as the normal result of the whole process of economic growth of the country. This is the chief merit of Patel's work. Patel's book objectively exposes the reactionary role of British imperialists and feudal remnants, who thwarted and deformed the development of capitalism in agriculture in the country, thus directing the process of disintegration of the peasantry into the slow and tortuous path of "non-proletarian impoverishment". In his work, Patel shows the worthlessness, from a scientific point of view, of neo-Malthusian attempts to explain certain characteristics of economic evolution in India and Pakistan by referring to the growth in population.

Careful Study

Patel's monograph is based on a careful study of vast statistical material and economic literature. Attention may be drawn to the fact that the author has made use of some of the works of Karl Marx including his **Capital**. Studying the Russian language, Patel has acquainted himself with the famous work of M. Kovalevsky: ***Obshchinne Zemlyevladyenie: Prichini, Khod i Posledstviya evo Pazlozyeniya.*** (Communal land ownership: The Causes, Course and the Results of its Disintegration). It must be added, however, that the author has, in his study, made use of the best attainments of advanced Indian economic thinking. Undoubtedly, the merit of Patel's study is that the author's propositions and conclusions are supported by abundant factual and statistical material.

Patel, as he himself has stated, has not placed before himself the task of an all-round research on this problem. He touches only in passing the question of conditions of agricultural labourers, the forms of payment for their work, the formation of the market for their labour force. Strictly speaking, the theme of his research work is the formation and the structure of agricultural labourers in India during the historical period mentioned above. The material, brought together in Patel's study, shows objectively that the growth of capitalist relationships is the basic tendency in the evolution of the agrarian economy of India and Pakistan. His work helps to reveal many important features of the process of the disintegration of the peasantry which comprises nearly three-fourths the total population in India and Pakistan.

Analysing the all-India census data, Patel has rightly concluded that the formation of the agricultural proletariat began in the last third of the nineteenth century. This is explained by the fact that in the sixties of the last century India entered the stage of capitalist development. Further growth in the number of the agricultural proletariat and the rise in their proportion to the total agricultural population, particularly during the general crises of capitalism, was associated with the quickening of the disintegration of Indian peasantry. By certain characteristics of this process we may explain the structure of the agricultural proletariat in India and Pakistan.

Transformation

One of these characteristics is that the transformation of the expropriated peasantry (owners and occupancy tenants) into share-croppers without any rights constitutes an intermediate step in the process of their complete destruction and transformation into agricultural labourers. As is known, during the first half of the nineteenth century, the British imperialists confirmed the rights of land-ownership on the feudalized communal top and the communal peasants in the raiyatwari regions (Madras, Bombay and other provinces) and in the Punjab. In these regions, therefore, small peasant proprietorship was generally maintained. During the last third of the nineteenth century, however, as a result of the tendency towards sale of land and the development of capitalism, holdings began to be concentrated in the hands of outside landlords from the circle of traders and moneylenders, as well as in the hands of the upper layers of the peasantry. The process of land concentration gained momentum during the epoch of imperialism, particularly in the period of the general crises of capitalism. The expropriated peasants, however, were not immediately transformed into agricultural labourers. On the contrary, they again took up cultivation, but under worsened conditions as semi-feudal tenants. The growth of landlordship

was accompanied by an expansion in the area cultivated by tenants. In the Tanjore district in the Madras province, for example, most of the land went into the hands of the landlords by the end of twenties of this century; the tenants there cultivated nearly 90 per cent of the land. In the Bombay province, nearly five million acres of land was acquired by moneylenders, traders and such other urban elements between 1917 and 1943. Nearly all this land was leased out to tenants.

In the areas under Zamindari land settlement (Bengal, Bihar, parts of United Provinces, etc.), various feudal groups were given the rights of land owners (Zamindars) towards the end of the eighteenth century.* On the top stratum of the commune, the communal members were conferred full rights by special legislation the rights of protected tenants; i.e. the terms of the lease (amount of the rent and other conditions of lease) were fixed by law. Step by step, a few other tenants also received the rights of protected tenants.

Protected Holdings

The title to the rights of protected holdings as well as to that of receiving a fixed portion of rent became objects of purchase and sale. Tenants, suffering from heavy feudal exploitation, lost their rights of protected holdings to the upper peasantry, moneylenders and traders. In this way, in the Zamindari regions (especially in Bengal) grew up a whole series of intermediary subtenants receiving a fixed portion of feudal rent. Patel rightly observes the known similarity between the expropriation of the rights of the protected tenants in the Zamindari region and the expropriation of peasantry from land in the raiyatwari region and in the Punjab. In both the cases, a major portion of the peasantry is transformed into tenants-at-will, who have no legal protection regarding the terms of lease and against raising of the rent. Most of these tenants pay rent in kind on a share-cropping basis. In the Punjab, for instance, 75 per cent of the tenants were in this category of share-croppers on the eve of the Second World War.

As a result of the increased feudal exploitation of the Indian peasantry during the period of imperialism, the peasants (tenants) became not only impoverished, but also lost the means of production and instruments of work—cattle, implements and agricultural stocks. In other words, some of the conditions for the transformation of tenants into agricultural labourers were created. Such tenants received from the landlords not only land but also some other means of production. The portions of the means of production provided by each side determined, among other things, the ratio between the shares of the landlord and the tenant in the crop.

Share-Cropping

In the Indian conditions under discussion, the form of share-cropping tenancy is in reality almost impossible to define. A "share-cropper", owning some very primitive means of labour, would pay as a tenant or an agricultural labourer, four-fifths of his crop to the landlord. In the face of the relative agricultural overpopulation reflected in the existence of the landless peasantry, there is a keen competition among the tenants for each piece of land that may be available for rent. This creates the possibility for landlords and upper peasantry to raise rents. Thus, the monopoly of the British imperialists and feudal landlords over land as well as the heavy and rising relative over-population are the economic conditions which made it possible and profitable for the Indian landlords to continue exploiting the peasantry by semi-feudal methods—depriving or nearly depriving it of land and other means of production. Share-cropping often conceals such forms of exploitation of direct producers in which they are almost completely deprived of means of production and their position resembles that of agricultural labourers. According to Lenin, such production relationships constitute "direct transition toward capitalism combining with them a series of very subtle transitions." (Collected Works, Russian Edition, III p. 170). V. I. Lenin has pointed out that "there are still many intermediary steps before the complete evolution, before the complete separation of the producer from the means of production." (ibid. I. p. 445). Different aspects of share-cropping tenancy during which a peasant proprietor loses land and other means of production indicate the different steps of exploitation and pauperisation of the tenants; these are the "intermediate steps" on the road to his complete proletarization.

In India as a result of the British imperialist rule which preserved significantly the remnants of feudalism, the process of "de-peasantization" (the separation of the direct producer from the means of production) was held up over a period of time at each of its stages. This was an extremely tortuous process for the peasantry. As a result, the whole countryside of India was filled with mass destitution which affected not less than three fourths of the peasantry. It was because of this that agricultural labourers with holdings, who were exposed to feudal and moneylending exploitation, appear as a special type of agricultural proletariat or semi-proletariat.

Depeasantization

According to the Enquiry conducted by the Ministry of Labour in 1951, 48.6 per cent of the agricultural labourers rented land or owned it. Their average holding was 2.86 acres. Poor peasants, owning or leasing part of their holdings, did not have adequate area of land to provide them with even an extremely low living minimum; they were therefore obliged to seek work as agricultural labourers. As Patel has rightly emphasized, this was the main reason for the increase in the number of the agricultural proletariat.

Another large group of the agricultural labourers was constituted by the enserfed farm labourers, suffering under semi-slave and semi-serf-like exploitation by landlords and the rich peasants. Such a form of exploitation was inherited from the feudal epoch. In the contemporary Indian agrarian society, this exploited group constitutes the lowest social stratum in the caste system. In the eighteenth and the first half of the nineteenth century, the forms of exploitation of these "slaves" in the communes resembled serfdom. With the further development of capitalism, however, they changed step by step into specific forms of hire of agricultural labourers.

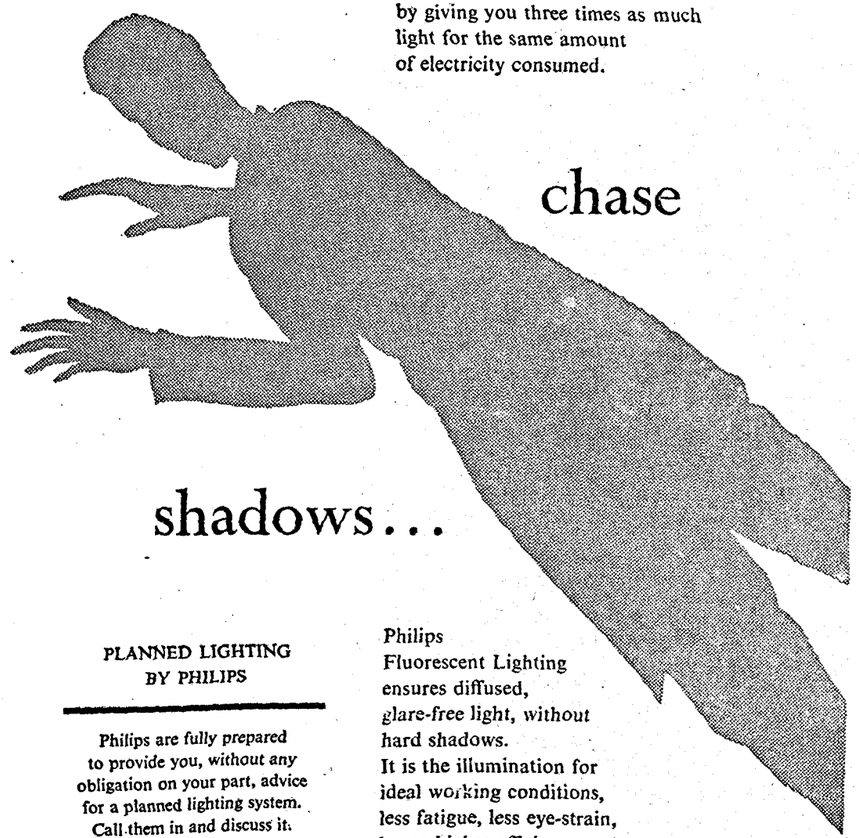
Untouchables and Aboriginals

Considering that the category of bonded labourers appeared on the scene after the British conquest, Patel is not altogether precise as to when the "servants" of the communes which had already decayed and who had nowhere to go were obliged to accept debt serfdom. (See Chap. VI section III). In reality, however, debt-serfdom existed as a major form of preserving semi-slave, semi-serf exploitation of the former

* It is true that in the United Provinces major part of the Zamindars were communal peasants.

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communal slaves and serfs. This was because of the fact that during the imperialist rule in India, the money-lending capital consolidated various pre-capitalist methods of exploiting peasantry. The major portion of the serf labourers belong to the "untouchable" castes—the very castes to which belonged the communal slaves and serfs in feudal India. The status of the "untouchables" in the feudal epoch resembled complete slavery; in the imperialist period, however, it served the landlords and rich peasants as an additional method to strengthen the exploitation of serf labour. Besides the "untouchables", a significant portion of the serf labourers in various parts of India were from the ranks of the so-called "aboriginals".

"Aboriginals" are the various small tribes and nationalities who live in the hilly jungle districts in central, south and north-western India by following shifting cultivation, hunting, gathering wild products etc. Those who left the tribes turned themselves into serf labourers, or free labourers and casual labourers; they are often counted together with the "untouchables." According to the Indian economist K. G. Sivaswamy, more than half of the 12-million "aboriginals" in India are found to be living under one or another form of serf-like dependence. (K. G. Sivaswamy, Serf Labour among the Aboriginals: Problems of Indian Labour. A Symposium, Delhi; 1951, p. 59).

Debt Serfdom to Free Hire

As a result of the development of capitalism and the class struggles waged by the peasantry, debt-serfdom was step by step supplanted by free hire. The Agrarian Reform Committee of the Indian National Congress, however, disclosed that the system of semi-slave, semi-serf-like exploitation of bonded labourers was yet to a significant extent maintained in Madras, Bombay, Bihar, the United Provinces and other parts of the country. In the report of the Committee, reference has also been made to cases of sale of bonded labourers with (the sale of) the landlord's land or without it, of transferring them by rights of inheritance and of their barter among landlords. According to newspaper reports, it was disclosed in the Indian Parliament at its session of 17 April 1951 that 10 families of farm labourers were sold for Rs. 150 in the district of Darbhanga (Bihar).

The economic basis for the maintenance of these forms of exploitation of agricultural labourers is to be found in the existence of a large body of feudal remnants in Indian villages and of a huge relative overpopulation in agriculture.

According to the Census of 1951, the "untouchables" and the "aboriginals" constituted 39.3 per cent of the agricultural labourers in India. They are thus the second important source to swell the ranks of the agricultural proletariat.

The number of agricultural proletariat also increased after the ruin of the village artisans and the labourers working in cottage industries. Agricultural labourers in India, therefore, consisted of three major groups of the population: the impoverished peasantry, the so-called "untouchables" and "aboriginals" and also the artisans and labourers working in cottage industries.

Sources of Formation

One of the strongest points of Patel's book is the author's research on the sources of the formation of the class of agricultural labourers. While analysing the structure of the agricultural proletariat, the author divides the agricultural labourers not only on the basis of their relationship with land (completely landless labourers and labourers with some holdings) but also on the basis of the forms of their hire, (that is as day-labourers and farm-servants or in his terminology as under-employed labourers and fully-employed labourers.) The author, however, does not emphasise that these two are entirely different methods of classification. He overlooked the fact that the labourers with holdings and casual labourers, for instance, are not necessarily the representatives of different groups of agricultural labourers.

The labourers, with holdings, on the contrary, are, for the most part, day-labourers constituting a sizable portion of this group of agricultural proletariat in India and Pakistan. However, like the tenant or owner cultivators who work as casual labourers, there are also farm labourers (mostly bonded labourers) who have small plots of land. Assigning "plots" of land to the semi-slave or semi-serf labourer, on which he grows vegetables, grain etc. for his personal consumption, and attaches himself in addition to the cultivation of the landlord's lands, creates the conditions for reducing the pay in kind to him.

The day-labourers constitute the major portion of the agricultural proletariat in India. This peculiarity of its structure is associated with the entire process of "non-proletarian impoverishment" of Indian peasantry. The inadequate development of the cultivation of the capitalistic type in the sphere of agricultural production, naturally, presumes the existence of an insignificant stratum of fixed-term farm-labourers.

The author divides fixed-term labourers in two basic groups: farm-labourers with landlord and **kulak** (rich peasant) cultivation and plantation labourers. In our view, it would be more correct to group plantation labourers in a special category, distinct from that of fixed-term labourers, in view of the fact that the form and the condition of the system of exploitation of plantation labourers are significantly different from those of the casual labourers and farm labourers hired by landlords and **kulaks.**

The payment for the work of agricultural labourers in India is being done in kind, in money and in mixed forms with payment in money wages tending to supplant that in kind or in mixed forms.

The Agrarian Committee of the Indian National Congress remarked in its Report that the agricultural labourers live "in perpetual want, almost dying of starvation." (Report, p 127) Under the pressure of the huge relative overpopulation in agriculture, the agricultural labourers are forced to sell their labour-power at prices considerably lower than the cost. This is the direct economic consequence created by the colonial exploitation of India by British imperialists and the survival of feudalism in agrarian relationships.

Census Classification

Not all the agricultural labourers, as Patel has rightly pointed out, figure in the census classification under the three headings 'agricultural labourers' 'plantation labourers' and 'unspecified labourers.' As a result of this, there is really a great difficulty in ascertaining not only the numerical strength of each of the types of agricultural proletariat, but even its total number. Patel has succeeded in overcoming this difficulty. His book, however, was prepared before the publication of the 1951 Census report; it was, therefore necessary for him to use the 1931 census material for determining the size of the agricultural proletariat and its number in various groups. (In the 1941 Census report, data on occupational classification was not published)

The number of occupied agricultural labourers (workers excluding dependants) was 27.8 million in 1921 and 42.2 million in 1931. Their relative proportion in the total agricultural working population rose from 26.2 per cent to 38 per cent during this decade. These numbers and the proportion refer only to those agricultural labourers who are grouped under the above-mentioned three headings of the Census classification. In addition, Patel also includes in their number the peasants, who, as owners or tenants, cultivate less than five acres. On the basis of such 'refinement' of the Census data, the agricultural labourers (with and without land) come to constitute 71.1 per cent of the total agricultural working population (Chap. x, Table 8). This figure may sound extremely exaggerated. However, as the given sources indicate, all the small-holding peasants, during one or another part of the year, are not far from being agricultural labourers.

According to the 1951 Census returns, there were 24.86 million workers in the above mentioned three headings of agricultural labourers. They amounted to 26 per cent of the total agricultural working population. These figures, however, should not be construed as an evidence of the decline in the absolute numbers and the relative proportion of agricultural labourers. The fact is that the Census returns for 1931 and 1951 are simply not comparable. In the first place, the 1931 Census returns related to the whole of India, that is including areas of what is Pakistan at present; 1951 Census data relate only to the present territory of the Republic of India. In the second place, the 1931 Census returns for agricultural labourers included not only all the landless labourers but also some of the agricultural labourers holding small plots of land. In the 1951 Census, the agricultural labourers holding land were grouped in the categories of owner or tenant cultivators.

Comparison with Labour Enquiry

It is therefore more correct to compare the data from 1931 Census returns with the data of the Enquiry conducted by the Ministry of Labour in India during 1951. The Enquiry classifies agricultural labourers with holdings differently from the Census. According to the data of the Enquiry, the total number of agricultural labourers with plots of land was 40 million persons which in fact constitutes the difference between the total number of agricultural labourers according to the Enquiry (83 million persons) and the Census (43 million persons). The total number of agricultural labourers, according to this enquiry, (workers and dependants) was 82.7 million or 35 per cent of the entire agricultural population. This Enquiry, however, did not take into account the number of agricultural labourers living in small towns.

The results of the Enquiry further show that the total number of workers in the families of agricultural labourers (main workers and working dependants) was 47.5 million, or 40 per cent of the agricultural working population (strictly speaking, the working population living in villages).

If to these 47.5 million persons are added 3.73 million unspecified labourers, 0.96 million plantation labourers and 0.8 million workers in families of agricultural labourers living in urban localities, then the total number of workers in the families of agricultural labourers would be at least 51 million, or 41 per cent of rural working population. These figures clearly indicate the undoubted growth in the class of agricultural labourers during the past decade.

Growth of Agricultural Labour

We can certainly remark that in the 60 years from 1861 to 1951, the proportion of agricultural labourers in the total agricultural population rose from 13 per cent to 36 per cent and that their proportion in the total agricultural working population rose from 26.2 per cent in 1921 to 41 per cent in 1951. All these data provide irrefutable evidence on the development of capitalism in the agricultural economy of the country.

Like the growth of agricultural labourers in various parts of the country, its present distribution in various provinces indicates extreme unevenness. This fact has been rightly noted by Patel. On the basis of this unevenness, he demarcates three wide geographic regions—the Southern triangle (Madras, Bombay, the Central Provinces) the Eastern Region (Assam, Bengal, Bihar and Orissa) and the Great North (the United Provinces, the Punjab). According to the calculations of the author, the proportion of agricultural labourers to the agricultural working population in 1931 was over 50 per cent in the Southern Triangle, 20 to 35 per cent in the East and 15 to 20 per cent in the North (see Chap. III).

Labour and Land Ownership

The explanation given by the author for these regional differences is somewhat one-sided. He has shown a striking correlation between the regions, demarcated on the basis of approximately equal proportions of agricultural labourers, and the regions where different forms of organisation of the village communes and of the land settlement systems prevailed. (It may be pointed out in this connection that Patel considers the village communes in northern and southern India as two different types. In our opinion these different forms of organization of communes corresponded in reality only to the different stages of the disintegration of village communes of the middle ages.) Patel links the characteric regional distribution of agricultural proletariat in India exclusively with the differences in the evolution of the form of land ownership in different parts of the country. There is no doubt that the disintegration of the communal ownership of land during the end of the eighteenth and beginning of the nineteeth centuries and the emergence of private proprietorship in land contributed to the satisfication of the peasantry in the village communes on the basis of property holdings, and to the formation in South and East India of sizable groups of landless agricultural population. The preservation of the communal form of land-ownership in northern India, on the contrary, delayed the process in northern India. However, the development of capitalism in agriculture in India and the growth of agricultural proletariat emerging on this basis began only during the second half of the nineteenth century; whereas the village communes in the whole of the country had already disintegrated by the middle of the nineteenth century. It is also undoubtedly a fact that maintaining small peasant proprietorship in the raiyatwari regions contributed toward the disintegration of the peasantry and the growth of the class of agricultural labourers, whereas in the zamindari regions the zamindari ownership of land put a brake on this process. Nonetheless, the regional differences in the proportion of agricultural labourers

would not be adequately explained only by the reasons put forward by Patel.

Regional Differences

The table below would be useful in analysing this question.

As the table shows, the process of the disintegration of the peasantry was accelerated during the period of the general crises of capitalism. Particularly quick tempo in the growth of agricultural labourers was found in Bombay and Bengal—the two regions which are industrially the most advanced in the country. The disintegration of the peasantry also proceeded at a rapid pace in Madras and the United Provinces in which commercial crops such as sugar-cane, tobacco, oil-seeds, etc. began to be produced in large quantities and where new factories and manufacturing enterprises also arose.

Growth of Agricultural Labourers in Various Provinces of India: 1921-31 (in per cents)

	Rise in absolute numbers of agricultural labourers	Rise in the proportion of agricultural labourers to the agricultural working population
South India		
Bombay	200	111
Madras	36	47
Central Provinces	22	19
East India		
Bihar and Orissa	32	35
Bengal	57	87
Assam	17	12
North India		
United Provinces	33	40
Punjab	43	12

Source: Based on Indian Census returns as worked out by Patel in Chapter III.

Comparing the census data for 1901 to 1911, it is seen that the most rapid pace of growth of the class of agricultural labourers took place in Bengal, the Punjab, Bihar and Orissa. This was caused by the fact that the process of turning these regions into producers of marketable crops, such as, jute, rice, cotton, wheat, etc., just begun in the preceding decade, had started to unroll itself during the beginning of the twentieth century. In this way, the growth in the number of agricultural labourers in other regions of India is closely and directly connected with the rise of trade in land and of capitalism in them. This constitutes the major reason for the regional differences, demonstrated by Patel in the number and proportion of agricultural labourers. These differences, established on the basis of the Indian statistical material, cannot be merely explained by the unevenness of the development of capitalism in various parts of India. As for example, the tempo of the disintegration of the peasantry in Punjab between 1900 and 1930 was higher than in Bihar or in the United Provinces in which the proportion of agricultural labourers was significantly greater than in the Punjab.

Development of Capitalism Under-rated

The problem here is that in the Indian statistics, "agricultural labourers" include semi-slaves and semi-serfs, who, as was shown above, are not the products of the disintegration of peasantry: they are, on the contrary, a legacy of the feudal period. As a result, the number of agricultural labourers is large in those provinces where the survivals of slavery and serfdom have been, to a major extent, maintained; this is because of the inclusion of such labourers in the total. Such provinces are the Uttar Pradesh, North Bihar, Orissa, Madras, Travancore-Cochin, Madhya Pradesh and Hyderabad. It is noteworthy that according to the 1951 Census, the "aboriginals" and "untouchables", the groups to which almost all of the bonded labourers belong, constituted 25 to 50 per cent of all the agricultural labourers in these states.

Thus, the unequalness of development in different parts of the country during the pre-imperialist as well as the imperialist epoch is reflected in the distribution of agricultural labourers in various regions.

The development of capitalism in India is somewhat underrated by Patel. Without adequate basis, he considers only that cultivation capitalistic in which the technique and the methods of cultivation have been raised to a higher level of efficiency. It is known, however, that the best guide for judging the development of capitalist relations in agriculture is the hiring of agricultural labourers. The application of hired labour, even on very large capitalist farms, often does not lead to improvements in the technique of production. In 1947, for instance, an enquiry into 401 landlords' farms in the United Provinces disclosed that, although production was carried out in all of these by the exploitation of hired labour, only 40 of them used machines or other mechanical instruments.

Patel, proceeding from this wrong premise under-estimated the extent of the cultivation of a capitalist type in Indian villages. He defines it to be only one per cent of the total. By doing so, he has minimised the significance of the basic process in the Indian rural economy—development of capitalism.

These inadequacies in no way deprive Patel's book of its value. Its translation in the Russian language marks a definite step toward the study of the history and economy of India in our country. The book, full of rich factual and statistical material, and equipped with a scientific approach, will undoubtedly attract the attention of wide circles of the Soviet public which is deeply interested in the life of the Indian people.



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Around Calcutta Markets

Hesitant Trend

Wednesday, Evening

REASONS for the rise and fall in equities in the short term are not always sensible. But instances are not rare when reasons are fabricated or some events are falsely interpreted to engineer fluctuations in equities. Such a development occurred during the first half of this week. Last Monday's fluctuations in equities should not have occurred. But Monday's set-back has brought the stock market to levels which are healthier. There has been a slight recovery since Monday. But the market remains hesitant.

For some weeks, the problem of inflation had been worrying stock markets. Equities may or may not have been moving up because of inflation, though deficit financing has always been a background factor for markets for the last two years. Stock markets were not apprehensive of inflation. But there were fears that the rising trend in equities, bullion and commodities might provoke the monetary authorities to introduce some anti-inflationary measures.

Credit Squeeze

Some weeks ago, banks had raised their lending rates for some lines. Overdraft charges had been raised. But, as it happens in a rising market, these additional borrowing costs had not discouraged speculation. Fears were, however, being expressed that, as industrial borrowing costs rise, stock markets may be affected. These fears failed to check the rising trend, though speculation about a higher Bank Rate continued.

Until last week, however, it seemed that markets had reached the conclusion that the Finance Minister was against any immediate rise in Bank Rate. This view still persists. But towards the end of last week, equities had a temporary set-back on rumours of a credit squeeze. There were reports that banks had been requested by the Reserve Bank to submit details about advances in order to find out the extent of bank advances for speculative purposes. Even those who are opposed to an immediate rise in Bank Rate are in favour of such precautionary measures by the Reserve Bank.

Mining Policies

But the point is that last Monday's fall in equities was not due to the reported steps taken by the Reserve Bank. For the major part of Monday's official session, equities were steady. In the last fifteen minutes, there was a shake-out. Indian copper slumped on initial reports that the Government had decided to nationalise diamond and copper mines. In kerb dealings on Monday, the lost ground was regained as it was later clarified that the Government had no intention to nationalise working copper mines, though a small copper mine in Rajasthan which was not being worked, had been taken over.

As Indian Copper rebounded, other clearing shares moved up. But it was not without significance that next day, Tuesday, Coal shares eased on renewed selling pressure. Evidently, despite the subsequent clarification, some investors are suspicious of the Government's policy to the mining industry. Coal shares have been under the threat of nationalisation for some months. There is another reason for the set-back in Indian Copper. Next week, the judgment is expected to be delivered in the case and counter-case between this Company and the Bihar Government relating to kyanite leases.

Bank Rate has not yet been raised. Equities did not fall because of the reported directive by the Reserve Bank to banks to furnish fortnightly details about advances. But equities dropped on a report that diamond and copper mines would be nationalised. Though the report has been clarified subsequently, equities remain hesitant. There are revived apprehensions about the Government's policy to mining, or rather to exploitation of mineral resources of the country.

"Bulls" of Indian Iron are unlucky that these market events occurred at a time when the Company's output data for the year to March last became available. Output figures are satisfactory. There is no reason why the dividend should not be maintained. But there is another "bull" factor which may be stressed here. Some are inclined to the view that, if the Company decides to implement the second expansion programme, it will have to issue bonus or rights shares. Such a possibility has been apparent since the declaration of retention prices by the Government some time ago.

Tea Shares Easy

Reasons for the hesitant trend in Tea shares lie elsewhere. Until a fortnight ago, tea auction prices were moving up. That was why Tea shares were creeping up. In the last two weeks, auction results have been rather discouraging. So Tea shares have developed an easier trend. Political developments in Ceylon have had a disturbing effect on Tea shares. There are fears that Ceylon's tea and and rubber plantations may be nationalised. This raises the problem of Ceylon's tea export policy. It also revives fears that, with a possible nationalisation of tea estates in Ceylon, the tea plantation industry in India may also be nationalised.

In a week of uncertainties and disturbances, Engineering shares have remained steady. This group has naturally followed fluctuations in clearing shares. Even so, Engineering and Miscellaneous shares have met with support at all setbacks. This week's irregularly lower trend in Tea and Coal shares is a disturbing development for the Calcutta Stock Exchange. Strength in these groups could have had a sustaining effect on Engineering shares even in the event of a set-back in speculative, clearing scrips. Apart from this technical market factor, there is no reason why Engineering shares should not remain steady.

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Around Bombay Markets

A Quiet Week

Thursday, Morning

AFTER an impressive performance during the past four or five weeks, the Stock Market turned quiet due to reasons psychological and technical. Psychologically the market was particularly affected by the Reserve Bank's circular to banks, which gave ground for the assumption that some sort of control over advances against commodities like bullion, seeds and cotton was in the offing. Some took the view that it was a preliminary step in the process of an upward revision of the Bank Rate. Whether any of these measures were actually under the contemplation of the Reserve Bank or not, the circular itself, with various conclusions derived from it, had had a sobering effect.

The upward revision of export levies on vegetable oils and the decision to permit imports of cotton 7/8" to 1-1/16", while confirming the trade's view that the uptrend in commodity prices has been due to short supply, has also confirmed the general belief that an upward trend in prices of essential commodities will not be allowed to go unchecked. Then again in the bullion market the continued arrivals of silver coins from Tibet continued to worry the value.

The market, however, was in no mood to take a definitely bearish view and some observers even went to the extent of saying that the setback in prices witnessed during the week was well in line with the process of consolidating the gains recorded since the Budget, before making any further upward move. But the week's trading pattern was dull and was devoid of any spectacular interest as operators were in no mood to extend their commitments in view of the prevailing uncertainties. Tata Steel ordinaries hovered around Rs. 246, while Indian Iron moved around Rs. 34-7. Bombay Dyeings were placed around Rs. 646. The miscellaneous section could not do any thing better.

Calcutta stock interests were reported to have worried over the preferential treatment given to Dalal Street by the Custodians of nationalised life insurance companies. With the new Industrial Policy in the making—the draft of which is expected to be out by next week—these purchases assume considerable significance and the guess has been circulated that when the Life Insurance Corporation comes into being, as successor holder of the shares held by the nationalised life insurance companies, this Government agency would exercise effective control over certain companies, saving the bother of nationalisation.

Cotton

PROSPECTS of resumption of futures trading in cotton in June have been hinted at and this has been welcome news to the trade, who had feared that Government might not favour the resumption of futures trading during the rest of the current cotton season. On the export front, shippers seem to have done a good job and the unutilised export licenses are now placed around 60,000 bales. Even for this an outlet could be found, if the negotiations for a barter deal now going on between private interests in India and Italy materialise and the Government approves of the deal. The negotiations are for the import of Rs. 2 crores worth of rayon yarn from Italy for which the payment would be made in cotton. In the ready market at Sewri, active demand was reported during the week, despite the announcement of larger imports.

The decision to levy an export duty of Rs. 250 per ton on linseed oil and the imposition of an export duty of Rs. 200 per ton on Kardi oil and niger oil led to a decline in the prices of these vegetable oils. The additional export duty on Castor oil though it did affect the market bearishly, did not bring about any sharp fall in prices and immediately after the announcement Castor May was quoted around Rs. 141 as against the previous quotation of Rs. 142. But the revision of duty has confirmed the worst fears of the market and read in the light of proclaimed policy of promotion of exports during the Second-Five-Year Plan period, this action of the Government is considered as of more than ordinary significance.

The reported arrivals of substantial quantities of silver coins from Tibet coupled with prospects of increased arrivals of those coins in the near future owing to possibilities of increased exports of cloth to Tibet had a slightly bearish effect on the bullion market. But reports about good spot offtake in gold and the steadiness in prices of yellow metal brought fresh support to Silver and prices ruled steady during the week. About Rs. 50 lakh worth of silver coins from Tibet is said to have arrived. But more important than this issue, is the question of futures trading in Bullion in the country, an inquiry on which is well under way. The trade will present a very strong case, of course, but the odds are not definitely in favour of them, if not against them. A year ago, the trade publicised the fact that one Cabinet Minister at the Centre was not entirely in favour of futures trading in Bullion. If speculation was right, this charge was placed at the doors of no one else than the Minister for Commerce and Industry. The nature of the inquiry, is also quite different from that of the others conducted by the Forward Markets Commission. Probably for the first time an inquiry is being conducted into the 'utility' or otherwise of a futures market in Bullion. The bullion trade has a more difficult task ahead as compared to their friends in the cotton or oilseeds trade.

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Production of Engineering Industries

	Capacity					Production					
	1951	1952	1953	1954	1955	1951	1952	1953	1954	1955
Mechanical Engineering										
Agricultural Implements ('000 Tons)	66	67	63	63	62	25.7	25.5	26.3	26.3	26.8†
Ball Bearing ('000)	1	1	1	1	1	600.0	600.0	600.0	600.0	900.0
Belting										
(a) Hair and Cotton (Tons)	6	6	6	6	7	1,200	1,120	1,120	1,220	1,239
(b) Rubber Ply Transmission and Conveyor (Tons)	NA	9	9	9	9	NA	710	710	710	682
Bicycles ('000)	2	6	6	6	10	120.9	417.5	417.5	437.5	492.0
Bicycle parts ('000 Rs)	—	—	23	24	22	—	—	NA	NA	NA
Bolts, Nuts, Rivets & Dogspikes ('000 Tons)	13	12	15	15	15	30.1	33.4	33.4	33.4	33.4
Building and Hardware Fittings (Tons)	15	18	18	18	18	4,000	4,888	4,888	4,888	4,168†
Clocks ('000)	4	4	4	4	3	45.6	51.6	51.6	51.6	27.6
Conduit Pipes ('000 ft)	7	7	7	9	10	7,560	7,560	7,560	9,660	8,127†
Crown Cork ('000 gross)	6	7	7	7	7	3,696	3,552	3,552	3,552	3,552
Duplicators (Nos)	3	3	3	3	3	4,200	4,800	4,800	4,800	6,240
Expanded Metals (Tons)	4	4	4	4	4	2,800	2,940	2,940	2,940	2,940
Hurricane Lanterns ('000)	11	12	13	13	12	4,260	4,410	4,583	4,583	5,003
Incandescent Lamps ('000)	8	7	9	9	9	85.8	82.2	94.2	93.6	93.6
Laminated deaf Springs (Tons)	—	—	—	6	6	NA	444.4	444.4	444.4	444.4
Machine Screws ('000 gross)	NA	6	6	—	3	—	—	—	—	3,500
Sewing Machine (Nos)	2	2	2	2	2	37,500	41,500	41,500	41,500	41,500
Shaftings (Tons)	4	4	4	4	4	3,400	3,540	3,540	3,540	1,040
Steel Belt Lacing ('000 Boxes)	3	3	3	3	3	228.0	228.0	228.0	228.0	228.0
Steel Furniture ('000 Tons)	18	18	18	19	18	19.9	31.0	31.0	31.0	31.0
Steel Structures ('000 Tons)	73	71	71	71	69	119.4	129.0	129.0	129.0	126.0
Stoves ('000)	5	9	10	10	10	57.0	111.0	141.0	141.0	141.0
Typewriters (Nos)	—	—	—	—	3	—	61,500	—	—	33,000
Umbrella Ribs ('000 Doz Sets)	3	4	4	4	5	103.0	165.0	165.0	360.0	720.0
Welding Electrodes ('000 ft)	1	2	3	3	3	36,000.0	61,000	61,500	96,000	96,000
Wire Products										
(a) Gauze (Tons)	2	6	7	7	7	200	1,300	1,500	1,500	1,500
(b) Netting (Tons)	—	3	3	3	3	—	684	684	684	684
(c) Chain Link Fencing (Tons)	—	2	3	3	3	—	600	600	600	600
Wood Screws ('000 gross)	9	17	18	17	18	1,561	3,316	4,636	4,496	4,540
Zip Fasteners ('000 ft)	1	1	1	2	2	900	900	900	1,260	1,260
Industrial Machinery										
Boilers										
(a) Industrial (Nos)	1	1	1	1	2	20	20	50	50	146
(b) Locomotive (Nos)	1	1	1	1	2	96	96	96	96	

Industrial Capacity and Production

	No. of factories										
	1951	1952	1953	1954	1955	1951	1952	1953	1954	1955	1956
Mechanical Engineering											
Agricultural Implements ('000 Tons)	66	67	63	63	62	25.7	25.5	26.3	26.3	26.8†	27.7
Ball Bearing ('000)	1	1	1	1	1	600.0	600.0	600.0	600.0	900.0	900.0
Belting											
(a) Hair and Cotton (Tons)	6	6	6	6	7	1,200	1,120	1,120	1,220	1,239	1,260
(b) Rubber Ply Transmission and Conveyor (Tons)	NA	9	9	9	9	NA	710	710	710	682	710
Bicycles ('000)	2	6	6	6	10	120.9	417.5	417.5	437.5	492.0	417.5
Bicycle parts ('000 Rs)	—	—	23	24	22	—	—	NA	NA	NA	NA
Bolts, Nuts, Rivets & Dogspikes ('000 Tons)	13	12	15	15	15	30.1	33.4	33.4	33.4	33.4	33.4
Building and Hardware Fittings (Tons)	15	18	18	18	18	4,000	4,888	4,888	4,888	4,168†	4,888
Clocks ('000)	4	4	4	4	3	45.6	51.6	51.6	51.6	27.6	51.6
Conduit Pipes ('000 ft)	7	7	7	9	10	7,560	7,560	7,560	9,660	8,127†	7,560
Crown Cork ('000 gross)	6	7	7	7	7	3,696	3,552	3,552	3,552	3,552	3,552
Duplicators (Nos)	3	3	3	3	3	4,200	4,800	4,800	4,800	6,240	4,800
Expanded Metals (Tons)	4	4	4	4	4	2,800	2,940	2,940	2,940	2,940	2,940
Hurricane Lanterns ('000)	11	12	13	13	12	4,260	4,410	4,583	4,583	5,003	4,410
Incandescent Lamps ('000)	8	7	9	9	9	85.8	82.2	94.2	93.6	93.6	82.2
Laminated deaf Springs (Tons)	—	—	—	6	6	NA	444.4	444.4	444.4	444.4	444.4
Machine Screws ('000 gross)	NA	6	6	—	3	—	—	—	—	3,500	—
Sewing Machine (Nos)	2	2	2	2	2	37,500	41,500	41,500	41,500	41,500	41,500
Shaftings (Tons)	4	4	4	4	4	3,400	3,540	3,540	3,540	1,040	3,540
Steel Belt Lacing ('000 Boxes)	3	3	3	3	3	228.0	228.0	228.0	228.0	228.0	228.0
Steel Furniture ('000 Tons)	18	18	18	19	18	19.9	31.0	31.0	31.0	31.0	31.0
Steel Structures ('000 Tons)	73	71	71	71	69	119.4	129.0	129.0	129.0	126.0	129.0
Stoves ('000)	5	9	10	10	10	57.0	111.0	141.0	141.0	141.0	111.0
Typewriters (Nos)	—	—	—	—	3	—	61,500	—	—	33,000	—
Umbrella Ribs ('000 Doz Sets)	3	4	4	4	5	103.0	165.0	165.0	360.0	720.0	165.0
Welding Electrodes ('000 ft)	1	2	3	3	3	36,000.0	61,000	61,500	96,000	96,000	61,000
Wire Products											
(a) Gauze (Tons)	2	6	7	7	7	200	1,300	1,500	1,500	1,500	1,300
(b) Netting (Tons)	—	3	3	3	3	—	684	684	684	684	684
(c) Chain Link Fencing (Tons)	—	2	3	3	3	—	600	600	600	600	600
Wood Screws ('000 gross)	9	17	18	17	18	1,561	3,316	4,636	4,496	4,540	3,316
Zip Fasteners ('000 ft)	1	1	1	2	2	900	900	900	1,260	1,260	900
Industrial Machinery											
Boilers											
(a) Industrial (Nos)	1	1	1	1	2	20	20	50	50	146	—
(b) Locomotive (Nos)	1	1	1	1	2	96	96	96	96		
Electrical Machinery											
Electric Motors ('000 H.P.)	1	1	1	1	2	20	20	20	20	20	20
Electric Transformers ('000 KVA)	1	1	1	1	2	96	96	96	96	96	96
Fans ('000)	1	1	1	1	2	96	96	96	96	96	96
Switchgear ('000 Units)	1	1	1	1	2	96	96	96	96	96	96
Transformers ('000 KVA)	1	1	1	1	2	96	96	96	96	96	96
Motor Vehicles											
Buses (Nos)	1	1	1	1	2	1,200	1,200	1,200	1,200	1,200	1,200
Cars (Nos)	1	1	1	1	2	1,200	1,200	1,200	1,200	1,200	1,200
Commercial Vehicles (Nos)	1	1	1	1	2	1,200	1,200	1,200	1,200	1,200	1,200
Jeeps (Nos)	1	1	1	1	2	1,200	1,200	1,200	1,200	1,200	1,200
Motor Cycles and Scooters (Nos)	1	1	1	1	2	1,200	1,200	1,200	1,200	1,200	1,200
Railway Wagons (Nos)	1	1	1	1	2	1,200	1,200	1,200	1,200	1,200	1,200
Ships (Tons)	1	1	1	1	2	1,200	1,200	1,200	1,200	1,200	1,200

*Estimated †Capacity Reassessed ‡Production of one unit only.

	No. of factories					capacity					Production				
	1951	1952	1953	1954	1955	1951	1952	1953	1954	1955	1951	1952	1953	1954	1955
Textile Machinery															
Bleaching, Dyeing, Printing Furnaces (Nos)	—	—	5	5	NA	—	—	1,131	1,131	NA	—	—	149	362	NA
Carding Engines (Nos)	1	1	1	1	2	600	600	600	600	648	103	112	192	436	648
Draw Frames (Nos)	—	—	1	1	NA	—	—	12	12	NA	—	—	*5	17	NA
Fly Frames (Nos)	—	—	1	1	NA	—	—	24	24	NA	—	—	14	13	NA
Looms (Nos)	2	2	3	3	3	3,600	3,600	4,200	4,200	4,320†	2,700	1,900	2,086	1,970	2,636
Ring Frames (Nos)	—	2	2	3	4	..	396	396	396	744	—	283	200	358	901
Portable Air Conditioners (Nos)	—	2	3	4	5	—	600	700	1,550	6,000	—	413	375	1,050	1,969
Tools															
Coated Abrasives ('000 reams)	4	4	4	4	4	80.0	80.0	80.0	80.0	150.0†	37.3	55.2	61.0	70.6	78.8
Grinding Wheels (Tons)	1	1	1	1	2	400	500	500	535	1,250	316	386	361	506	642*
Machine Tools (Rs Lakhs)	16	17	16	16	17	100.0	100.0	136.0	136.0	142.0	47.3	44.4	44.1	50.0	74.4
Needles															
(a) Hosiery Knitting (mn)	—	1	2	1	1	—	1.0	3.96	3.0	3.0	—	0.1	0.2	0.94	0.49
(b) Gramophone (mn)	1	1	1	1	1	230.0	460.0	460	900	900	63.0	239.5	112.55	186.08	113
Razor Blades (mn)	4	5	5	5	5	153.0	200.0	200	272	415.6†	29.2	10.7	23.1	131.38	174.56
Small Tools and Hand Tools (mm)	9	8	8	9	—	2.1	2.46	2.75	2.75		1.14	0.89	0.53	1.13	
Automobiles and Ancillaries															
Automobiles ('000)	12	12	12	9	8	71.7	70.7	84.0	40.0	39.0	22.3	15.3	13.9	14.5	23.1
Cylinder Liners ('000)	—	—	1	1	1	—	—	120.0	120.0	120.0	—	—	17.3	23.9	65.2
Gudgeon Pins ('000)	—	—	1	1	—	—	—	—	300.0	300.0	—	—	—	22.8	133.3
Motor Cycles (Nos)	—	—	—	1	—	—	—	—	—	5,000	—	—	—	—	419
Piston Rings ('000)	1	1	1	1	1	1,200.0	1,200.0	1,200.0	1,200.0	1,040.0	1,396.1	1,425.5	1,376.3	1,575.7	1,917.8
Pistons ('000)	—	1	1	1	1	—	300.0	300.0	300.0	300.0	—	0.8	65.5	114.2	132.0
Scooters (Nos)	—	—	—	1	2	—	—	—	—	6,000	—	—	—	—	536
Sparking Plugs ('000)	—	—	1	—	1	—	—	300.0	300.0	600.0	—	—	24.1	112.6	531.9
Diesel Engines, Pumping Sets and Ancillaries															
Diesel Engines ('000)	5	12	9	11	16	5.3	24.9†	3.2§	14.5§	19.8	7.2	4.3	3.7	8.7	10.2
Diesel Engines (Road) ('000)	—	—	—	—	1	—	—	—	—	3.0	—	—	—	—	3.9
Fuel Injection Equipment															
(a) Pumps ('000)	—	—	—	1	1	—	—	—	4.5	10.0†	—	—	—	3.9	11.8
(b) Nozzle holders ('000)	—	—	—	1	1	—	—	—	3.5	10.0†	—	—	—	3.8	14.5
Power Driven Pumps ('000)	9	20	24	26	26	34.6	42.8	60.2	61.4	65.5	41.5	32.1	25.3	28.6	34.0*
Electrical Engineering															
Cables and Wires															
(a) Aluminium Conductors ('000 Tons)	—	2	3	3	4	2.5	4.5	6.6	9.0	10.4	1.7	2.4	3.3	5.5	8.0
(b) Bare Copper Conductors ('000 Tons)	2	2	2	5	5	20.0	20.0	20.0	27.8	27.8	3.0	5.9	7.4	7.6	8.4
(c) Rubber Insulated Cables and Flexibles (mn yds)	2	2	2	4	4	45.0	45.0	45.0	86.84	86.84	41.1	32.87	48.43	62.72	86.13
(d) Winding Wires (Tons)	2	2	2	2	2	45.0	450	450	450	450	300	400	226	318.59	605
Dry Cells (mn)	3	4	5	5	5	184.5	196.5	221.5	221.5	224.5	143.4	130.2	148.39	148.65	161.0
Domestic Refrigerators ('000)	2	2	2	2	2	3.6	3.6	3.6	3.6	3.6	0.5	0.6	1.14	1.01	0.52
Electric Fans ('000)	19	18	18	18	18	276.5	293.6	303.1	303.1	303.1	212.5	195.4	199.5	236.8	232.2
Electric Lamps (mn)	10	11	11	11	11	23	26	29	29	29	15.5	20.9	19.67	22.86	23.51
Fluorescent tubes ('000)	—	—	1	1	1	—	—	400	400	800	—	—	102.5	214.3	701.1
Electric Motors ('000 HP)	11	12	12	12	12	152.5	200.0	200.0	200.0	200.0	142.8	157.5	162.5	186.6	251.9
Electric Steel Sheets ('000 tons)	1	1	1	1	1	4.5	4.5	4.5	4.5	4.5	4.3	5.2	2.9	4.5	5.9
Gramophones ('000)	1	1	1	1	1	21.0	21.0	21.0	21.0	21.0	10.7	10.2	1.5	4.5	5.3
House Service Metres ('000)	1	4	4	4	5	50.0	185.0	185.0	185.0	199.0	1.7	34.4	80.7	148.9	255.3
Mathematical Instruments (Geometry Box) ('000 gross boxes)	6	5	5	5	4	30.0	37.8	37.8	37.8	24.6	9.0	7.5	10.4	9.8	10.7
Power Transformers ('000 KVA)	6	7	8	8	10	300.0	304.0	328.0	328.0	414.0	195.1	215.0	308.1	398.2	564.7
Radio Receivers ('000)	12	15	15	15	15	87.2	153.1	153.1	153.1	138.1	82.8	71.5	56.3	58.6	81.1
Storage Batteries ('000)	11	14	14	13	13	318.0	350.1	350.1	290.1	290.1	212.6	157.8	176.0	188.4	235.2
Water Meters ('000)	—	1	1	1	1	—	12.0	12.0	12.0	12.0	—	1.9	6.7	8.8	12.0
Metallurgical Industries															
(a) Virgin Metals															
Aluminium ('000 tons)	2	2	2	2	2	4.0	4.0	4.0	7.0	7.5	3.8	3.6	3.8	4.9	7.2
Antimony (Tons)	1	1	1	1	1	700	700	700	700	700	328	181	130.15	539.05	504.0
Copper ('000 tons)	1	1	1	1	1	6.0	6.0	7.2	7.2	7.2	7.1	6.1	4.9	1.8	2.2
Lead ('000 tons)	1	1	1	1	1	7.0	7.2	6.0	6.0	6.0	0.9	1.1	1.7	1.8	2.2
(b) Semi-Manufactures															
Aluminium Sheets, Circles, etc ('000 tons)	8	8	9	11	6	7.0	8.0	9.2	9.6	11.7	7.0	4.9	5.3	7.6	10.1
Aluminium rods & sections (Intruded ('000 Tons)	—	—	1	—	1	—	—	—	—	0.96	—	—	—	—	0.12
Aluminium wire rods for ACSR ('000 Tons)	—	—	2	—	2	—	—	—	—	10.80	—	—	—	—	*1.14
Aluminium Foils ('00 Tons)	—	1	1	1	1	—	1,100	1,200.0	1,200.0	1,200.0	—	600.0	540.8	945.5	1,316.1
Brass and Copper Sheets, etc ('000 tons)	14	14	19	19	19	48.0	48.0	52.3	47.0	45.0	16.4	9.2	11.7	17.4	13.2
Brass and Copper Rods (Tons)	4	4	5	5	5	3,500	3,500	5,477	5,477	5,477	800	700.0	540.4	1,371.3	1,295.9
Brass and Copper Pipes and Tubes (Tons)	1	1	1	1	1	360	360	360	360	360	20.0	39.0	46.4	20.6	62.4
Brass and Copper non-elecrtic Wire (Tons)	4	4	4	4	4	2,200	2,200	1,958	1,958	1,958	1,400	3,800	245.6	332.2	377.0*
Electrolytic Black Copper Rods ('000 tons)	1	1	1	—	—	24.0	24.0	24.0	—	—	4.5	6.5	3.4	—	—
Lead Sheets (Tons)	2	2	2	1	1	2,800	2,800	2,800	1,092	1,092	118.0	44.00	79.25	97.75	102.0
Lead Pipes and Tubes (Tons)	3	3	3	3	3	4,800	4,800	4,800	4,800	4,800	200.0	310.0	310.4	165.4	283.1*
Zinc Sheets and Strips (Tons)	1	1	3	3	3	300	300	4,410	4,410	4,410	36.0	19.0	77.5	45.6	41.6
(c) Non-Ferrous Alloys ('000 Tons)	13	13	15	15	15	68.0	68.0	69.0	69.0	69.0	11.7	7.7	6.1	11.0	10.0*
(d) Steel Castings ('000 Tons)	10	10	9	8	8	27.0	27.0	21.0	15.0	15.0	10.0	9.4	10.3	12.9	15.0

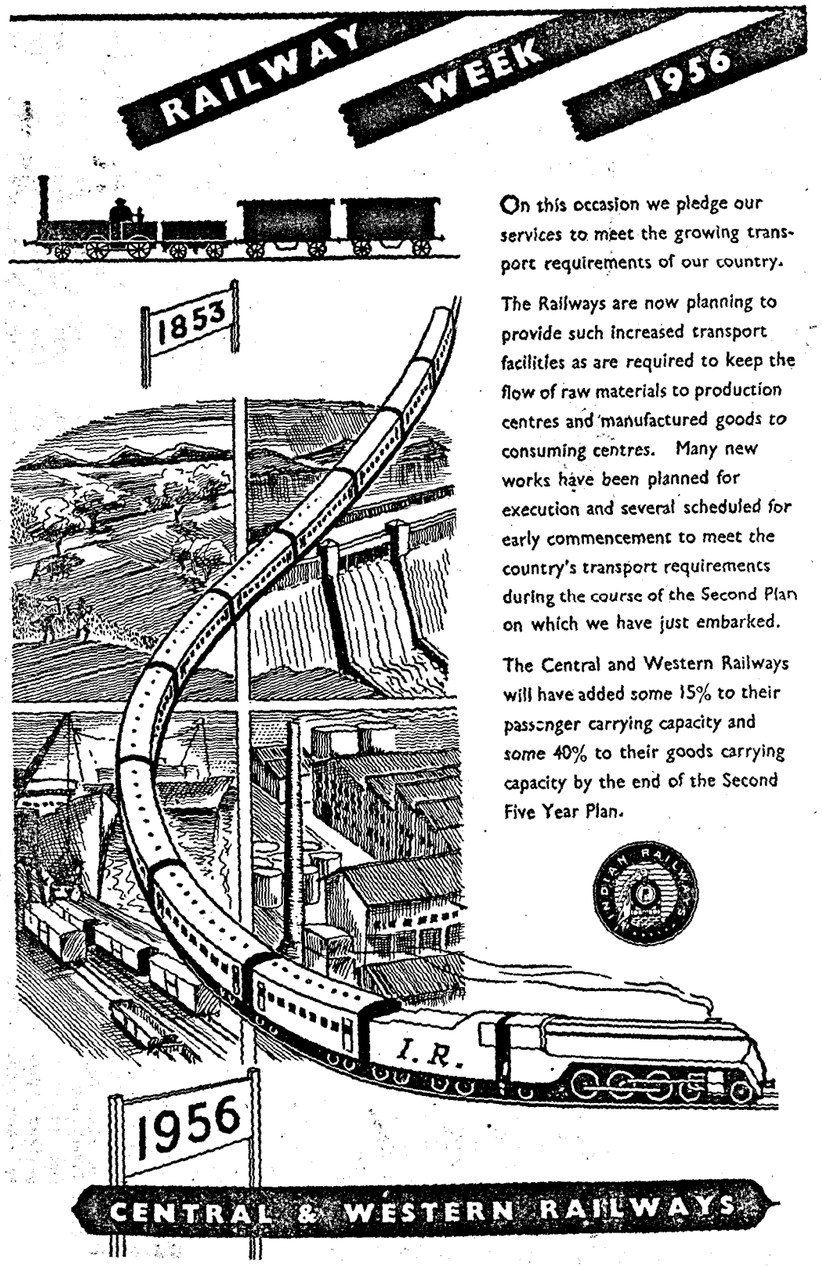
* Estimated

† Capacity reassessed.

§ Revised.

‡ Including schemes not materialised.

Regd. No. B.5489



On this occasion we pledge our services to meet the growing transport requirements of our country.

The Railways are now planning to provide such increased transport facilities as are required to keep the flow of raw materials to production centres and manufactured goods to consuming centres. Many new works have been planned for execution and several scheduled for early commencement to meet the country's transport requirements during the course of the Second Plan on which we have just embarked.

The Central and Western Railways will have added some 15% to their passenger carrying capacity and some 40% to their goods carrying capacity by the end of the Second Five Year Plan.

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Bigger Jaw but No Teeth

IS it not a wonder that the extensive powers hitherto denied to the Income Tax Department and now proposed to be conferred on it in the Finance Bill this year have not evoked even a murmur of protest from the traditional champions of the tax payer? Is it because the proposals have been set off against the somewhat cheerful background of tax proposals which were lighter than the gloomy forebodings earlier? Or is it because of the prevailing socialistic winds, which have aired the shady nooks and corners of the private sector—for instance the scandals in the insurance business—that no one dares to criticize the growing State authority for fear of being dubbed as a hopeless reactionary? These questions naturally arise in view of the far-reaching and extraordinary proposals which should have normally provoked violent criticism.

It has been proposed that the Income Tax Authorities should have the power to reopen any assessment for and after the assessment year 1940-41 at any time in cases of concealment provided that with regard to cases that are more than 8 years old the suspected concealment should be more than Rs. 1 lakh in the aggregate for the war years. This wide power will be subject to the administrative check of the Central Board of Revenue in the case of assessments more than 8 years old and the Commissioners in other cases, who must satisfy themselves with regard to the necessity of action under the relevant section 34 1(a) of the Income Tax Act. But it is possible to argue that in practice the value of such safeguards is doubtful, as there is no provision for questioning the sufficiency of materials which may satisfy the executive authorities. Even more significant is the proposal in this connection that there should be no limit for the completion of assessment under section 34 1(a). In other words, after reopening an assessment, the Income Tax Authorities can go on making their enquiries for an indefinite period, while the fate of the unfortunate assessee is kept hanging in the air.

It has also been proposed to empower the Income Tax Authorities to invade and search any building or place, seize any relevant documents and also, if they like, to make an inventory of any other articles in the course of their search. This provision will no doubt exercise some check on the proverbial device of the tax dodger who maintains double sets of accounts, one for the Income Tax Department and the other for his normal business. It may also cause some concern to those who accumulate their secret wealth in the form of cash, bullion or jewellery, for their storage dumps may be searched in the course of or in the guise of a search of documents and books of account.

The other amendments to the Income Tax Act proposed in the Finance Bill are of much less significance comparatively. It is a paradox, however, that some of them have received much more attention. For example, the provision to tax registered firms whose effect on the revenue will be comparatively negligible has figured prominently in the budget discussions. A passing mention may be made here also of some other proposals for amendment of the Income Tax Act. The penal supertax on Section 23 A Companies is proposed to be increased to eight annas in the case of investment companies as against four annas for the other

companies. The rationale of this distinction has nowhere been clearly stated. It would appear to rest on the somewhat doubtful theory that if an investment company declares less than the prescribed dividends, it is doing so with an eye to saving super-tax on the incomes of the share-holders to a larger extent than the other companies. An amendment to section 17 has also been proposed which has the effect of withdrawing an unintended benefit which was inadvertently conferred on the non-resident in the matter of super-tax rate applicable to him by last year's Finance Act.

Another proposal is to levy an extra super-tax at the rate of two annas in the rupee on the face value of bonus shares in the case of companies. This proposal has been criticised widely and the Finance Minister himself has had some difficulty in reconciling the imposition of this tax with the clearly opposite views on the subject expressed by the Taxation Enquiry Commission. Possibly there is a stronger case for having an imposition on the lines proposed in the case of private companies where the accumulated reserves can be distributed to the shareholders in the form of bonus shares with greater facility than in the case of public limited companies.

In all such legislation, there is always the possibility of some hardship or harassment being caused to innocent victims, owing to the understandable weaknesses of the administration. The real criticism against these proposals would perhaps be the ineffectual use made by the Income Tax Authorities of the powers already available to them. It has been clear for some years now that the weakest link of the administration of income tax in the country is not so much the inability to detect concealment as the failure to collect taxes found due, as a result of its efforts. Even now the sly tax payer can afford to put on a superior and somewhat cynical smile on the labours of the income tax authorities to bring him to book, for the procedure for recovery of taxes can be very conveniently circumvented by him with the help of legal devices such as the alienation of his assets and properties to persons beyond the reach of the Income Tax Authorities. It will be advisable for the legislature particularly to overhaul the machinery for recovery of taxes so as to give it the effectiveness and punching power which it so badly seems to need. The tax dodgers today can go on adopting dilatory tactics for they know that even if they are ultimately held liable to taxation on concealed incomes, they will have enough time and opportunity to escape without payment of any taxes whatsoever. What the Income Tax Authorities seem to need most at the time is the power to launch deterrent prosecutions in the case of tax evaders combined with the strength to recover effectively and speedily taxes if necessary, from the properties of the tax dodger standing in the name of nominees. While it may be appropriate to vest the Income Tax Authorities with powers to enable them to detect concealment with greater facility, it is more important to provide for deterrent measures to enable them to recover taxes when they have been imposed. If the tax administration of the country needs a bigger jaw, it certainly needs better teeth in it also.

Israel and Arab States

NINE years ago, the issue of Palestine was handed over by Britain to the United Nations. Israel has since emerged as a sovereign State. This is resented by Arab States. There have been frequent Arab-Israeli border clashes since the birth of Israel. Immediately, the problem is to avert a second Palestine war. Dr Dag Hammarskjold, Secretary General of the United Nations, is now on a mission to West Asia to discuss arrangements with the parties concerned to "reduce existing tensions along the armistice demarcation lines". Even as the Security Council was taking steps to ease the Arab-Israeli tension, President Eisenhower informed the world that America will observe her commitments to prevent war in west Asia. President Eisenhower's statement has been interpreted in some quarters to mean an American commitment for armed intervention in west Asia under certain circumstances.

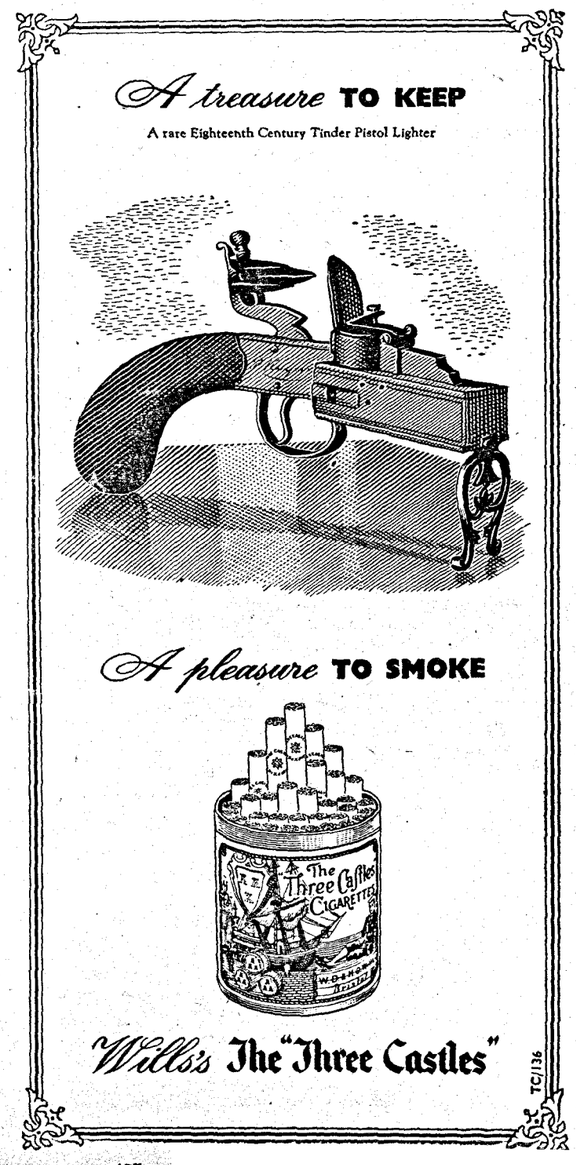
Under the tripartite agreement of 1950, America, Britain and France are commited to ensure peace along the demarcation lines. Under this agreement, each and all of them are committed to armed intervention to deter any aggression. But the timing of President Eisenhower's statement has provoked hostile comment because it coincided with the Secretary General's peace mission under a mandate from the Security Council. President Eisenhower's statement is hedged by the constitutional authority of the American Congress to declare war. But his statement will certainly be interpreted as America's decision, under certain circumstances, to take action "outside the United Nations". Despite the tripartite agreement, the wisdom of any such action is doubtful. It will be opposed by Russia. Arab States will resent it.

Israel may feel satisfied, but President Eisenhower's statement has had a hostile reception among Arab States. They suspect that the conditional American commitment is aimed mainly against them. Later developments indicate that President Eisenhower's statement has more diplomatic than military significance. Washington has been wise in restraining Paris from taking any hasty action. There are reasons why France is more hostile to Arab States who openly support the nationalist movement in French North Africa. This also explains why France has, in recent months, been more active in supplying arms to Israel than Britain or America. Both Britain and France suspect America's diabolic Britain or America. Both Britain and attitude to west Asia. It is clear that Western Powers are perturbed over the spreading Russian influence in west Asia. This provoked Britain to secure a guarantee from America that the latter will come to the aid of Britain and France in maintaining peace on the Arab-Israeli border, and in ensuring the old balance of power in west Asia. America accepts these obligations, but seems reluctant to undertake any action to fulfil these pledges. She is not a member of the Baghdad Pact, though Britain's active participation in this military alliance is the direct cause of her disgrace in west Asia. To assuage Arab States, or rather to dissuade them from active co-operation with Russia, America not only stays out of the Baghdad Pact, but refuses Israeli requests for arms.

These conflicts between America and her allies prevent any effective Western policy to west Asia, while frequent Arab-Israeli border clashes threaten peace in that area. Western Powers endorse Israel's complaint that the arms deal between Egypt and the Communist bloc has caused frequent border disturbances. Before the entry of Russia in West Asia, arms were being supplied by the Western Powers to both Arabs and Jews. Border clashes were then less frequent, the Western Powers argue, because supplies of arms were strictly rationed to suit the legitimate needs of self-defence. Because Egypt was suspicious of the Western Powers' intentions, she entered into an arms deal with the Communist bloc. Russia welcomed this opportunity to extend her sphere of influence in west Asia for two reasons. West Asia is world's oil basin. By winning friends in west Asia, Russia could protect Caucasian Russia against offensive Western bases in neighbouring countries.

Neither the tripartite agreement nor rationing of arms by the Western Powers has prevented occasional border clashes. In the last six months, since the gradual extension of Russian influence in west Asia, the situation has so changed that it is doubtful whether the tripartite agreement is any longer an effective instrument even in maintaining the fragile truce in Palestine. Russia's claims for consultation and co-operation on issues relating to west Asia are now conceded. Moscow has been diplomatic in announcing Russia's willingness to lend support to attempts and measures to achieve peace between Israel and Arab States. This willingness is a guarantee that the rationing of arms to Israel and Arab States can be effectively enforced, with Russian support, under the auspices of the United Nations.

It is clear from the Russian declaration that she is opposed to any attempt to solve west Asian problems by the Western Powers alone, though she is now committed to endorse measures undertaken by the United Nations to maintain peace between Israel and Arab States. This is an approach to the problem of solving the unsettled issues in west Asia which should be welcomed by Israel and Arab States. Both should be interested in preventing intervention by foreign powers. But if foreign intervention becomes inevitable, it is certainly better that such intervention should be by the United Nations instead of by either of the rival power blocs. With Russian support and co-operation, it should be less difficult for the United Nations to maintain peace between Israel and Arab States. There are other and wider problems which need to be solved equally urgently. Arab refugees will have to be settled. West Asia's economic development will have to be hastened through co-operation by all those countries who are in a position to help. Both the immediate and ultimate aims can best be achieved under the auspices of the United Nations. Russia's offer to co-operate with the United Nations in solving west Asia's unsettled problems is a challenge to the Western Powers. In the wider interests of peace, it is to be hoped that they will respond to this Russian challenge.



Weekly Notes

Planning Forums

THERE is no denying that planning has caught on. Perhaps it has attracted more interest outside India than among many sections of the Indian people. This may sound paradoxical but it is nevertheless true. Neither Nehru's foreign policy of non-alignment nor India's achievements in any other field has done as much to win admiration for India among her Asian neighbours as the success of her first Plan and the ambitious targets of her second one. Her community projects have already become an export product. The idea of it may be of American origin the handiwork of the Ford foundation. Even the use of the word 'community' in this special sense is distinctly American. Etawah, as the first field of its application, may not have produced results that will stand scrutiny. It has yet to be established that the Community Projects will pay for themselves and move on their own steam, when Central assistance is withdrawn. But what of that? Indian Community Project experts are much in demand in all the countries of West and South East Asia. And why projects experts alone? It looks as if Planning experts of all sorts will soon become a valuable export product and a foreign exchange earner.

There is still need for selling the Plan to the Indian people. With elections drawing near, fresh spirit has to be infused into publicizing the Plan and now Shri Mishra, Deputy Minister of Planning has taken a hand at it. To catch them young, Shri Mishra has been going round the colleges and universities, trying to induce the students to take up publicity for the Plan by forming planning forums. In New Delhi was held this week the first Conference of Planning Forums which was attended by 130 teachers and students, and was inaugurated by Pandit Nehru. Speaking in Hindi, which the majority of teachers and students attending the Conference did not follow, Nehru started with a cold douche to Shri Mishra who, in his address had welcomed the students as "leaders and workers of tomorrow". Nehru said that he did not regard students as a separate class, either to be flattered or criticised; he was all for improving the intellectual standards but "debating societies have never been known to achieve anything in any country". What else could the Planning Forums be, but debating societies of a sort? In short, students could contribute to the success of the Plan only by training themselves up for specific jobs. This was the age of technicians.

For anyone who did not follow the language to reply to Nehru's Hindi speech would call for presence of mind and tact of a high order. This onerous task fell on the veteran Professor S V Aiyyar of the Annamalai University who had managed to retain his Chair at the Dacca University for seven years after the Partition and he acquitted himself most creditably. The net gain from the Forum was a very honest appraisal of the financial position of the Plan from Shri Chintaman Deshmukh who was unusally frank on this occasion. He did not know where the resources were to be found for it, but he did know that the target of investment was going to be exceeded. Who should then know? Ask me another.

Publicising the State Plans

ON a more pedestrian level, the Plan is being pushed all around. West Bengal is having a Five-Year Plan festival, which is being celebrated in all the district and subdivisional headquarters as well as in some of the villages. The programme usually includes cinema shows, open air theatrical performances and a planning exhibition. Doubtless other States would be holding similar functions and here, in Bombay, the Plan is being publicised in a big way by the Five Year Plan exhibition, which has been drawing crowds during the last fortnight at Cross Maidan. A thoughtful visitor who has apparently been frequenting the exhibition writes:

This is perhaps the first exhibition of its kind in Bombay and it had to wait until the completion of the First Plan period. Curiously enough, the Exhibition is sponsored by a non-Governmental agency, though with the full support of the Government. The All Nations Society of Culture and Art, sponsors of this Exhibition, has certainly shown enterprise, though it is not clear how a Society for the promotion of art and culture took upon itself this particular activity. Does not the Bombay State Government have the resources and the enterprise to organise an exhibition of this kind on its own? Would it involve too great a financial risk? The Bombay Government has many achievements to its credit under the First Five Year Plan. Why is it left to a private agency to tell to the public the story of these achievements?

The exhibits themselves, however, are all prepared by the respective Departments of the State Government. First but not the foremost is the stall of the Directorate of Publicity. The Housing Board, the Electricity Board, State Transport, the Public Works Department, Agriculture and Fisheries Departments, Education and Backward Classes Departments, the Public Health Department and others have each taken one or more Stalls and filled them with a mass of maps, charts, photographs and working models, designed to show their targets and achievements under the Five Year Plan. The Government of India too is represented; indeed, it has the biggest and the best stall in the Exhibition, with some excellent photographs, and other material, depicting the highlights of the Plan.

A visit to the Exhibition would reward anyone who has no access to, (or taste for) current literature on the Plan, with miscellaneous information about what is going on in the State and the country by way of Development Projects. But one does not come away with any sense of the unity of purpose of the whole effort, or any suggestion of the sacrifices that an effort on this scale must entail, or an assurance of the fruits that will be available in return for present sacrifices.

There is need for more of such Exhibitions in towns and cities throughout the State, as is evidenced by the interest which Bombayites, who are generally supposed to be better-informed than people elsewhere are taking in this Exhibition. The State Governments may well invest more in publicising the Plan.

The standard of arrangement and display with the exception of the Government of India's Stall, is not as high as one has a right to expect after the many national and international exhibitions that have been held in Indian Cities in recent years.

Sinhala Nayaka

SHRI Solomon West Ridgeway Dias Bandaranaike, Ceylon's new Prime Minister, has had a past as impressive as his name. Scion of an artistocratic family, closely associated with a succession of Governors in the island, his career ran a course most conducive to his present eminence. A bright student and an eloquent speaker, he distinguished himself at Oxford and won honours which have gone only to a few Asian students. In the contest for the Secretaryship of the Oxford Union, he had the distinction of beating a formidable rival like the son of a former Prime Minister of Britain, namely, Mr Malcolm Macdonald, now U. K. High Commissioner in India. And legend has it that the present Prime Minister, Sir Anthony Eden, while still a student at Oxford in the twenties, was once found pointing to a Ceylonese contemporary and remarking, "There goes the future Prime Minister of Ceylon." And that was Shri Bandarnaike. If one were consciously grooming oneself for a premiership or if Destiny were taking a hand in it, events could hardly have fashioned themselves better than in Shri Bandarnaike's case. Add to it his idealism, the timely appeal of his policy, the blundering of his opponents and the spirit of this era of change in Asia, and the surprise indeed would have been if Shri Bandarnaike had failed to fulfil himself.

Known as 'Sword' in his student days, thanks to his initials 'SWRD', he is once reported to have described himself as the 'Sword of the Nation', and there would still seem to be something of the flash and edge of that weapon about his utterances and gestures, albeit much subdued. Shri Bandarnaike has set for himself big tasks: to declare Ceylon a Republic within the Commonwealth, get rid of foreign bases, follow a policy of dynamic neutrality, and go in for nationalisation. For one who has grown in the midst of wealth and luxury, moved in the aura of the British ruling class and even sat on the lap of Queen Victoria, these are not very nice things to attempt. But it is long since Shri Bandarnaike has wrenched himself from his former moorings, and developed a purposefulness of attitude which scoffs at convention, ceremony, comfort, ease and even innocent relaxation like a visit to a party or a cinema show. It is significant that one of the first things his government did after taking over was to close the bar in Ceylon Parliament. In this, as in the wider sphere of policy and outlook, he is close to India's present leadership, trained in the Gandhian school of stern devotion to duty and earnest pursuit of peace. And he on his part has not stinted words to express his warm regard for our Prime Minister and his policies. While not disregardful of what this affinity of spirit may come to mean for the peace and strength of Asia as a whole, this country may be pardoned if it also looks for a little easing of the problem of Indian settlers in Ceylon. Whatever Shri Bandarnaike has said so far on the subject has not been without promise of helpful initiative. But what is likely to follow is of more importance.

Inter-related Issues

KASHMIR is an issue which should never have been in dispute between India and Pakistan. As the Maharaja of Kashmir signed the Instrument of Accession, Kashmir became part of India. New Delhi sent troops to defend Kashmir against Pakistani aggression. Indian troops could have driven the aggressor out of the Valley. But New Delhi made a mistake in referring the problem to the security Council before completing the military operation. New Delhi made an even more generous gesture of holding a plebiscite. These gestures have not been appreciated by Karachi. Subsequent developments, however, have helped New Delhi to retrieve its position in Kashmir.

In his recent speeches, Pandit Nehru has explained how and why the plebiscite is no longer necessary. Pakistan has not fulfilled the prerequisites to a plebiscite. Some parts of Kashmir are still in unlawful possession of Pakistan. She has since fortified her military strength through supplies of arms and ammunition under SEATO and the Baghdad Pact and through a bilateral arrangement with America. One of the assumptions behind the agreement to withdraw the bulk of Indian forces from the territory is, thus, longer valid. These pre-conditions cannot now be implemented. Therefore, the question of holding a plebiscite no longer arises.

Pakistan's intransigent attitude is evident from the revelation made by Pandit Nehru in one of his speeches in New Delhi some days ago. To ensure amicable relations with Pakistan, India proposed some years ago to reach a settlement of the Kashmir problem through partition on the basis of the present cease-fire line. This proposal evoked no response from Karachi. In his New Delhi speech, Pandit Nehru did not seem to revive this proposal. But his disclosure has been interpreted in Karachi to mean that India is still eager to reach such a solution of the Kashmir problem. Karachi's reaction has been hostile. Both the Prime Minister and the Foreign Minister of Pakistan have summarily rejected any such solution of the Kashmir dispute.

Pandit Nehru's implied suggestion for a compromise solution of the Kashmir problem has been interpreted by Karachi as a sign of weakness on the part of India. Karachi's reaction to Pandit Nehru's conciliatory gesture has a moral for both Washington and New Delhi. America emphasises that she is not supplying military aid to foster aggressive designs among receipients. But the attitude of Thailand and south Vietnam to Cambodia and Pakistan's bellicose attitude to the Kashmir problem are rude reminders to Washington of the consequences of military aid and of regional military alliances.

New Delhi should learn the lesson that a policy of appeasement to the aggressor is bad diplomacy. Cordial relations between India and Pakistan is desirable in the interests of both countries. It will be conceded that a dispute cannot be solved without concessions by both sides. There will not be as much opposition to a compromise solution in Kashmir as to New Delhi's mistaken notion that there can be a solution to the Kashmir problem treated as a separate problem. Kashmir cannot be solved independently of any settlement of the other issues in dispute between India and Pakistan. Continued exodus of Hindus from East Bengal and evacuee property are two such related issues which must be setted along with an agreed solution of the Kashmir problem. Pandit Nehru's recent speech in New Delhi is a welcome indication that he is, though belatedly, realising the inter-relation between the various issues in dispute between India and Pakistan.

Indonesia Takes Bandung Line

INDONESIA'S three-party coalition Government may or may not be Left in politics. But the first elected Government, dominated by the Nationalist Party, is pronouncedly

nationalist in outlook. Dr. Ali Sastroamidjojo, the Premier, has recently enunciated his Government's plans. Abrogation of the Dutch-Indonesian Union is one of the main objectives of the Government. This aim has popular support. Holland is reconciled to the principle of abrogation of the Union. But the problem of West Irian remains a major issue in dispute between the two countries. Indonesia claims sovereignty over West Irian. Holland does not even concede that this is a claim which can be a matter for discussion between the two countries.

Protection to national business and industry against foreign competition is the second major objective of the coalition Government. This is in conformity with the nationalist aspirations in all newly-independent Asian countries. Few will deny that independence without economic sovereignity is shadow without substance. It is right and proper that national industries must be supported and encouraged. Dr. Sastroamidjojo will have popular support to his policy of ridding the country of foreign economic domination. There will be hope that Holland will have the wisdom to co-operate in industrialising Indonesia so as to strengthen future relationship between the two countries.

Indonesia's Asian neighbours will welcome the first elected Government's determination to pursue an independent and active foreign policy. Dr Sastroamidjojo is opposed to alignment with any of the rival power blocs. He will not join regional military alliances, but will pursue a policy of friendliness to all nations. Indonesia was one of the sponsors of the Bandung Conference. Her adherence to Bandung has never been in doubt. In both Indonesia and Ceylon, the general elections have established parties in power who accept the Bandung principle. These are developments which will be welcomed by New Delhi in its search for creating and extending an area of peace.

State Trading and Mining

FROM what T T K said in Parliament about the difficulties of placing tenders for the purchase of equipment for the steel plants and the advantages of a 'package deal', it would not be surprising at all if Bhilai were to go into production earlier than the Rourkela plant, though the latter had a much longer start. If things continue as at present, Durgapur for which also there is no question of calling for tenders —it is a package deal—may come out second, but now that the Ministry of Iron and Steel has decided to give up the tender system, things may move faster.

Another offshoot of the steel plants in the public sector and of the shortage of steel may well be a flying start for the State Trading Corporation which has now been assigned the job of shipping 100,000 tons of iron ore every year for the next three years to Poland under the Indo-Polish Trade agreement signed early this month. The Trading Corporation will also undertake to buy from Poland 100,000 tons of cement. Does it then mean that the distribution of cement imported under the current programme will be handled by the Cement Marketing Board only partially? Light on this point would be particularly welcome, in view of the many questions that have been raised about the operation of this programme.

While the State Trading Corporation will be undertaking the export of iron ore, a State Corporation is being floated as a limited liability company for taking over iron ore mining in Orissa. It is to be hoped, but it cannot be presumed, that duplication will be avoided and that this Corporation will also be able to take up mining of the iron ore that will be necessary for feeding the three steel plants, though naturally separate mines will have to be opened for each, with an eye to convenience of transport. T T K gave some indication of the sources of supply of the principal raw materials for the steel plants namely iron ore, coal, limestone and dolomite.

For the Rourkela plant, iron ore will be obtained from Taldi, 60 miles away. The exact location of the deposit to be worked, however, still remains to be determined, but mining will be undertaken directly by the Government. An American firm of Engineers has been appointed as consultants for this purpose. The Bhilai plant will get its iron ore from Dalli Rajahra. The Russians have already submitted a preliminary project report for the mine which will be designed and worked with the technical assistance of the Government of USSR who will also supply the equipment for it on usual commercial terms.

Present indications are that Durgapur alone may not need a separate mine to be worked by the Government as it can draw its supplies either from the existing mines or from mines in Gua which can be expanded, these being the most accessible deposits.

Now that the three steel plants together will require 5.2 million tons of coking coal per year, conservation of metallurgical coal, it is hoped, will be enforced more effectively than in the past and dependence on such coal reduced by coal washing. The main source of supply of coking coal will be the Government collieries in Kargali-Bokaro, but it will have to be supplemented by coal from Jharia fields. A Government washery is being installed at Kargali but no progress has been made yet in installing one in the Jharia fields. Durgapur will proabaly use Jharia coal which will be washed at the site of the steel works.

Limestone and dolomite for Rourkela and Bhilai will be quarried directly by the Government. Durgapur will be able to obtain supplies from existing sources, at least in the initial stages.

Are all these mining operations under Government auspices going to be handled by the State Corporation or does the Government want to stick to its old formula of a separate 'company' for each separate undertaking, a formula that goes as much against the economics of the corporation as it is offensive to the spirit of joint stock enterprise?

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Delhi Letter

State Trading and Package Deals

E replies to the debates on demands for grants should convince even the worst sceptics that the Government means to stick to the Plan targets. No threat of inflation can persuade the Government to revise the investment targets downward. There are no signs of major differences among the members of the Cabinet on this score. All of them seem equally set on reaching the targets, or rather making the maximum effort towards that end. T T K, considered the blue-eyed boy of the private sector hitherto has gone to the length of maintaining that the targets of industrial production given in the Draft Outline are not to be taken as ceilings. "They are targets," he said, "that have to be achieved any how. It is my own belief that the targets in regard to consumer goods are well below what would be our needs, as the Plan progresses. That is why I emphasised the need for regarding the targets in the Draft Outline of the Second Five-Year Plan of the levels of production to be obtained to be the minimum rather than ceilings".

The necessity for expanding exports follows as a corollary, if the production targets are to be reached. As Shri T T Krishnamachari put it, "We are assuming a gap of a thousand crores in our foreign exchange. It means we are going to import a thousand crores more than what we are going to import normally and we must, to some extent, balance these imports with exports. That is what we are striving to do with these bilateral arrangements".

If we must have a substantial increase in our foreign trade, the uncoordinated efforts of the private sector are not adequate for the purpose. They need to be supplemented and the State Trading Corporation is the instrument chosen for the purpose. The Corporation will handle as large a proportion of the growing volume of trade as possible particularly that of trade with communist countries or in particular items which are regulated on monopolistic lines.

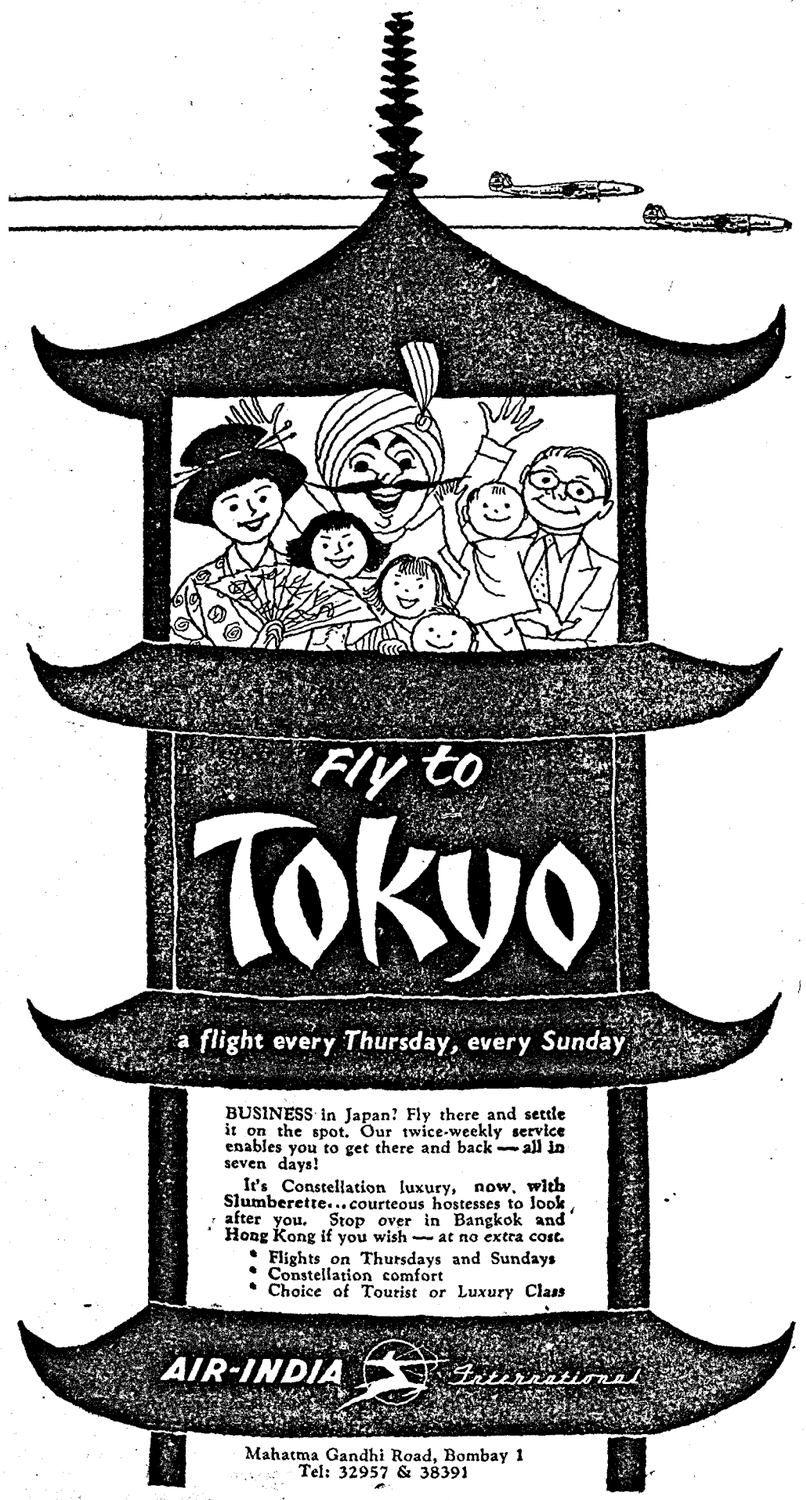
Post-agreement negotiations with Communist countries have revealed certain procedural and other difficulties. State-controlled economies have shown a marked reluctance to make use of the established organisations and procedures for inspection and settlement of disputes. What is more, competition among Indian importers as well as exporters has often resulted in weakening the bargaining strength of Indian traders vis-a-vis foreign monopolistic organisations. By intervening between Indian trading interests and monopolistic trading organisations abroad, the State Trading Corporation is expected to offer a solution to these problems. The Corporation will not only help resolve the procedural difficulties over inspection and settlement of disputes but will assist the two parties in entering into contracts on equal terms. This is what persuaded the Government to decide to set up the Corporation.

Now that it has been decided to set up the State Trading Corporation, the Government feels that it can be used as an instrument for its price policy also and for maintaining a balance between supply and demand. So far it had to depend principally on the Import and Export Control Act and Tariff Act for implementing its policies in the field of foreign trade. For deriving the maximum benefit out of the limited foreign exchange resources available to the country, imports have been controlled. Exports have similarly been regulated with a view to maintaining a stable price and supply situation at home. Again, fiscal measures like import and export duties have been resorted to for protecting the internal price structure from international influences, for mopping up excess profits and for extending protection to indigenous industry.

These measures are proving rather inadequate for a number of essential articles, the demand for which has been outstripping internal production. The State Trading Corporation may be relied upon to take care of such situations and to arrange for imports in time so as to prevent temporary shortages emerging.

Meant to take over certain sectors of the country's foreign trade, the Corporation will have a share capital of Rs. 1 crore, all the shares being held by the President. The corporation is not intended to enter into internal trade or to participate in a large way in distribution. It will function as an autonomous commercial enterprise with freedom to take reasonable risks and wide powers to ensure necessary flexibility of operation. Needless to say, the broad policy governing its operations will be laid down by the Government from time to time, but the Corporation will enjoy considerable latitude in its day to day working. The Corporation cannot be expected to make profits on each individual transaction; surely there will be losses on quite a few, especially in the initial stage, for trading can never be risk-free. Structural and organisational details are still to be decided. The Corporation is likely to have branch offices at the three main ports.

There will always be sticklers for form, just as there will be persons with more knowledge of audit rules than of economics. And they will raise their voices of protest as soon as a rule is violated, be it for saving time and money or for malafide reasons. Sections of the Lok Sabha expressed dissatisfaction at the "package deals" made with the U K and the U S S R for the construction of Durgapur and Bhilai steel works. Tenders were not called for and the parties in these two deals were entrusted with the construction of the steel plants, including civil engineering work. This method of dealing with the problem saved time and involved no extra cost. Despite the comparatively late date at which the British agreement was signed, the Durgapur plant may go into full production at about the same time as, or even earlier than the German plant. With two years start, the first blast furnace at Rourkela is expected to go into production in November, 1958, about seven months before the first blast furnace in the British works. But by June, 1960, all the British works, except for some minor plant, are expected to be in operation. Similarly, the blast furnace in the Bhilai plant will start functioning by 1958, and full production is expected by 1960. The Germans who were the first to arrive on the scene are still engaged in placing orders for plant and equipment with the manufacturers. Delays in placing orders have been caused by the method of inviting world tenders.



From the London End

East-West Trade Impasse

IN an interview to the **Times**, Marshal Bulganin emphasised that "increased trade between the Soviet Union and England would be an important *stimulus* in the development of co-operation in other fields." Whether or not this is something new in Soviet policy, it at least meets the oft-repeated British argument that settlement of one problem at a time is preferable to any attempt at a quick over-all settlement. Yet, the **Times** made the rather disappointing comment that "trade cannot be dismissed in an isolated compartment.. it cannot be divorced from the political background and from the general easing of world tension." At least on questions of trade some common ground could have been expected—particularly so, because of the desperate position in which Britain finds her export trade. That the response has been what it is suggests that what Mr. Mollet had said of the Western attitude to Soviet overtures is of *particular* application to British policy.

The same British attitude was exhibited somewhat sharply at the Economic Commission for Europe Conference on East-West trade. The British representative, Lord Hawke, not only pooh-poohed the idea of an early solution of this problem, but took the unprecedented step of criticising Dr Gunnar Myrdal, the Commission's Secretary, for having concentrated too much of his attention on this question. ".. It is our belief," he asserted, "that the primary function of an inter-governmental organisation such as the E.C.E. is not to attempt to organise trade in any way."

The contradiction in the British attitude is particularly blatant in the case of trade with China. A review of the statements made by members of Government on this question over the past three years is sufficient to show this to be the case.

March 1953. ".. We were obliged to take all possible steps to prevent the export to China of any goods which would be of military or strategic importance to the Chinese forces in Korea".

(Lord Mancroft)

April 1953. ". . . the restriction on strategic goods which was put upon China as long as the warlike activities were pursued in Korea cannot possibly be extended to any general overall peace plan".

(Lord Mancroft)

March 1954 ".. the United Nations resolution of May 1951.. was adopted to meet aggression in Korea and its scope has not been widened .. to hostilities in Indo-China".

(Lord Salisbury)

Dec. 1955 ".. it is necessary to bear in mind that the resolution of the United Nations was not confined to the end of hostilities in Korea".

(Lord Reading)

Feb. 1956 "We are agreed that the test with regard to decontrol is the extent to which it serves the interests of the free world".

(Mr. Selwyn Lloyd)

And so what was orginally a specifically-based embargo has now become a far-reaching political restriction on Anglo-Chinese trade. It must, however, be emphasised that the British stand on Anglo-Chinese trade has always been conditioned by the views of Washington. This conditioning does not however appear to have been so significant on the question of trade with the European Communist States.

Last year saw a 21 per cent increase in trade between Western and Eastern Europe and Dr. Myrdal has indicated that this expansion has continued into 1956. Western imports from the Eastern bloc of countries increased by 31 per cent between 1954 and 1955, and it appears that Britain was an important participant in this trade. These improvements are striking but continue to be dismally small in absolute terms.

The Soviet delegates have submitted a far-reaching programme of economic co-operation to the current session of the ECE. The programme envisages:

(a) An all-European agreement on economic co-operation;

(b) The elaboration of 'planned' measures for the development of business contacts;

(c) The establishment of an E C E body for the peaceful uses of atomic energy.

These proposals bring together an impressive number of what the French delegate called 'chapter headings'. It provoked some Western response: the Germans wanted to learn what the Russians had in mind and the Swedes called for some study of the proposals. It was the British attitude which indicated that *nothing* far-reaching can come out of such a study.

The first Russian proposal was somewhat similar to the scheme put forward by Dr Myrdal. It embodied an all-European agreement on voluntary multilateral compensation which, as Dr. Myrdal stated, would 'unfetter international trade' and make 'a real contribution to general harmonisation of relations in Europe'. The British attitude was, to say the least, unhelpful. Lord Hawke declared that intra-European

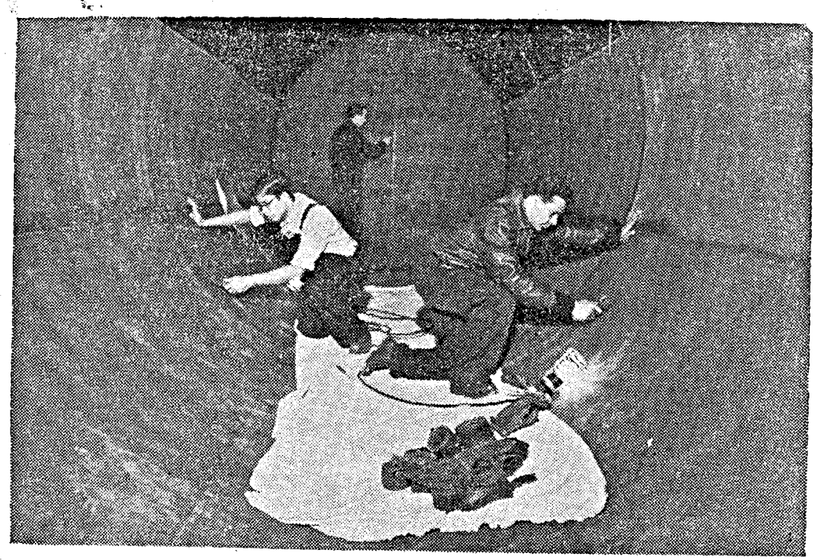
West European Trade with the European Communist Bloc

($ Millions)

	First 9 months of Each Year					
	1953		1954		1955	
	Imports	Exports	Imports	Exports	Imports	Exports
United Kingdom	146	29	148	45	198	70
France	29	34	48	51	60	100
Netherlands	34	33	35	58	50	39
Belgium	27	45	36	48	33	46
Italy	33	37	43	41	52	42
W. Germany	43	35	55	54	81	84

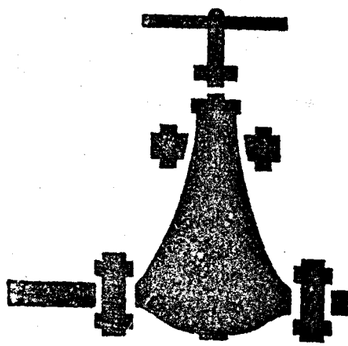
payments could be arranged in sterling, and he therefore saw no need for anything new in European financial practice. The British motive in directing European trade through sterling is of course obvious. What is equally obvious is the fact that given the non-convertibility of sterling and other European currencies, the whole pattern of trade between East and West Europe has up to now been confined to strictly bilateral trade agreements. It is towards an ending of this pattern—of introducing multilateralism on the basis of a central compensation machinery—that the new proposals are designed. The other British objection related to the Soviet proposal for a 'planned development of trade contacts'. This, said Lord Hawke, went against the trade practices of British business men, and so his Government was opposed to it.

This then is the impasse in which East-West trade finds itself. It is difficult to imagine how the discussions between the Soviet and British leaders can lead to a purposeful and practical agreement when the trade problem is made to depend on such complex questions as German unification, disarmament and the like.



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Official Papers

Weakness In Numbers

Indian Livestock Census 1951, Volume I. Issued by the Economic and Statistical Adviser, Ministry of Food and Agriculture. New Delhi. Pages 60. Price Rs. 5 or 8 sh.

THE report of the seventh quinquennial Indian Livestock Census relating to the year 1951, like some of its sister publications, enjoys the distinction of coming out rather late. The census was conducted in May 1951; the report on it was signed by the Economic and Statistical Adviser, Ministry of Food and Agriculture, in July 1953; the Manager of Publications brought it out in September 1955; and now—after the lapse of four years, when it is time for the next census—we have a copy for our education! Its interest, therefore, is purely historical. There are, however, one or two changes—though mainly of form—which invest the report with some amount of newness, and differentiate it from the previous one for 1945. In the first place, formerly known as "Livestock Census in India", it has come to be re-designated as "Indian Livestock Census". Secondly, it now appears in two volumes—the first one gives a brief account of livestock census, livestock conditions etc, and the second contains, districtwise, details about the number of livestock, agricultural machinery and implements etc. Finally, the present report is more comprehensive in coverage inasmuch as the census under reference was held in the post-Independence political set-up and as such, covered practically the entire country except Manipur and Orissa. Comparability of the data for the two census years, viz. 1945 and 1951, is, therefore, limited.

The first livestock census was held in the winter of 1919-20 and thereafter such a census has been held at intervals of five years. The sixth census was carried out in 1945 in British India and some of the Indian States. UP and Bengal, however, held the same in 1944 and 1946 respectively. The seventh all-India census was due in 1950, but was postponed as there was a proposal to combine it with the FAO Census of Agricultural Holdings. However, since the latter was postponed, it was decided to go ahead with the livestock census, which was ultimately held in May 1951. Owing to some administrative and local difficulties, some of the States could not carry out the census according to the stipulated programme. Thus, in Ajmer it was held in June, in West Bengal in September, in Rajasthan in February 1952, and in Travancore-Cochin, in August 1952. But these States were asked to take account of the inter-State movement of cattle since 1951. Though essentially concerned with livestock, the report has also collected information about poultry and agricultural machinery and implements.

Largest Number

India possesses the largest number of livestock in the world—a total of 292 million in 1951 (267 million in 1945)—and unlike in the continent and in the U S where cattle are kept mainly for milk and meat, Indian cattle supply, besides milk, draught power, whose value is estimated at around Rs. 300-500 crores. Indian livestock also supply farm manure and meat; eggs, wool, hides and skins and horns and bones are other useful products. Unfortunately, however, the benefits of the numerical superiority of Indian livestock are largely offset by their poor quality. The yield of milch cows as well as the capacity of working cattle are low when compared with other countries.

Of the country's livestock, cattle constitute the largest number at 155 million. They are followed by goats which number 47.1 million and buffaloes totalling 43.4 million. The number of sheep is 38.8 million, that of horses and ponies 1.5 million, mules 60,000, donkeys over a million and camels less than a million. Of the 155 million cattle, male ones form 39.8 per cent, cows (in milk, dry and working) 31.2 per cent and young stock 28 per cent. The concentration of cattle depends on such factors as topography, climate, agriculture etc.; and it is found that the number of male cattle is highest in U P (23.51 million), followed by Madras (19.41 mn) and Bihar (15.29 mn). Cows in milk predominate again in U P and Madras and in Madhya Pradesh. The number of cattle power per 100 acres of cultivated land is largest in Madras (130.4), followed by West Bengal (88.5) and Bihar (69.1).

An important aspect about Indian cattle is their variety: there are about 25 types of well-defined breed in addition to a large number of nondescript ones. Among the former, some of the well-known names are Sahiwal, Sindhi and Gir among milch breeds and Amritmahal, Hallikar, Kangayam and Kankarej among draught bullocks. Hariana and Tharparkar are the best dual-purpose breeds.

Of the 43.3 million buffaloes, the largest number is in U P (9.25 mn); and Madras (7.86 mn) and Bombay (4.16mn) follow in order. A large number of buffaloes are again of a nondescript type, but the most common breed is Murrah. The heaviest milkers are Jaffarabadi buffaloes, found mostly in Saurashtra.

Sheep and goat rearing constitutes an important occupation both in the northern and southern parts of the country. Wool, mutton and skin are valuable sheep products, while goats yield milk besides meat and skin. Of the 38.8 million sheep, the heaviest concentration is in Madras (15.2 mn), followed by Rajasthan (5.1 mn) and Hyderabad (4.3 mn). The largest number of goats is again in Madras (7.4 mn); and Bihar (5.9 mn) and Rajasthan (5.4 mn) follow in order. Pigs are mostly reared for meat and skin and are found in large numbers in Madras.

Poor Quality

It has been mentioned in an earlier paragraph that the quality of Indian cattle is very poor. The report on the Livestock Census tells us why. It points out that the 'breeding aspect' of animal husbandry has been completely neglected in India, and breeding is done more often than not with the help of stray cattle or the 'Brahmani' bull. In the result, a large proportion of livestock does not belong to any particular breed and is of a nondescript type. We are, however, assured that efforts are being made by Government to improve livestock by scientific selection of breed and mating. Research in different breeds and in cross-breeds is being done; most State Governments have esta-

blished breeding farms; artificial insemination is being successfully carried out; and Community Development Projects and Key Villages also provide facilities for scientific breeding. Vindhya Pradesh, Madras, Bihar and Punjab are probably the most prominent among the States which are making laudable efforts in this matter.

An important factor, which has a close bearing on breeding, is that the inferior males should be segregated. For this purpose, therefore, 'Gosadans', where such inferior male cattle can be kept, are being started at several places.

Any attempt at improvement of quality, says the Livestock Census, can succeed only where the livestock are properly fed. A distressing fact, however, is that the majority of Indian livestock are ill-fed or under-fed. This is, of course, mainly due to the size of the cattle population and to the fact that many of them being poor in quality, it does not pay the owner to feed them properly. Generally, cattle are left to graze on the common land. This serious underfeeding of cattle results in slowing down their rate of growth and in lengthening the dry periods.

This problem, we are told, has attracted the attention of both Central and State Governments; and steps have been taken to improve fodder and grazing conditions. Among the measures taken are liberalisation of rules regarding grazing cattle in State forests, earmarking of common grazing lands, introduction of nutritive varieties of fodder etc.

The housing of livestock in India also leaves much to be desired. Generally, kaccha sheds which are open are used. Only in some parts of the country, are the sheds covered. In the rainy season, the cattle sheds—so-called—get dirty and give rise to disease. Though several municipalities and State Governments have taken measures such as the prescription of standards for sheds, construction of low-priced sheds and supply of building materials at subsidised prices, this is a field in which much leeway has to be made up.

Bad housing is partly responsible for causing infectious diseases which affect the ill-fed, weak Indian cattle. Cattle mortality, due to this, is very heavy, resulting ultimately in an increase of rural indebtedness. Some of the common diseases are Rinderpest, Black Water and Anthrax, Mouth Disease, Liver Fluke, Cholera etc. However, prophylactic measures have been taken in most of the States. Among measures for fighting the diseases are: provision of service through veterinary hospitals, dispensaries and mobile veterinary units, opening quarantine stations on migratory routes, research in cattle diseases and their treatment, free supply of sera and vaccines, training veterinary personnel etc. Vindhya Pradesh, Bihar, Madras, Punjab, Madhya Pradesh, Ajmer and Madhya Bharat are probably the most notable States which have taken up the question of this battle against diseases seriously. Though the present situation about livestock is distressing, the report strikes an optimistic note; it may be hoped that with so many schemes regarding breeding, feeding and control of diseases in operation, the livestock in the country may show a marked improvement both in their yield and expectation of life in the years to come.

The Livestock Census has collected data about poultry also. We are told that except in certain States, where Government has started poultry farms or subsidised private efforts, this enterprise has not assumed the status of an industry. Indian poultry keepers are poor, backward and conservative; and the lack of experience in breeding has resulted in deterioration of the quality of birds. And the birds generally live on what they get in the dirt heaps of lanes and streets. Of late, however, poultry-keeping on proper lines is gaining in importance; and both the Central and State Governments are taking interest in poultry development. Encouragement is given generally through the establishment of poultry farms; and most active among the State Governments are UP, West Bengal, Bihar, Madhya Pradesh, Punjab, Orissa and Mysore.

The information on agricultural machinery and implements throws much light on the extent of modernisation that has been effected. We are told that the Indian farmer still largely uses primitive and simple tools, which are cheap, easy to make and repair and within the capacity of draught animals. However, modern devices such as tractors, bulldozers, harrows, hoes, seed drills etc. are generally coming into vogue, though there is yet a long way to go on the road of mechanisation. There are 8,354 tractors in India—6,857 belonging to private farmers—and the largest number is to be found in UP (2,548). Bombay (1,072) and Punjab (1,064) follow in order. The number of wooden ploughs is 31 million, while that of iron ploughs is only 931,000. Electric pumps and oil engines number 29,834 and 95,140 respectively. Among the States, which have made successful efforts in introducing modern devices, are Madras, UP, Bihar, Assam, Bengal and to some extent Punjab. The progress in Part B States is, however, negligible.

Part 'B' of the report contains tables giving a detailed breakdown of the number of livestock and poultry by variety and State, while Part 'C' towards the end, includes in all five appendices on pro forma for the 1951 livestock cencus, pre-Independence Provinces and States in which the 1945 census was held, authorities concerned with the collection of livestock statistics, breeds of livestock and the number of tractors in India.

Table I—Indian Livestock

('000)

	1951	1945
Cattle	155,099	135,960
Buffaloes	43,351	40,593
Sheep	38,829	37,729
Goats	47,077	46,286
Horses and Ponies	1,514	1,399
Mules	60	45
Donkeys	1,240	1,132
Camels	629	654
Pigs	4,420	3,707
Total	292,218	267,505

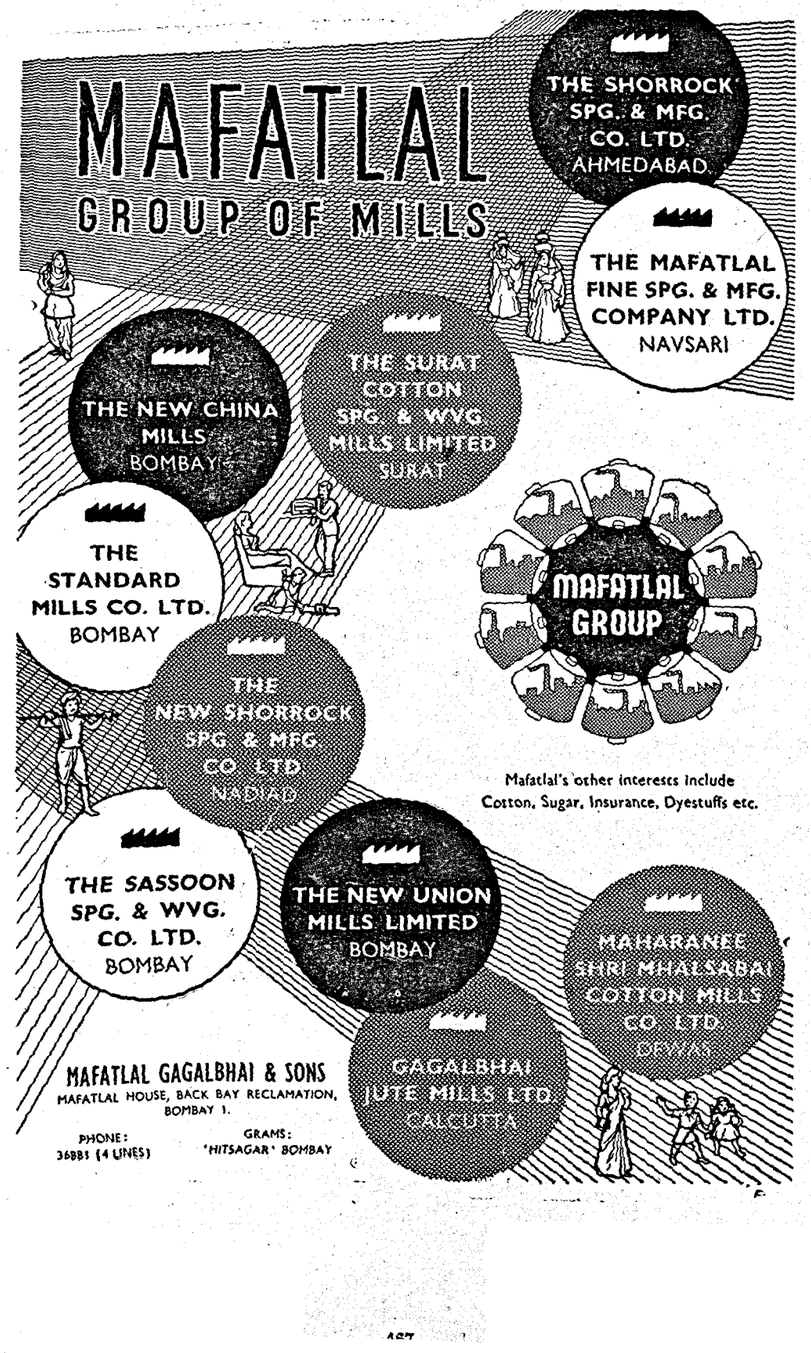
Table II—Poultry in India

('000)

	1951	1945
Fowls	67,135	54,656
Ducks	6,264	3,583
Total	73,421(a)	58,239

(a) Includes 22,000 for which details are not available.

Note: The data for the two years are not strictly comparable due to the change in the reporting areas at the 1951 census.



Budgets in Nepal

Y P Pant

UNTIL recently, the 'hermit kingdom' of Nepal had developed no system of presenting periodic budgets to the public, as there was no separation between the funds of the State and the privy purse of the ruling Prime Minister. It is only since the overthrow of the Rana rule in February 1951 that among the many changes that have taken place, the presentation of an annual budget has found a place. Under the new set-up the country has seen some five budgets. The first was a budget estimate for the Nepali year 2008 which covered the priod from March 1951 to February 1952. Subsequent budgets have been for the Nepali fiscal year, i.e., from July to June.

While presenting the first budget (1951-52) to the country, Nepal's first Finance Minister explained that estimates under many of the heads under revenue or expenditure were far from accurate or exhaustive. This was inevitable in view of the state of affairs that had prevailed till then. The difficulty, in fact, has been that the Government possesses hardly any statistical data and no independent agencies for the survey and collection of facts in a proper way have yet emerged. Reliance has, therefore, had to be placed on such information as was at hand and on estimates made by knowledgeable people. In spite of these difficulties, however, subsequent budgets have become more comprehensive and precise, though they continue to suffer from many defects.

Shape of the Budget

The Nepali budget is similar in pattern to the Indian budget. It is a cash rather than an obligation budget. Revenue and capital are generally separated, and each budget passes through three stages i.e. estimated, revised and actuals. Since the present article seeks to analyse the basic trends of the various budgets presented so far, a brief review of the budgets is necessary. The first budget (1951-52) was presented at the end of the year through Radio Nepal (there being no Legislature), the second (1952-53) was passed in October 1952; the third was never passed by the Assembly; the fourth (1954-55) was considered by the Assembly in December 1954 but was again not passed; and the current budget (1955-56) is said to have been approved by His Majesty the King, but the figures have not been made available to the public. The first two budgets were drawn up in terms of rupees without any distinction between Nepali and Indian currency. Since Nepal has a dual currency system (both the Nepali and Indian rupees being legal tender) it is realistic that the budgets for 1953-54 and for subsequent years are in both currencies.

The Revenue Position

The principal heads of revenue of the last four budgets given in Table I throw light on the existing sources of revenue of the Government.

The principal source of revenue, it will be seen, is land revenue, which provides as much as one-third of the total. Land revenue collections have improved from Rs 94 lakhs in the first budget in 1951-52 to Rs. 131 lakhs in 1953-54. Though this is an inelastic source of revenue, seasonal conditions play a part and so do the extra land taxes imposed at a flat rate. Owing to the insurrection, not much could be collected in the first budget; it is in the subsequent budgets that revenue obtained has been increasing. In the last budget, serious floods in most of the eastern parts of the country caused a decrease of revenue to Rs 125 lakhs.

The Inspector General of Forests in U P, has submitted a report on the Re-organization of Forest Administration in Nepal, in which he makes the point that U P, with half the forest resources of Nepal, realizes ten times as much from forests. The present yield from forests in Nepal is undoubtedly meagre, varying between Rs 29 and Rs 34 lakhs. This meagre yield is due partly to lack of proper knowledge of the existing forest resources and partly to the anachronistic feudal system of land tenure, especially the Birta System (no rent land) in various parts of the country which recognizes the individual ownership of forest resources. This has made possible the reckless exploitation of the forest resources for private profit, to the detriment of State revenue and national welfare. At present, revenue under forests is derived mainly from:

1 the sale of timber and other forest products, and

2 miscellaneous items of fines, refunds and rents of building and so on.

Next to the land revenue come customs duties and their increasing importance is indicated by the increase of yield under this head from Rs 73 lakhs in 1951-52 to Rs 136 lakhs in 1954-55.

It is believed that the substantial upward trend in this revenue, apparently arising principally from the present arrangement with the Government of India, will continue for another year or two. After that, the revenue is expected to level off, unless the volume of imports increases with increased production in the country. Since the bulk of imports at present are necessaries of life, increases in rates of duties would intensify the regressive character of the tax system.

The revenue from excise duties, under which Government contracts are included, has also increased from Rs 9 lakhs in 1951 to Rs 25 lakhs in 1954-55. Yield from miscellaneous sources includes gross income from post and telegraph, railways, ropeways, taxes on vehicles, entertainment taxes, revenue from the administration of justice (presumably court fees) and from commerce and industry, civil works etc. The yield from entertainment taxes may increase considerably in the future. The absence of direct taxes is conspicuous. It can also be noticed that the revenue from land, which is one of the most regressive of taxes, is so far the mainstay of the country's finance.

Table I — Revenue and Receipts

(In lakhs of rupees)

	1951-52 (Estimates)	1952-53 (Estimates)	1953-54 (Revised)	1954-55 (Estimates)
Customs	73	100	102	136
Income Tax	—	—	—	—
Excises (Rakam and Thekka Bandobast)	9	18	22	25
Revenue (Land)	94	123	131	125
Forest	30	32	29	34
Miscellaneous	99	128	93	111
	305	401	377	431

The Pattern of Expenditure

On the expenditure side, the budget data disclose certain specific features (Table II). So far, details of the expenditure on revenue account alone are given. Regarding capital expenditure, only the second and fourth budgets have given accounts of expenditure on aviation, thermal plant, depreciation allowances, pension funds and other deposits and advances. One of the special advantages of Rana Rule was the great economy in administration. As the budgets show, excepting in the third year, administrative expenditure under the new set-up has gone up tremendously. Defence expenditure has been on the increase from the very first year. Knowledgeable quarters estimate that the deficit on revenue account in 1951-52 (the first year of the new set-up) was the result of a 40 per cent increase in the expenditure on general civil administration and a 15 per cent increase in defence expenditure.

The miscellaneous items of expenditure in the budgets for which details are available include costs of collecting taxes, costs of government-owned public utilities (railways, hydro-electric installation), irrigational work, and direct demands on revenue. To-day any budget is necessarily judged by the provision made in it for social services and promotion of nation building activities, but in Nepal adequate attention has not been given to these; expenditure on education accounts for only 4 per cent and that on health forms no more than 3 per cent of the total.

Budgetary Deficits

A regular feature of the budgets is the annual deficit to the tune of more than one crore of rupees. Table III gives the comparative figures of budget deficit during the last four years. These figures indicate that as compared to 1951-52, there has been some improvement, but this has hardly been significant. No doubt, the deficits shown in Table III are subject to substantial inaccuracies for various reasons. Firstly, excepting in the fourth budget, no distinction has been made between Nepali currency and Indian currency. The exchange rate today being about Rs 175 Nepali rupees for every 100 Indian rupees, the deficit tends to be over-estimated as more than half the revenues are in Indian currency. Secondly, experience has shown that actual expenditure tends to fall short of the estimated expenditure. Making allowance for all these, however, substantial deficits have become a permanent feature of the Nepali Budget.

Table II — Expenditure

(In lakhs of rupees)

	1951-52	1952-53	1953-54	1954-55
General Civil Administration	184	224	169	219
Defence	128	127	138	159
Miscellaneous	213	178	161	214
Total	525	529	468	592

Table III — Budgetary Deficits

(In lakhs of rupees)

	1951-52	1952-53	1953-54	1954-55
Revenue	305	401	377	431
Expenditure on Revenue Account	525	529	468	592
Deficit on Revenue Account	220	128	91	165

As deficit budgeting is being increasingly resorted to for financing development in some other backward countries a deficit in the budget itself is not a sufficient criterion for judging the economic position of a country. It is worth asking, however, whether the deficit in Nepal is being incurred for social services and nation building activities or economic development and reconstruction. Had it been incurred to finance essential development projects, the deficit might have been justified in certain circumstances. But in Nepal, as the above study shows, deficits have appeared in spite of general neglect of development works. Such deficits are a great liability to the country and raise serious doubts about its financial position.

Statements of the various funds and cash balances are available only for 1951-52 and 1954-55. A glance at the available figures shows that between 1951-52 and 1954-55 the reduction in reserves was relatively small. Whether the deficits are still considered as obligations against the Development Fund or not, it is not known. Even in the current budget, changes in reserves and balances are not indicated.

However, it is officially reported that some bullion and Rs. 1.95 crores of Indian currency are still untouched, being kept as backing for the Nepali Rupee.

Burma Mines

IN 1955, the revenue of Burma Mines, a company which is an equal partner with the Government of Burma in the Burma Corporation (1951), increased because of the higher dividend received from the operating company. Burma Mines have declared a maiden dividend of 2¼d per share.

Burma Corporation (1951) are doing well. Net profits of this Company for the first six months of the current financial year are almost double that for the corresponding period of the previous year. In the report, the directors of Burma Mines say that the volume of business has expanded with the gradual increase in business activity in Burma. Improvement in quantities for Burma Mines is reported to be due to active American buying on the London Stock Exchange. Some forty per cent of the Company's capital is believed to be owned by American investors.

Trends in Industrial Production

THE rising tempo of industrial activity, which was already apparent in 1954, continued during 1955. The figures of capacity and output published in this journal (for Engineering Industries last week and for Chemical and Other Industries this week) indicate a further movement in the direction of increasing utilisation of capacity. The star performer in showing an increase in output during the year has been the steel structures industry, which recorded a 310 per cent increase in output; but quite a number of engineering industries showed increases of from 50 to 100 per cent. Output of bicycles increased by 35 per cent, while that of sewing machines increased by 25 per cent and of ball bearings by 11 per cent. As was noted last week, programmes for the expansion of output in those industries which neared or exceeded capacity are being formulated and in some cases have already been implemented.

Industrial development in India is also reflected in the increasing range of goods that are being produced within the country for the first time. During 1955, alternators, cycle dynamo sets, complete typewriters, self doffing jute silver spinning frames, tea dryers, clinker coolers and clinker breakers, delivery valves and pump elements for fuel injection equipment, vertical multi-cylinder diesel engines, certain sizes of drilling machine, all geared head bench lathes and hypodermic needles were among the products manufactured in India on a commercial scale for the first time.

New Commodities

Programmes for the manufacture of new commodities, not produced hitherto in the country, were approved for jute mill machinery, capstan and turret lathes, windmills, steam and diesel road rollers, agricultural tractors, and automobile auxiliaries like wheels and rims, clutches and hydraulic brakes. Actual production of these items can, therefore, be expected to be reflected in the figures for 1956 or 1957.

An interesting aspect of industrial development is the increasing emphasis on the manufacture of industrial machinery within the country. Machinery for the cotton textile industry is already being manufactured here. During the year there have been considerable increases in the output of carding engines, looms and ring frames, production having doubled in respect of the last item. The output of looms, which had shown a fall last year 'on account of the present restrictions on the installation of new automatic looms', showed an increase this year. One wonders whether this implies that there has been a change of policy in this respect, or there is some other explanation of either last year's fall in output or this year's rise. This year's output of 2,636 looms is larger than the previous maximum of 2,086, reached in 1953, by 25 per cent; so some explanation ought to be offered.

The 1955-56 Report of the Ministry of Commerce and Industry points out that the "jute textile machinery industry has been more or less established and in a few years' time, it is expected that the jute industry will cease to be dependent on imports in respect of machinery." Steps have also been taken to develop the sugar, cement and printing machinery industry, while manufacture of the complete range of paper mill machinery, earth-moving equipment and water tube boilers "is also receiving the attention of the Ministry".

Automobile Industry

An important industry which showed a big spurt in production has been the automobile industry. The number of automobiles produced increased from 14,462 in 1954 to 23,084 in 1955, while the number of firms decreased from 9 to 8 and capacity from 40,000 to 39,000. While the existing ancillary industries showed substantial increases in output, programmes for new production of some important ancillaries like wheels and rims, clutches and brakes, shock absorbers, oil seals, gaskets and ignition coils were in the process of implementation. Plans are also in preparation for the remaining important ancillaries like carburettors, starter motors and dynamos, steering and dashboard instruments etc. During the current year, one unit each for motor-cycles and scooters went into production with a capacity for 5,000 and 6,000, while actual output was 419 and 536 respectively.

It appears that there is a heavy demand for diesel trucks, and Tata-Mercedez-Benz have been given premission to double their capacity over the next three years. The demand for vehicular diesel engines for conversion of the existing petrol vehicles as well as for original equipment to chassis was also high, and the output of such engines was 3,875 in 1955, against a capacity of 3000. The only unit in the field which came into production in 1955 has thus been able to achieve more than capacity production in the very first year of its existence. Much of this is still assembling, of course; it is expected that in a period of about 18 months, the entire engine less proprietary parts will be manufactured in India. A new unit has also been granted a licence to establish manufacture of another brand of such engines with a programme for complete manufacture in three years.

Ordinary diesel engines, which were facing considerable difficulties in 1953, have also increased their output, though production is still far below capacity. The same applies to power-driven pumps. It is anticipated that diesel engines will encounter considerable competition from electric motors in the field of agriculture.

Significant Advance

Electrical Engineering industries reflected the general condition of industries during the year. Among the metallurgical industries, the most significant advance was registered by the aluminium industry, output of ingot metal increasing from 4,900 tons to about 7,000 tons in 1955. The production of sheets, strips, circles and foils also increased from 8,500 tons in 1954 to 11,000 tons in 1955. The existing installed capacity of 7500 tons for ingot metal is completely inadequate relatively to the demand for 20,000 tons at present, which is expected to rise to 30,000 tons in a few years. Plans for additional capacity are, therefore, under preparation. A somewhat similar situation prevails in the small-sized steel castings industry.

There has also been substantial expansion in most of the chemical industries, notably in those producing soda ash, calcium chloride, benzene, sulphur black, phosphoric acid and sulpha drugs. New chemicals manufactured for the first time include Penicillin, ammonium chloride and bismuth salts. Output of sulphuric acid increased by 4 per cent to 156,000 tons, which is still only about 75 per cent of capacity; but additional capacity has been sanctioned in view of the importance of this chemical in the industrialisation of the country. Steps are also being taken to maintain reasonable prices for the products.

Fall in Output

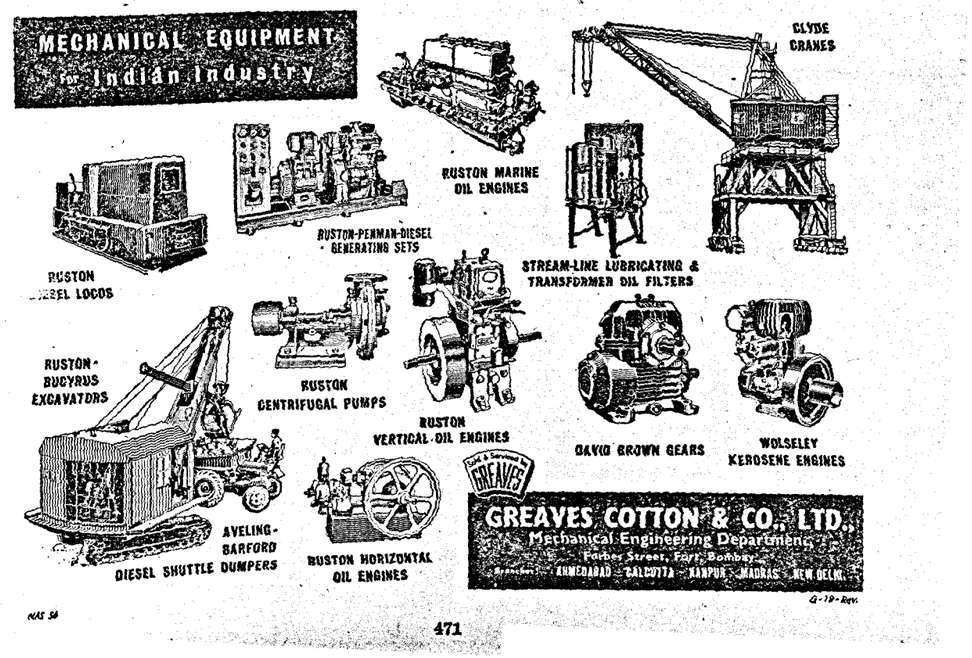
There have thus been substantial increases in the output of most industries and augmentation of capacity during the year for some. In others, plans for expanding capacity are under implementation or consideration, whilst in still others, these are under preparation. In spite of this generally favourable picture of industrial production, output of a few industries has actually fallen. A case in point is the superphosphates industry, whose output fell from 105,056 tons in 1954 to 75,345 tons in 1956. Since this has happened, when the Sindri factory shows full utilisation of capacity for production of nitrogenous fertilisers and imports have become necessary again, some explanation is necessary. The Ministry Report suggests that this fertiliser 'though essential, does not give the same spectacular increases in yield as nitrogenous fertilisers', and the fall in agricultural prices caused a fall in its demand. It also suggests that difficulties of rail transport may have had something to do with it, which hardly seems plausible, however if the nitrogenous fertilisers industry was not affected.

Industries in the engineering group which show a fall in output, though of varying degress, include expanded metal, steel belt lacing, chain link fencing, boilers, hosiery knitting and gramophone needles, reamers and tungsten carbide dies amongst tools, domestic refrigerators, brass and copper sheets, circles, strips etc., and zinc sheet strips etc. Amongst the chemical industries, Aluminium Sulphate, bleaching powder, ferrous sulphate, face powder, glazed tiles, magnesium chloride, white lead, zinc, chloride, crockery, light creasote oil, road tar, azodyes, fast colour salts, solubilised vats, stabilised azoics, aureomycin, P A S and its salts, caffeine, ephedrine, bismuth salts and calcium gluconate showed a fall.

In some of the products mentioned above, the fall is alarmingly sharp. For instance, the output of caffeine fell from over 5,000 lbs to less than 2,000 lbs and of Ephedrine from 732 to only 94. In both cases, present output is only a fraction of capacity. The Ministry Report gives an explanation for the fall in the output of caffeine, but not in the other cases. It is obviously very difficult to pass any judgement without more detailed information which the Ministry presumably has in its possession. It would not be a bad idea if the Ministry issued an annual review of industry in which this kind of analysis of the successes and failures was made in detail, while the Ministry Report itself could be made into a shorter and more businesslike statement of the actual activity of the Ministry during the year. Such a review could then serve as a valuable supplement to the Planning Commission's Progress Reports, provided these have not themselves been dropped altogether.

Reassessment of Capacity

An interesting point which emerges incidentally from the Ministry's Report is that a reassessment of capacity is under way in a number of industries. This is brought out by the publication of the reassessed figures for some of the industries. This journal has commented in the past on the unreliability of capacity figures. It would be desirable for the Ministry to indicate the basis on which it is proceeding in this task of reassessment of capacity, so that the intelligent reader may be in a position to understand its exact implications.



Progress of Indian Railways

THE 103rd anniversary of railways in India, celebrated this week, comes almost immediately after the end of the first Five Year Plan. It provides, therefore, an opportunity to examine the progress made by the railways during this period as also the plans that have been formulated for expansion in the next five-year period.

That the railways had been subjected to considerable strain during the War and the immediate post-War period is very well known. The physical weakening of the system seen in the high ratio of overage stock and of overdue replacement or repair of equipment has still not been completely overcome in spite of the efforts made since 1947 and more particularly in the last five years. Nevertheless, the railways have to perform a huge task in the next five years and the plans of the railways to meet the situation are already well-known. The second Plan presents the Indian Railways at once with a challenge and an opportunity. The Railway Board Chairman's slogan, "We Will Deliver the Nation's Goods," shows that railwaymen in the country are approaching their problems in the right spirit.

During the first Plan, the Indian Railways were concerned primarily with rehabilitation. At the same time, they had to provide for the sharply mounting requirements of current traffic, both freight and passenger. To accomplish this task, the railways were allotted Rs 400 crores under the first Five Year Plan. That actual expenditure was Rs. 432 crores, indicating an overfulfilment of the Plan, is a tribute to the efforts made by the Railways since the general picture in all other sectors of the nation's economy is one of varying degrees of underfulfilment. Particularly gratifying is the new slant in Railway publicity on operational efficiency.

Rapid Progress

Rolling stock alone has accounted for over Rs 240 crores, covering the purchase of 1,589 locomotives, 4,837 coaching vehicles and 61,773 wagons, in all cases both for additions to the stock and replacement of old stock. All the lines dismantled during the War, which the Central Board of Transport had recommended for restoration, have been already reopened to traffic with one exception. Five new lines already in progress at the commencement of the Plan and seven more sanctioned under the Plan have been completed, while many other lines started under the Plan are in progress. The foundation stone of the Ganga Bridge was laid by the President on Republic Day this year, and the provision of additional facilities at Vishakapatnam Port, which is under the control of the Railways, is making good progress.

Internal production of rolling stock has also progressed satisfactorily. The Chittaranjan Locomotive Works produced 337 locomotives during the period of the first Plan against the target of 268. The Integral Coach Factory at Perambur was inaugurated in October 1955. Railway workshops turned out 3,415 passenger coaches, the Hindustan Aircraft Factory 706 coaches and manufacturers in the private sector another 230. In addition, private manufacturers turned out nearly 41,200 goods wagons, annual indigenous capacity having been raised to 15,000 units.

While overage stock—locomotives, wagons and coaches—continue to form a high percentage of the total, the Railways increased the goods traffic carried by them from 96.7 million tons in 1951-52 to 115 million tons in 1955-56.

Second Plan

The Second Plan provides for a much larger allocation for railways than did the first. As reduced under the final draft approved by the Planning Commission, Rs 1,125 crores have been made available for the railways of which they have to find Rs 375 crores from their own resources. The Chairman of the Railway Board has revealed that if the railways are able to find a larger volume of resources internally, they will be permitted to expand their plan accordingly.

Since the final allocation of Rs 1,125 crores is smaller than asked for by the Railway Board, it might be asked what the impact of this is likely to be on the economy during the Second Plan. Shri G Pande Chairman of the Railway Board, has stated that it will be possible to provide for an additional transport capacity of 15 per cent for passenger traffic and for 47 million tons of goods, including about 5 million tons carried over from the first Plan period. "While this increase," he points out, "is expected to meet fully the additional traffic load of 25 million tons on account of coal and other raw materials required for the expanding steel industry and its finished products, and a further 6 million tons of coal and 4 million tons of cement, it will leave a meagre margin for trade in other sections of the national economy".

The inadequate allotment for railways, considering the immense task they are expected to perform, has also meant that the railway plan does not provide for much new rail mileage. "Only about 850 miles of new lines are being planned for the present, and these are mostly required in connection with the steel and coal industry".

The total amount of Rs. 1,125 crores is to be allocated in the following way. The new lines mentioned above will require Rs 66 crores, while renewal and strengthening of track will require Rs 100 crores, and Rs 380 crores will be spent on rolling stock. Works intended to increase line capacity, including doubling, coversion to broad gauge, remodelling of important yards etc, have been allocated Rs 166 crores, while remodelling of workshops and the construction of new ones will cost Rs 65 crores. Electrification of 850 miles at an expenditure of Rs 80 crores is also planned on sections "where steam traction can no longer haul traffic satisfactorily". Housing and other staff welfare measures will cost Rs 50 crores.

Western Railway

The Western Railway, which serves an important industrial region of the country with two major ports, has been allocated Rs 100 crores for its second Five Year Plan. Covering a route mileage of 5,614 miles, the Western Railway includes both broad and meter gauge systems. Like the other railway systems, the Western Railway had to face a considerable backlog of rehabilitation of equipment at the commencement of the Plan. In the task of overcoming this, the Western Railway made spectacular progress. Its task was more complicated than that of most of the other systems because the loss of Karachi as a result of Partition threw an additional burden on it. The decision

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to develop Kandla as an additional major port on the West Coast, while relieving to some extent the burden on the Bombay-Ahmedabad mainline, laid the responsibility for servicing the new port with transport on the Western Railway itself. Besides, this railway was faced with the problem of raising the standards of operation on the meter-gauge section to those prevailing on the broad-gauge lines.

In this situation, without much increase in its holdings of rolling stock and locomotives, the Western Railway carried last year 305 million passengers against 258 million passengers in the first year of its operation. The tonnage of goods carried increased from a little over 13 million tons to well over 16-½ million tons. Over 400 miles of meter gauge line were completely renewed, and nearly 900 miles were partially renewed.

The Western Railway has a large number of bridges. Of these as many as 120 bridges on the 240-mile Bombay-Baroda section alone were strengthened during the first Plan, while a new high-level bridge of 1,500 feet was completed over the Mahi river at Sevalia on the Anand-Godhra section.

To serve the new port of Kandla, the Kandla-Deesa railway line of about 170 miles was completed during the first Plan. An alternative outlet from Kandla is proposed to be provided through the Raniwara-Bhildi line north of Kutch, whose construction has been taken in hand and is expected to be completed within the Second Plan period. Other lines, whose construction has been commenced, are the Indore-Dewas-Ujjain line and the Fatehpur-Shekhawate-Churu line.

Doubling of the line from Ahmedabad to Kalol and conversion of a 30-mile narrow gauge line from Kandla to Bhuj into meter gauge have been completed. Apart from this a number of line capacity works for increasing sectional capacity have also been carried out.

Future Expansion

The Western Railway's Second Plan, cut from Rs 149 crores to Rs 100 crores, proposes to cater for a 15 per cent increase in passenger traffic and a 25 per cent increase in general goods traffic, 'in addition to meeting the additional requirements of industries and agricultural projects for which a definite demand for transport can be anticipated on the basis of information available at present.'

To cater for this traffic, the Ratlam-Godhra-Nagda section and the intermediate section between Baroda and Anand will be doubled, and double-line working will be established from Bombay to Ahmedabad and from Bombay to Nagda. In regard to new construction, the survey for the Loharu-Pilani link, a distance of 13.75 miles, has been completed. The survey of the Kotah-Chitorgarh line (104 miles) is in hand, and it is also proposed to carry out surveys for the following projects: Dungarpur to Ratlam Via Banswara, Bhavnagar to Tarapore, and a broad gauge line into Saurashtra.

Additional line capacity works, bridge rehabilitation, track renewal, workshop expansion, signalling and safety arrangements, are all included in the Second Plan. Additional locomotives, coaches and wagons, costing about 69 crores of rupees, are to be obtained to enable this Railway to cater for the additional traffic. In the second Five Year Plan, an allocation of Rs 230 lakhs has been made for the remodelling of stations to increase their usefulness for goods and passenger traffic.

The three lines between Bandra and Borivli have already been electrified to cope with the additional traffic in the suburban section. It is further proposed to spend Rs. 32 lakhs on the provision of additional facilities and for bringing these three lines into use for suburban traffic also. Additional electrical multiple unit stock has been ordered and is expected to be delivered during 1956-57 and 1957-58.

With the provision of these facilities, it should be possible to run additional trains which can be introduced on receipt of the 25 multiple electrical coaches on order. The new remodelled Churchgate station, which will also provide additional accommodation for the overflow of the Western Railway headquarters office, will be a modern multi-storeyed structure. The suburban traveller, whose number has increased from 145 million to 173 million during the last two or three years may find consolation in the fact that he is not worse off than the "commuter" on the English or American railways.

Central Railway

The first Five-Year Plan commenced with the Central Railway's assets badly in need of rehabilitation. Traffic increased during the War period and has continued to increase thereafter, and this has had to be carried with attentuated and overage assets, by making more intensive use of them. Considerable arrears had to be made up in track renewals, replacement of locomotives and rolling stock and other assets; and this claimed the major portion of the funds available. Although rehabilitation was the keynote, the needs of increasing traffic were not overlooked. During the first three and a half years of the Plan period, additional traffic facilities were provided on a somewhat limited scale to cater for the increasing needs of traffic, then estimated to be of the order of 2 per cent per annum.

It was towards the end of 1955 that the Railway Board directed the individual Railways to prepare themselves to carry 20 per cent more traffic during the busy season of 1955-56. This entailed considerable expansion in the Railway's handling capacity. Additional crossing and block stations had to be provided to increase line capacity. Loop lines had to be lengthened and additional loops provided at a number of stations. It was estimated that on the Central Railway 19 new crossing stations would be required and additional lines would be necessary at 20 other stations. The handling capacity of 16 yards including some major yards, through which the stream of traffic passes, had to be improved. Improvement of terminal facilities in large goods-sheds, facilities for transhipment at break-of-gauge junctions and at repacking points were required to be undertaken. It was also considered necessary that efforts should be made to improve locomotive usage by cutting down drastically all avodiable delays. Detailed plans had to be chalked out to achieve all these objectives.

As a result of these and other steps it is heartening to note that the number of wagons on the Central Railway broad gauge during the six months from September 1955 to February 1956 was ten per cent more than what it was during the corresponding period last year.

The efficiency of operation on the Railway has improved enormously during the last six months. For example, the figure of 'wagon miles per wagon day', which is a measure of the number of miles a

wagon moves in one day on an average (inclusive of delays at terminals, transhipment and other points), improved steadily from 53.5 in February 1955 to 59.6 in February 1956. Likewise, the 'net ton miles per wagon day', which is a measure of the quantum of traffic moved by a wagon each day, improved from 714 in February 1955 to 808 in February 1956.

Additional Carrying Capacity

The Central Railway's second Five-Year Plan covers the generation of additional carrying capacity to reduce overcrowding in passenger carrying trains, and further to meet the tremendous growth of traffic that goes hand in hand with economic development and growth of population. Very great stress has been laid on the broadening of the channels of movement, particularly where they have been restricted, leading to what are commonly called "bottlenecks" in transport. The Central Railway plans to spend a major part of the funds available on works directly contributing to the increase in the carrying capacity and potential of the Railway. These plans it is claimed have been drawn up with a great deal of precision, so as to fit in like a jigsaw puzzle with the other developmental plans in the country.

The railway plan includes the doubling of over 220 miles, the electrification of 190 miles where steam traction has almost reached its peak, the lengthening and addition of loops at over 125 stations, the provision of about a hundred new block stations and the remodelling of 40 major and minor yards. Track renewals and bridge rehabilitation will be on an extensive scale, reducing the number of permanent speed restrictions, which now slow down movement. The 187—mile long Khandwa-Hingoli metre gauge rail line will also be completed during this period thus providing a vital link between the present separate northern and southern metre gauge systems of India. A metre gauge wagon loaded at Tinsukia, the eastern frontier of Assam, will then be able to proceed unimpeded to Trivandrum near Cape Comorin, the southernmost tip of India. The completion of this link will be a great step forward in the transportation system of the country.

Among the major yards planned for remodelling are Bhusawal and Kanti-Murwara, which form the two major sluice valves for the arterial channels on the Central Railway. Bhusawal Yard will be remodelled on modern lines with automatic route-setting equipment and electro-mechanical braking devices, so as to increase its handling capacity almost to double. The inadequate yard at Kanti-Murwara requires considerable expansion and will, therefore, be rebuilt at a new site.

Signalling works designed for greater safety and for augmenting the line capacity will also be on an extensive scale and on modern lines. These include the provision of interlocking, automatic signalling and power signalling. All these works will entail the need for huge quantities of signalling and interlocking equipment for which the capacity in this country is very limited. So the Central Railway has undertaken expansion, on modern lines, of a workshop at Secunderabad, which will be able to make a good proportion of the mechanical equipment required.

The other railways, faced with essentially similar problems, have all progressed rapidly in the achievement of improved working and expansion. The position of the South-Eastern Railway, which serves all the five steel plants exclusively except for the one at Burnpur, served by the Eastern Railway, is of special interest. The fact that adequate arrangements are being made to service the new plants provides the assurance that transport will not prove a handicap at least for this basic commodity so necessary for the country's rapid economic development. On the whole, it is good to find that adequate attention is being paid not only to the expansion of facilities but also to the better utilisation of existing facilities, if necessary, through minor improvements at strategic points.





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Life Insurance and Publicity

THE Presidential Ordinance of January 19, 1956, by which Government took over all Life Insurance Companies in India, and appointed Custodians to manage their affairs until such time as a Corporation is set up under an Act of Parliament, opens a new chapter in the history of Life Insurance in India. The merits or demerits of nationalisation, or the rights and wrongs of the manner in which this has been effected are not our concern here. In this article we shall confine ourselves solely to the prospects of Life Insurance Business under Government management and the methods by which business can best be expanded.

What positive and promising measures are open to Government for taking life insurance to every family in the country? There are several organisational improvements that can be made, and according to reports, they are already under the consideration of the Custodians of Controlled (Life) Business and of the Finance Ministry. It is not proposed to deal with them here. Our object is limited, viz., to focus attention on only a part, though an integral part, of the set-up that would be necessary to expand the life insurance business. An increasing and continuous reliance will have to be placed on the weapon of publicity for attaining the desired objective of a rapid expansion of life insurance protection for all classes of our population. In the modern world, publicity is as indispensable as it is effective for putting across to a large and scattered population any sales message—whether the message relates to a commodity of everyday use, or a passing idea, or an article of faith of a more enduring value.

In the past, very few insurance companies in India made any very great use of the weapon of publicity to enlarge their business. That is to say, insurance advertising was largely competitive rather than constructive. The few who did venture into advertising on a national scale, did so rather haltingly and diffidently, and seldom carried out a well-planned campaign. And the emphasis in their advertisements was always on the size, and (by implication) stability, of their own institution, with little or no attempt to bring home to the public at large in a creative way the value of life insurance as such, or a clearer understanding of the working of life insurance and its place in the larger scheme of things. In a way, this was because, with keen competition raging between rival companies for immediate gains, no one—not even the tallest—was prepared to take a long-term view and spend money on such educative publicity, for fear that other companies would reap even partially the benefits thereof without spending for it. This was really a narrow view to take even in the face of competition; but it is unnecessary to argue the point as competition has ceased and given place to a National Corporation as the sole provider of life insurance in our country.

Sustained Campaign

This National Corporation will have before it a wonderful opportunity to do what the individual insurance companies failed to do viz. to embark upon a varied and sustained campaign to tell our people about the miracle that is life insurance, the blessing it can be not only to the family which is unfortunate enough to lose its bread-winner by untimely death, but to all families on account of the regular saving habit it inculcates, the high priority of savings in a Planned Economy, and of the mechanics of the insurance business, of the technicians (the Actuaries) who set up the mechanism and tend it, and finally of the Agents who are the messengers of security for the family and prosperity for the nation. It is a challenging opportunity which, if properly and energetically tackled, can and will help to attain the seemingly impossible targets dreamt of by some visionaries of a bygone age that have now been accepted by the Government of the day.

True enough, a colossal advertisement campaign will not by itself carry us to the desired goal. Many other organizational measures will be equally necessary like proper selection and training of agents, adequate incentive to the field force and an assurance to them of social status and the welding of existing companies' staffs into a well-knit administration for the efficient servicing of policy-holders, to name but a few of them. None of these, however, will be of much avail without a concerted publicity drive, designed to tell the public the throbbing story of life insurance.

This is hardly an easy task. Advertising of an intangible and slightly unfashionable, if not distasteful, product like life insurance presents peculiar difficulties. Few among our leading insurance company managements have given evidence of a true understanding of the principles and potentialities of advertising, and none of the advertising consultants have cared to grasp the details of how life insurance functions. A combination of the positive and creative approach of the advertising man and the solid matter-of-factness of an insurance executive is called for—rather a difficult prescription but not an impossible one.

The impression prevails that insurance companies in the past were quite liberal in the matter of advertising, that they had been spending a not inconsiderable amount under the head of advertisement charges. On a closer study it would perhaps be found that not all the expenditure generally shown under that head was in respect of what may strictly be called publicity, and secondly, insurance being primarily a business of 'connections', companies were often obliged to 'advertise' in programme books and souvenirs and such other publications of which the real advertisement value was negligible or nil. When allowance is made for these, the amount spent on genuine advertising in the powerful vehicles of publicity, viz. the great and growing general press in India, would be found to be not as large as it could well have been. What has been the 'real advertisement' expenditure of all insurance companies put together in recent years? It is hazardous to guess, but not more than about 5 lakhs of rupees annually. For an industry with an aggregate yearly premium income of 50 crores of rupees, and which pays 5 crores of rupees by way of commissions to a hierarchy of agents for procuring this business, 5 lakhs of rupees is not an impressive figure, if the industry in question claims to be progressive and has faith in its own future and in the future of the people it seeks to serve.

What about the quality of insurance publicity? Here again, one cannot help remarking that with but

a few exceptions, insurance advertisements have been neither imaginatively conceived, nor very attractively presented. The general standard of newspaper advertisements in India has improved noticeably in recent years, thanks among others to the enterprise of many Indian Advertising Agencies. There is no reason why insurance advertisements of the future should lag behind either technically or artistically. Indeed, life insurance advertisements of the future will have to be as excellent as those of the costliest luxury goods, because it is with them that life insurance will have to compete in order to secure a high place in the budgets of individual citizens.

In the economic situation as it is developing in our country to-day, with available resources falling short of planned expenditure, it has become urgent to organise a great Savings Campaign throughout the country. The Small Savings Schemes have in the past done something in this direction; but they have had to rely very largely on voluntary efforts for their advancement because in the nature of things they could not 'spend to earn'. The Indian Life Insurance Corporation, being a business corporation, can take upon itself the responsibility of advancing the whole cause of savings—and not only saving through life insurance—through its programme of publicity. Its advertisements must seek to place before the public a new conception of life—a more austere standard of living which is more in keeping with the economic conditions of to-day and the past traditions of the country.

Dadabhai Naoroji Prize

THE Dadabhai Naoroji Memorial Fellowship of the value of Rs. 3,000 is to be awarded for the year 1956 in the subject of Economics. Nominations are now sought for this award. Persons of Indian nationality who have contributed to the science of economics or done their best to advance the economic interests of the Indian Union during the period of five years ending December 31, 1955 are eligible. The contribution may have been through publication of significant professional literature, participation in professional activities or valuable achievement in any other manner.

The selected Fellow shall have to deliver in Bombay a series of not less than three and not more than five lectures on the subject.

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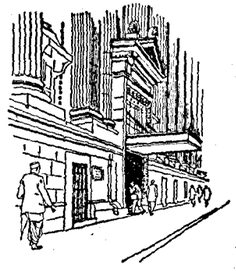
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Around Calcutta Markets

Uncertain Trend

IT is difficult to single out any reason for the hesitant trend in stock markets. But it is evident that even speculators have become cautious. Investors have never been "in" in the last few months. This may seem strange. For, on current indications, stock markets should attract investors throughout the duration of the second Plan. Speculators, on the contrary, should find these years rather boring. By and large, this is not an inaccurate interpretation of the implications of the second Plan for the stock markets.

Price movements in recent weeks would seem to confirm this appraisal of the second Plan. There are many developments which explain the hesitant trend in stock markets. There are New Delhi reports that the new industrial policy will involve nationalisation of many new industries. Stock market circles are not impressed with these reports, though these are partly responsible for the current lack of activity in equities.

Life Funds

Market circles are aware of the relative expansion of the public sector under the second Plan. But neither industrialists nor investors seem worried about the new industrial policy. It is known that the Government is in favour of nationalisation of the country's mining and mineral resources. But that is no new development. Coal shares alone have been affected by these reports.

Something else is worrying stock markets. Incidental consequences of nationalisation of life insurance have been topics for discussion for some weeks. In recent years, life insurers have lent massive support to both new issues and to equities. Market circles hope that the Government should continue the pattern of investment of life funds. Some weeks ago, custodians were reported to be supporting equities on the Bombay Stock Exchange.

State Control

Such investment of life funds is welcomed by market circles. But the consequences of investment of life funds in new issues or in equities are worrying the private sector. Recently, Dr Ramaswami Mudaliar disclosed that life insurers subscribed eighteen per cent of the share capital of ICIC. Through nationalisation of life insurance, the State has automatically acquired control, to the extent of 18 per cent of the share-holding, of the ICIC.

Through nationalisation of life funds, the Government has acquired indirect control over many industries. This is resented by industry, though stock markets hope that such investments will continue so that, to quote Dr Mudaliar, stock markets can continue to perform their important role. Recent activities of custodians in the Bombay stock market have provoked comments whether New Delhi's policy of investment of life funds is such as to acquire control in the major national industries.

Tax Fears

This is not the only development which is worrying stock markets. There are revived fears of increased taxation in the next few years. According to the Finance Minister, there will be need to raise Rs 50 crores annually through fresh taxation. This estimated increase in taxation is not new. But some of the possible sources of taxation which the Finance Minister hopes to tap have had a chilling effect on equities.

Simultaneously, there are growing indications that New Delhi is determined to check inflation. Food imports and food loans from America will be utilised to halt rising trend in food or agricultural prices. This is a policy which should be welcomed by both industry and stock markets. In the recent rise in prices, the relative increase in the prices of food and of industrial raw materials has tended to have an adverse effect on industry.

Deficit Financing

It is the Finance Minister's observations on deficit financing however, that are more intriguing. He admits that deficit financing of the magnitude involved in the 1956-57 budget has obvious inflationary implications. He will watch the effects of such enlarged deficit financing as it is gradually implemented. So will stock markets. And the latter are worried that his latest New Delhi statement implies that deficit financing may be reduced if its inflationary repercussions assume alarming proportions.

Alternatively, the Finance Minister hints, the magnitude of the second Plan may be curtailed, or the Five-Year Plan may be extended to cover six years. These possibilities may be welcomed by the private sector. But any such forced reduction of the Plan, or extension of the Plan period, will disappoint stock market circles. In such events, the inflationary prop behind stock markets will be less dependable.

Tea shares have suffered as equities in general have turned hesitant. In the last few weeks, tea auctions were rather disappointing. But this week's auction results were encouraging. This explains the relative steadiness in Tea shares in the last few days. There is interested buying in sound, dividend-paying Tea shares. Soon, the dividend season will begin. Even speculators are now not interested in selling Tea shares "short". Investors, however, remain cautious. That is why Tea shares are not going up.

Electric Shares

An interesting feature of recent trading on the Calcutta Stock Exchange has been the spurt in Electric shares. There is not much activity in the shares of those companies which supply power. But there is continued activity in the shares of those companies which manufacture electrical equipment. These companies are engineering concerns. What is happening is that the buying movement in the secondary engineering industries is now being concentrated on the shares of those engineering companies which manufacture or deal in electrical goods and equipment.

The Economic Weekly

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Around Bombay Markets

Price Curb Casts A Shadow

Thursday, Evening

THE signs of recovery which were clearly in evidence in the beginning of the week petered out when it became evident that taxation was going to be sharply increased in the second and third years of the Second Plan. Operators were also becoming increasingly aware of the growing dislike of the Government to the 'bull phase' in commodity markets. The market had opened on a subdued note of optimism leading one to believe that, among other things, the technical position of the market had distinctly improved despite heavy budla rates, following sizeable liquidation in the past two consecutive weeks. This trend, in short, was not kept up.

Closely following the decision to raise the export duty on some vegetable oils and to impose new burdens on some others and to permit liberal imports of raw cotton, a multi-pronged attack on 'excessive speculative' activity in the commodity markets was launched through the Forward Markets Commission. Steeper margins were announced by the Oilseeds Exchange and similar precautionary measures are expected in the cotton market as well. On the top of these came the report that the Government of Bombay had drawn the attention of the Centre to the prevailing high commodity and food grain prices and that it had forwarded certain specific suggestions for curbing prices. What these suggestions were or what line of action the Centre would adopt, it would be idle to speculate. But indications are not wanting that more restrictive measures are under-way.

All these affected Dalal Street bearishly as the week advanced and gains recorded earlier were wiped out by nervous selling. Tata Steel Ordinary which opened around Rs 250 in the beginning of the week eased to Rs 246-4 and Indian Iron receded to Rs 34-14-6 from around Rs 35-8. Bombay Dyeing were brought down to Rs 647 from Rs 653.

Cotton mill shares which were fairly steady for the greater part of the week drew inspiration from the reported change in Government's textile policy. In knowledgeable circles it is no longer believed that the Government would stick to its oft-repeated threat of freezing mill production at 5,000 million yards in order to help handloom production. The Textile Commissioner's notification early in the week that no ceiling has been fixed for import of foreign cotton and that imports of cotton from dollar and non-dollar areas of permissible staple length would be allowed freely helped to improve sentiment. In the event, mill shares displayed a distinctly steady trend.

Prices ruled distinctly steady in the cloth market owing to keen internal demand. But high internal prices and the increasing overseas competition offer no rosy prospect for exports and it now looks certain that our exports of cloth this year will be substantially lower than in 1955. Pakistan is also reported to have sold some grey cloth. But more important is the emergence of China as a major exporter of cotton textiles. This has disturbed the trade, for China had so long been a buyer of cotton textiles and this transformation will impair the export trade of India in the Far Eastern markets. Besides, some of the Communist countries of Eastern Europe have also been offering stiff competition to India in African markets.

In keeping with the general trend, the miscellaneous section also began well, reacted a little in the middle of the week, and improved towards the close..

Cotton

Probe into Delivery Contracts Hits Sewri

THE spot market at Sewri which had maintained its buoyancy unimpaired opened strong on sustained mill buying and all the popular varieties were further pushed up. The continuous rise in prices, however, has been an open invitation for the Government to intervene, and it looks as if this invitation has now been accepted. Government gave out that it was studying the trend of prices in spot cotton and was particularly concerned about the speculation that has crept into trading in delivery contract. The Forward Markets Commission, it was stated, had come across several cases of non-transferable delivery contract being freely transferred. If true, this means that all those who have been carrying on this kind of transactions are guilty of contravening the provisions of the Forward Contracts (Regulations) Act. The Forward Markets Commission has been urging the representative bodies of the cotton trade to look into this question for well over a year now. It has asked the East India Cotton Association to take immediate action to make delivery contracts conform to the Forward Contracts (Regulation) Act. Among the suggestions that it is reported to have made are that, in future, delivery contracts should be in a special form, that there should be a difference between contracts which are transferable and those that are not.

Again, presumably with a view to facilitate an early resumption of futures trading, the Commission is believed to have approached the accredited bodies of the cotton trade to help it to frame proposals for the hedge contract for the next, i.e. 1956-57 cotton season. Since the reference here is only to next season, it follows that hopes of resumption of forward trading during the current season are given up for good. If this is so, all that one can say is that the Commission and the trade should take good care that this fiasco is not repeated in future years. The new hedge contract, whenever it comes, will have to ensure adequate hedging facilities to all varieties of cotton grown in the country and at the same time, the contract should be balanced and not open to squeeze. It should also offer a safe and sure hedge to cotton growers, dealers, exporters and mills alike.

All these, particularly the talk of a probe into delivery contracts slowed down activity in the spot market as the week progressed. Early in the week, on the anticipation that a ceiling might be imposed on the import of cotton, there was quite a scramble for licences. But later, with the clarification by the Textile Commissioner that there was going to be no ceiling, importers visibly cooled off and interest shown by mills also dwindled.

Capacity and Production of Chemical and Other Industries

	Capacity				Production					
	1951	1952	1953	1954	1955	1951	1952	1953	1954	1955
Alkyd Resins (Tons)	—	5	5	5	5	—	350			
Aluminium Paste Powder (Tons)	—	—	1	1	1	—	—			
Alum (Tons)	—	—	15	15	18		—			
Aluminium Sulphate (Tons)	—	—	27	21	18		—			
Ammonium Chloride	—	—	—	—	2	—	—			
Ammonium Sulphate (Tons)	7	7	8	8	8	427,000	432,500	319,616	340,222	393,095
Asbestos Cement Sheets (Tons)	5	5	5	6	6	117,000	117,000	75,673	77,814	103,579
Battery Separators (mn.)	—	—	3	3	3	—	—	3.9	8.5	9.2
Bichromates (Tons)	9	9	9	9	7	5,600	5,900	2,510	3,239	3,300*
Biscuits (Tons)	129	129	129	129	129	39,900	39,900	11,068	10,086	11,500
Breakfast Food Products: Corn and Wheat Flakes (Tons)	—	—	2	2	2			38	59.25	89
Processed and Rolled Oats (Tons)	—	—	1	1	1			22	42	61
Processed and Pearl Barley (Tons)	—	—	8	8	8			1,008	649.06	960
Bleaching Powder (Tons)	3	3	3	3	3	7,800	7,800	1,942	2,926	2,659*
Calcium Carbide (Tons)	—	—	2	3	3	—	—	—	398	3,109
Calcium Chloride (Tons)	—	—	3	3	3	—	—	649	401	786
Caustic Soda (Tons)	9	10	12	12	12	27,500	34,900	22,909	29,307	33,326*
Cement ('000 tons)	—	—	24	25	27	—	—	3,780.33	4,393.15	4,496.06
Chocolate and Cocoa Powder (Tons)	—	2	2	2	2	—	1,000	234† 1411‡	211.25† 88.45‡	156† 51‡
Chrome Colours (Tons)	—	10	10	10	11	—	18,000	350	500	590
Cigarettes (mn)	20	19	20	17	17	18,000	18,000	17,952	19,823	22,823
Confectionery (Tons)	61	61	61	61	61	52.8	52,800	8,950	7,561	7,840
Copper Sulphate (Tons)	11	11	11	10	10	1,700	1,900	518	844	900*
Cork Products (Rs. lakhs)	—	—	1	1	1	—	—	2.78	4.80	7.00
Crockery (Tons)	—	42	42	42	36	—	16,900	10,282	10,009	9,643*
Enamelware (mn pieces)	—	—	22	22	22	—	—	9.48	13.97	15.71
Face Cream and Snow ('000 lbs)	9	9	9	9	11	1,538	1,773	556.4	371.11	784.62
Face Powder ('000 lbs)	6	6	6	9	8	1,418	1,596	906	861.04	205.27
Ferrous Sulphate (Tons)	—	—	9	9	9	—	—	503	581	500*
Ferric Chloride: Solid (tons)	—	—	—	2	2	—	—	—	18	56
Liquid ('000s tons)	—	—	—	57	58	—	—	—	442.5	463.7
Flour Milling ('000 tons)	52	53	57	57	58	1,464	1,465	483.7	422.22	463.75
Glass and Glassware ('000s)	101	—	—	—	—	188.9	—	—	—	—
Bottles (Tons)	—	82	84	86	90	—	100,000	40,746	47,841	55,272
Glass Shells ('000 pieces)	—	3	3	3	3	—	21,600	16,880	22,481.7	26,080
Glazed Tiles ('000 doz)	—	—	4	4	4	—	—	374.5	401.02	378.17

‡ Cocoa. @ Capacity Reassessed

* Estimate † Chocolate

	No. of Factories					Capacity					Production				
	1951	1952	1953	1954	1955	1951	1952	1953	1954	1955	1951	1952	1953	1954	1955
Glycerine: Crude (Tons)	7	7	9	9	10	6,300	7,200	8,920	8,920	9,520	4,900	5,200	5,200*	5,281	5,895*
Refined (Tons)	6	6	7	7	8	3,500	3,500	5,150	5,150	5,480	2,400	2,200	2,509	2,388	2,486*
Hydroquinone (Tons)	2	2	2	2	2	21	21	21	32.5	37.0@	9	5	8.3	14	18
Laboratory Glass (Tons)	—	12	12	12	12	—	6,100	5,142	5,142	6,024	—	1,500	1,320	1,508	2,496
Lampwares (Tons)	—	78	81	81	81	—	40,000	41,183	41,183	33,200	—	15,600	12,400	12,664	16,690
Leather Cloth (mn yds)	6	6	6	6	5	5.28	5.28	5.28	5.28	5.3@	2.04	0.95	0.99	1.27	2.62
Linoleum (yds)	—	1	1	1	1	—	450,000	450,000	450,000	450,000	—	159,500	162,672	336,273	323,2
Liquid Chlorine (Tons)	6	6	7	7	7	13,100	13,500	17,444	18,352	20,200	5,300	6,200	8,131	9,782	11,561*
Magnesium Chloride (Tons)	—	—	3	3	4	—	—	13,000	22,000	34,650	—	—	6,156	6,593	6,111
Matches (Cases)	—	—	147	138	138	—	—	706,000	706,000	705,996@	—	—	617,823	529,060	615,845
Miscellaneous Glassware (Tons)	—	—	28	28	28	—	300	5,553	5,553	19,886	—	1,200	963	2,449	2,272
Nitrocellulose Lacquers (Gallons)	5	7	7	7	7	349,500	400,000	400,000	400,000	800,000@	92,100	144,200	204,000	262,000	286,000
Oil Milling ('000 tons)	300	300	350	350	350	578.7	1,232.2	1,495	1,495	1,495	121.9	165.1	167.8	178.83	223.2
Paints (Tons)	50	50	50	50	50	65,000	65,000	65,000	65,000	65,000	33,500	32,200	32,057	35,956	38,548
Pencils (Gross)	—	11	11	11	12	—	800,000	597,000	597,000	1,082,700@	—	150,600	190,803	279,950	377,025
Phenol Formalde-hyde Moulding Powder (Tons)	1	3	3	3	3	450	800	800	800	1,179	205	298	374	472	714.5
Phenolic Laminates (Tons)	—	1	1	1	1	—	100	100	450	450	—	40	25	99	140.3
Phosphoric Acid	—	—	—	2	2	—	—	—	1,730	1,730	—	—	—	86	250*
Plastic Goods:															
Injection Moulding	40	40	40	40	48	403	482 oz	550 oz	550 oz	550	1,480	1,540	1,290	—	—
Compression Moulding (Tons)						7,074	8,708	10,200	10,200	11,200					
Polythylene Sheets and Layflat Tubing (Tons)	—	—	2	2	3	—	—	200	200	610	—	—	113	366	381.8
PVC Plastic Coated Cables, Wires & Flexible (mn yds)	2	2	2	2	3	3.5	8.6	8.6	8.6	8.6@	3.4	3.99	3.75	4.99	0.87
Red Lead (Tons)	—	2	2	2	3	—	3,700	5,100	5,100	5,100	—	300	2,338	3,400	3,953
Refractories (Tons)	25	25	24	32	32	293,600	290,600	289,660	329,410	329,410	238,200	243,600	227,832	293,312	269,069
Sanitaryware (Tons)	—	16	12	12	13	—	2,500	2,160	2,160	2,640	—	500	630	1,323	2,492*
Sheet Glass (mn sq. ft.)	—	2	3	4	4	—	69.0	76.3	100.6	100.6	—	9.0	22.7	33.11	38.88
Soap (organised) (Tons)	66	66	66	66	74	192,000	193,500	209,000	209,000	244,600	83,500	86,400	82,200	88,000	98,000*
Soda Ash (Tons)	2	2	2	2	2	54,000	54,000	54,000	90,000	90,000	47,500	44,300	56,870	48,293	77,272
Sodium Bicarbonate	—	—	2	2	2	—	—	4,620	4,620	4,620	—	—	2,035	2,057	4,125*
Sodium Bisulphite (Tons)	2	2	4	4	5	600	600	600	802	900	260	310	384	429	515*
Sodium Sulphite (Tons)	1	2	4	4	4	360	370	520	750	750	200	220	246	193	269*
Sodium Thiosulphate (Tons)	4	4	4	4	5	1,700	1,900	1,890	1,750	2,120	600	700	842	613	976*
Stearic Acid (Tons)	3	3	3	3	5	1,400	1,400	1,400	1,400	2,750	400	300	383	575	1,295*
Stoneware:															
Pipes (Tons)	—	30	13	13	13	—	51,500	72,216	72,216	72,216	—	33,900	33,031	38,262	40,612*

* Estimated @ Capacity Reassessed

	No. of Factories					Capacity					Production				
	1951	1952	1953	1954	1955	1953	1954	1955	1951	1952	1951	1952	1953	1954	1955
Jars	—	—	30	30	30	—	—	—	—	—	—	—	—	—	—
Sulphuric Acid (Tons)	48	45	43	44	39	201,300	192,000	189,000	197,225	209,188	106,900	96,100	109,091	150,000*	156,000*
Superphosphate (Tons)	14	15	14	14	14	174,100	197,800	200,000	310,870	212,520@	61,000	46,600	48,294	105,056	73,345*
Table and Pressedware (Tons)	—	73	75	75	75	—	30,000	42,766	42,766	40,446	—	17,900	17,617	22,054	25,456
Thermos Flask (Doz.)	Nil	1	2	2	2	Nil	32,000	77,000	77,000	77,304	Nil	15,300	40,236	25,000	43,664
Titanium Dioxide (Anatase) (Tons)	—	—	1	1	1	—	—	1,800	1,800	1,800	—	—	Nil	1,370	1,809
Toilet Powder ('000 lbs)	6	6	6	6	12	2,726	3,316	3,316	4,005	6,817	1,227.0	989.3	920	1,155.87	2,416.29
Tooth Paste ('000 lbs)	7	7	8	8	10	2,700	3,500	3,616	3,231.8	2,951@	203.0	1,351.4	1,581	1,590.0	1,849.51
Tooth Powder ('000 lbs)	3	3	3	5	6	577	767	767	885.06	852.78@	83.5	318.3	310.6	312.26	384.37
White Lead (Tons)	—	2	2	2	2	—	3,700	3,720	3,720	3,720	—	300	662	900	728
Zinc Chloride (Tons)	—	—	4	5	5	—	—	1,000	1,493	1,419@	—	—	635	986	700
Zinc Oxide (Tons)	—	3	3	3	4	—	12,000	12,000	12,000	12,030	—	2,400	3,386	5,500*	6,368
Beer and Ale ('000 bulk gal)	—	—	3	3	3	—	—	1,700	1,700	1,700	—	—	419	550	505
Coke Oven and Coal Tar Distillation Products:															
Benzene (gal)	2	2	2	2	3	88,500	88,500	88,500	88,500	538,500	31,500	38,800	49,939	68,799	228,394
Benzol ('000 gal)	3	3	4	4	5	1,713.6	1,713.6	1,889	1,889	2,414	1,360.9	1,481.3	1,330.98	1,246.56	1020.00
Crude Coal Tar (Tons)	10	10	10	11	11	92,500	92,500	105,300	117,300	117,300	90,800	93,900	93,194	108,995	111,370
Light Creosote (gal)	4	4	5	5	5	—	—	—	—	—	151,900	271,800	200,560	432,727	375,480
Naphthelene ('000 Tons)	5	5	5	5	5	950	950	1,032	1,030	1,030	840	670	588	671	962*
Pitch (Tons)	4	4	4	5	5	—	—	—	—	—	3,000	2,500	1,982	2,605	4,140*
Road Tar (Tons)	4	4	5	6	6	—	—	—	—	—	37,500	41,500	38,480	40,002	39,120*
Solvent Naptha (gal)	3	3	4	4	4	—	—	—	—	—	84,000	110,600	111,322	85,234	63,312*
Toluene (gal)	3	3	3	3	4	309,500	309,500	309,500	309,500	397,000	172,000	291,700	272,123	148,810	88,332*
Dye-Stuff:															
Azo Dyes ('000 lbs)	Nil	1	2	2	2	Nil	2,059.2	2,060	2,060	2,090	Nil	67.0	577.47	1,633.68	1,589.43
Fast Colour Salts (lbs)	Nil	1	2	5	6	Nil	30,000	380,000	606,000	606,000	Nil	20,300	134,146	354,300	320,578
Solubilised Vats (lbs)	1	1	1	3	3	28,800	28,900	48,000	196,209	196,200	5,900	7,300	64,137	124,347	94,216
Stabilised Azoics (lbs)	5	5	6	6	6	428,900	428,900	500,000	800,000	800,000	32,200	56,800	196,200	465,000	402,810
Sulphur Black ('000 lbs)	Nil	1	1	2	2	Nil	780	1,000	2,000	2,000	Nil	14.6	599.75	1,000	1,696
Essential Oils, etc:															
Geranium Oil (lbs)	2	1	2	1	1	—	15,500	15,480	3,600	3,600	2,000	1,100	930	Nil	Nil
Orange Oil (lbs)	2	2	2	4	4	—	13,500	13,500	15,000	15,000	149	265	100	774	813*
Rosin (Tons)	—	—	3	3	3	—	—	10,080	12,200	12,200	—	—	8,433	8,600	10,987
Sandal Wood Oil (lbs)	9	8	8	7	7	—	334,300	292,320	298,800	298,800	186,800	128,200	226,851	226,990	280,434
Thyme Oil (lbs)	1	1	1	1	1	—	19,200	16,800	16,800	16,800	4,500	3,900	1,120	1,500	630
Thymol Crystal (lbs)	1	1	1	1	1	—	16,800	16,800	16,800	16,800	3,600	3,600	889	1,260	514
Turpentine (organised units) (gal)	—	—	3	3	3	—	—	528,000	735,000	735,000	—	—	418,648	408,000	620,443
Industrial Alcohol:															
Denatured Spirit (mn bulk gal)	—	—	42	42	43	—	—	—	—	12.1	—	—	2.47	2.83	2.98
Rectified Spirit (mn bulk gal)	—	—	42	42	43	—	—	11.6	11.6	12.1	—	—	4.27	4.63	5.15

* Estimated @ Capacity Reassessed

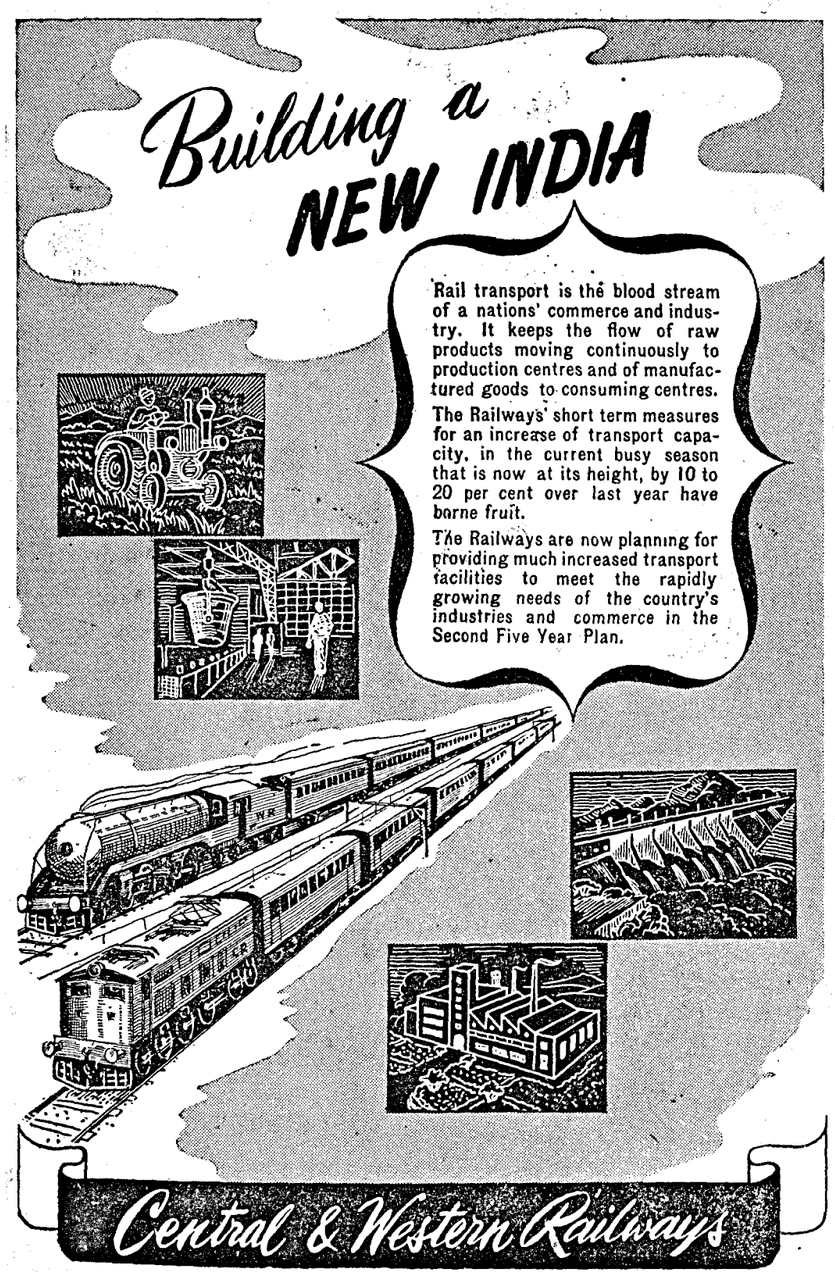
	No. of Factories					Capacity					Production				
	1951	1952	1953	1954	1955	1951	1952	1953	1954	1955	1951	1952	1953	1954	1955
Antibiotics :															
Aureomycin (kg)	—	—	1	1	1	—	—	9,984	3,000	9,600@	—	—	535	697	124
Chloromycetin (kg)	—	—	—	1	1	—	—	—	2,500	3,600@	—	—	—	840	1,539
Pencillin (M.U. millions)	—	—	—	—	1	—	—	—	—	15	—	—	—	—	6*
Chemotherapeutics :															
Diaphone and Novophone (lbs)	—	—	1	2	2	—	—	6,000	6,150	6,150	—	—	1,849	2,727	5,745
PAS and its Salts (lbs)	—	—	—	2	2	—	—	—	40,000	40,000	—	—	—	12,612	9,922
Isonicothinic Acid-Hydrazide (lbs)	Nil	1	2	3	4	Nil	3,100	9,120	9,180	15,000	Nil	300	1,607	1,558	2,713
Sulpha Drugs:															
Sulphaphyridine (lbs)	Nil	1	1	1	1	Nil	135,000	165,000	165,000	165,000	Nil	14,900	8,665	19,153	27,264
Sulphadiazine (lbs)	Nil	1	1	1	1	Nil	205,900	205,920	205,920	205,920	Nil	42,000	27,402	29,882	37,173
Sulphathiazole (gal)	—	2	2	2	2	—	340,900	379,920	370,920	370,920	—	12,700	38,790	55,398	121,880
Diiodohydroxyquinoline (lbs) Iodochlorohydroxyquinoline (lbs)	—	—	11	17	17	—	—	50,000	50,000	65,000@	—	—	9,088	13,147*	14,000
Sulpharsphenamine (lbs) Nevarsphenamine (lbs)	—	—	2	2	2	—	—	—	175	175	—	—	—	54	30*
Shark Liver Oil (gal)	4	3	3	3	3	36,300	26,300	69,332	70,000	70,000	9,100	19,900	14,425	19,630	26,308
Galenicals ('000 gal)	44	44	47	47	47	1,188.6	1,188.6	2,543.48	3,086.4	3,086.4	712.0	648.4	640.15	1,010.78	1,100.0
Insecticides: BHC (tons)	Nil	Nil	1	1	2	Nil	Nil	500	500	2,000	Nil	Nil	154	434	1,603
DDT (tons)	Nil	Nil	Nil	Nil	1	Nil	Nil	Nil	Nil	700	Nil	Nil	Nil	Nil	Nil
Liver Extracts:															
Injections (cc '000)	17	17	21	19	20	23,800	23,800	51,360	63,784	66,100	10,682.6	10,372.6	10,130	16,410.7	19,800.0
Orals (lbs '000)	17	17	21	18	20	1,460	1,460	840	3,573.6	11,000	319.0	311.3	284	259.41	267.0
Natural Drugs of Vegetable Origin:															
Caffeine (lbs)	2	2	1	1	1	20,000	20,000	12,300	12,300	12,300	Nil	5,600	4,942	5,179	1,997
Ephedrine and its Salts (lbs)	—	—	2	2	2	—	—	3,300	3,900	3,900	—	—	2,424	732	94
Opium Alkaloids (lbs)	—	—	1	1	1	—	—	1,167	1,800	3,000@	—	—	292	282	2,800
Strychnine (lbs)	1	1	1	1	1	15,600	15,600	15,600	15,600	22,000@	11,400	11,400	2,542	3,961	14,847
Bismuth Salts (lbs)	—	—	—	2	2	—	—	—	44,000	44,000	—	—	—	19,278	2,000*
Bromides (Tons)	1	1	1	1	1	120	120	100	211	211	78	48	99	170	144
Cal Lactate (lbs)	3	3	3	2	3	183,700	237,400	237,400	300,000	400,000	89,900	58,600	72,172	67,085	105,978
Cal Gluconate (lbs)	—		2	2	2	—	—	111,840	111,000	132,000	—	—	24,422	56,154	41,866
Chloral Hydrate (lbs)	—	—	1	1	1	—	—	120,000	120,000	120,000	—	—	31,705	25,505	28,690
Ether BP and Anesthetics (lbs '000)	—	—	3	3	3	—	—	1,512	1,512	1,584@	—	—	227.64	290.64	447.6
Ethyl Chloride (lbs)	—	—	1	1	1	—	—	72,000	72,000	72,000	—	—	25,780	10,550	15,383
Ferrous Gluconate (lbs)	—	—	2	2	2	—	—	46,200	60,000	60,000	—	—	3,480	4,199	6,951
Nickethamide (lbs)	—	2	3	3	3	—	2,400	4,200	4,200	4,200	—	900	577	293	800*
Sod Salicylate (lbs)	—	—	1	2	2	—	—	129,600	150,000	275,000@	—	—	134,220	33,723	75,094
Saccharine (lbs)	—	—	1	1	1	—	—	57,600	60,000	60,000	—	—	11,578	61,956	76,601
Power Alcohol (incl industrial) (mn gal)	19	19	19	19	19	12.8	12.8	14.9	14.9	14.9	5.7	7.7	8.2	8.2	10.4

* Estimated @ Capacity Reassessed

	No. of Factories					Capacity					Production				
	1951	1952	1953	1954	1955	1951	1952	1953	1954	1955	1951	1952	1953	1954	1955
Solvents :															
Acetic Acid (Glacial (Tons)	—	—	2	3	2	—	—	720	1,800	3,180	—	—	275	1,000	2,375
Acetone (Tons)	—	—	—	1	1	—	—	—	240	600	—	—	—	150	423
Carbon di-Sulphide (Tons)	5	5	2	2	3	2,100	2,100	2,100	2,180	4,000	1,100	1,400	1,708	1,800	3,871
Acetic Anhydride (Tons)	—	—	—	1	1	—	—	—	1,140	2,500	—	—	—	300	2,075
Leather Industries :															
Vegetable Tanning of Hides ('000 pieces)†	26	25	25	24	24	3,184.2	3,112.2	3,112.2	3,303.6	3,303.6	1,703.7	1,478.8	1,297.99	1,370.75	1,641.50
Chrome Tanning of Hides ('000 pieces)†	16	16	16	13	13	1,976.4	1,976.4	1,976.4	1,679.4	1,679.4	879.2	650.3	701.693	667.968	676.71
Western type of Leather Footwear ('000 pairs)	9	9	9	11	12	4,724.5	4,724.5	4,604.98	5,884.8	5974.8	3,640.4	3,336.5	3,347.45	3,268.01	3,242.87
Indigenous type of Leather Works ('000 pairs)	9	9	9	11	12	—	—	—	—	—	2,073.8	1,806.2	2,204.52	2,062.37	2,303.18
Glue (cwts)	—	—	9	7	9	—	—	23,480	23,480	48,060	—	—	17,094	18,114	19,465
Artificial Silk Yarn :															
Rayon Yarn															
Viscose (tons)	—	2	2	2	2	—	5,760	5,760	5,760	7,920@	—	—	—	4,938	5,731
Acetate (tons)	—	—	—	1	1	—	—	—	1,800	1,800	—	—	—	394	1,039
Stable Fibre (tons)	—	—	—	1	1	—	—	—	5,400	5,400	—	—	—	3,083	5,707.2
Rubber Manufacturers (All in '000):															
Aero Tyres	—	2	2	2	2	—	8.1	6.6	6.6	5,328	—	0.7	1.292	3.511	4.408
Aero Tubes	—	2	2	2	2	—	8.1	5.7	5.7	3,636	—	1.0	0.525	1.566	2.444
Automobile Tyres	2	2	2	2	2	864.0	945.0	925.2	925.2	—	870.2	721.7	767.899	832.774	888.311
Automobile Tubes	2	2	2	2	2	864.0	945.6	925.2	925.2	—	821.0	661.7	658.479	748.694	785.514
Bicycle Tyres	5	5	5	4	5	5,984.0	5,534.0	5,582.87	5,770.3	—	3,941.2	4,189.6	4,645.03	5,226.01	5,748.100
Bicycle Tubes	5	5	5	5	5	7,130.0	7,845.0	7,790.4	8,127.9	—	4,897.2	4,166.6	4,600.7	5,576.99	5,593.777
Cab Tyres (ft.)	—	4	4	3	3	—	1,556.1	1,556.1	1,465.5	1,246.5	—	385.8	442.2	324.41	377.17
Dipped Rubber goods (Doz)	15	16	16	16	15	20,234.5	35,082	45,029.9	46,979.7	44,342.9	10,986.8	13,842.3	12,443.5	18,402.5	22,926.7
Ebonite (lb)	—	9	10	14	14	—	654.6	610.4	1,157.4	1,188.8@	—	125.9	88.235	114.45	130.26
Fan Belts	3	4	4	5	6	276.1	516.8	582.3	882.3	881.2	298.5	557.6	432.531	500.89	655.26
Latex Foam Sponge (lb)	2	2	2	7	7	753.0	753.0	766.6	1,126	1,146.0	472.0	639.2	495.982	938.184	1,469.31
Other Types of Hoses (ft)	10	11	12	14	14	3,563.4	6,949.2	7,495.3	9,918	10,987@	3,474.4	3,555.8	4,422.18	4,864.0	5,718.37*
Radiator Hoses	8	8	8	9	7	579.8	409.7	470.4	474.3	511.8@	220.9	154.9	139.821	162.596	186.6
Railway Rubber Springs	3	4	4	4	4	930.0	1,761.0	1,290	1,290	1,290	748.3	1,216.5	1,233.18	1,323.86	1,526.7
Rubber Footwear (pairs)	15	20	18	19	19	29,144.0	35,525.9	36,559.2	41,131.2	42,680.2@	23,052.9	22,799.7	23,993.6	31,220.8	34,891.6
Tractor Tyres	—	2	2	2	2	—	9.8	5.4	5.4	26.2@	—	3.8	9.615	19.154	24.526
Tractor Tubes	—	2	2	2	2	—	9.8	6.0	6.0	23.9	—	3.5	8.131	16.88	23.110
Vacuum Brakes Hoses	3	3	4	4	4	591.7	1,110	1,020	930	1,080@	472.4	443.7	472.186	620.57	788.82
Waterproof Fabrics (yds)	—	8	10	12	12	—	5,460	5,740	5,982	5,712	—	1,295.2	2,061.62	2,029.14	2,119.03

* Estimate † In terms of cow-hides. One buffalo hide — 2 cow hides
@ Capacity Reassessed.

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America's Foreign Policy

"WAR in our time", President Eisenhower informed the American Society of Newspaper Editors, "has become an anachronism". This was what the Heads of State realised during the "summit" Conference in Geneva a year ago. Much has happened in the last twelve months. But President Eisenhower now informs the world that recent events do not justify any fundamental change in America's foreign policy. America's allies think otherwise. Britain wants freer trade to ensure world prosperity. She opposes America's insistence on military security as the only way to world peace. But the dissensions within the party in power prevent Britain from pursuing firm and independent foreign policy. France is no less dependent on America than Britain. But her Socialist government has had the courage to disown openly America's foreign policy.

Washington remains adamant. President Eisenhower has doubts whether the recent changes in the Soviet Union have any real significance. He may be right in his suspicion that the one-man rule has been replaced by "collective" dictatorship. His aversion to dictatorship will be shared by all those with democratic leanings. But critics will retort that if America is eager to cultivate friendly relations with Spain or Portugal, she can have no objection to establish amicable relations with the Soviet Union, even if President Eisenhower's assumption that the Russian regime is dictatorial is true. Non-interference in the internal affairs of any country is an essential condition of co-existence. In advocating peaceful co-existence, Russia does not expect the Western Powers to disown capitalism or their form of government. America, therefore, can have no right to expect Russia to jettison Communism or to change the form of government in Russia as a pre-condition to peaceful co-existence. President Eisenhower is, therefore, irrelevant in his reference to the form of government in the Soviet Union in his observations on world problems.

President Eisenhower does not believe that the Soviet Union desires peace. Stalin has been denounced. But "much of Stalin's foreign policy remains unchanged". Continued partition of Germany, continued subjection of the "satellite" nations of Eastern Europe and the continued division of Korea are cited as some of the instances which indicate that Russia does not intend "to provide a real basis for stable and enduring relations". This is poor logic. These are some of the major world issues in dispute. To solve these disputed issues, both sides will have to make concessions. America, President Eisenhower assures the world, is ever ready to explore all avenues to solve these problems.

Moscow has, similarly, informed the world repeatedly that Russia is sincere in her desire for peaceful co-existence. Despite these mutual assurances, world issues in dispute remain unsolved. President Eisenhower's argument is that no agreement with Russia is possible as long as she does not prove her sincerity. To such barren arguments M Mollet, the Socialist Premier of France, will retort that the Western Powers can help Moscow to adopt a constructive policy to world affairs by pursuing a conciliatory attitude to Russia.

Neither France's open disavowal nor Britain's persuasive tactics have succeeded so far in changing America's foreign policy. President Eisenhower offers America's friendship to Russia on certain conditions. He accepts M Mollet's prescription that it is wise for the Western Powers to seek, by every peaceful means, "to induce the Soviet bloc...genuinely to pursue peaceful purposes in its relations with other nations". But the foreign policy outlined by him is tinged with deep doubts about Russia's intentions. Because President Eisenhower has no faith in Russia's peaceful intentions, he emphasises that military security must remain the first and foremost objective of American foreign policy. America must continue to build her military strength and that of her allies so that the Western Powers can "maintain a collective shield against aggression . . ." President Eisenhower hastens to assure the world that America holds her military strength only to guard against aggression. It is not difficult to appreciate why Russia and some of the Asian nations affected by American-sponsored regional military alliances are reluctant to accept these assurances. Admittedly, disarmament is the essential condition of world peace. But recent London deliberations of the UN disarmament sub-committee leave no room for doubt that not Russia, but the Western Powers are reluctant to reach any compromise agreement on disarmament.

No exception will be taken to the President's emphasis on the need for aiding the economic and social progress of the under-developed nations. Nor will there be any quarrel with his appeal to Congress to put America's foreign aid programme on a long-term basis. Economic progress in undeveloped nations will take time. It is, therefore, evident that America and other rich nations will have to formulate a long-term policy for foreign aid. Only under such a long-term plan for economic help can the recipient nations frame their development plans on a long-term basis. Equally welcome is President Eisenhower's awareness of the importance of encouraging the healthy flow of peaceful trade. Not only the Communist bloc, but even Britain resents the "wasteful restraints" on the 'free flow of world trade arising out of the American policy of trade embargo on the Communist countries. Since the Geneva "summit" Conference, it has been apparent that NATO should be replaced by an organisation aimed at furthering trade and economic co-operation between the European countries.

It is inevitable that America will have to shoulder the main burden of ensuring freer trade and world prosperity. But the gradual emergence of Russia as a supplier of economic aid poses a problem which will have to be faced soon. To prevent some of the avoidable waste inherent in competitive co-existence, it is desirable that resources should be pooled so that economic aid to foreign countries can be supplied by the United Nations through the various agencies. M Mollet is in favour of supplying economic aid under the auspices of the United Nations. It is doubtful whether America will support any such extension of the activities of the United Nations. But undeveloped countries would prefer economic help under the aegis of the United Nations to economic aid by individual countries.

Wanted More Technicians

THE importance of an adequate supply of technically trained labour for the rapid expansion of industries visualised under the Second Plan hardly needs to be stressed. Inaugurating the International Technical Education Exhibition in Bombay, Prof. M. S. Thacker, Director of the Council of Scientific and Industries Research, pointed out recently that there is need for a 20 per cent expansion of training facilities in technical and technological institutions if the deficiency in technical personnel is to be met. The problem in particular fields may in fact be much more acute than is indicated by this figure given by Prof Thacker.

Prof. Thacker said that a provision of Rs 50 crores has been made in the Second Plan for the development of technical and technological education. Problems of this kind cannot be solved, however, merely through the allocation of funds. Effective organization is necessary. That is a lesson which the experience of the First Plan as well as of other countries should already have taught to the planners in India. It is not possible to say offhand whether Rs 50 crores is an adequate amount to bring about the required expansion in the usual way. Even if it is, however, it is clear that before the buildings are constructed and furnished and before the technical equipment can be set up, a number of years will pass. After that will come the period of training and it is only after this is over that the country will have an augmented supply of trained technicians. Not that all this will necessarily proceed smoothly. The new institutions will have to be staffed and this will actually make the problem of obtaining trained and experienced technical personnel even more difficult in the immediate future.

If the problem is to be successfully solved, however, with a reduction both in the overall costs of the scheme and in the time interval that must elapse before the increased supply of technicians becomes available, an entirely different approach will have to be made. Pandit Nehru, speaking on the occasion of the opening of the new building for one of the chain of national laboratories, had deprecated the tendency to be satisfied with new buildings as if that was an objective in itself. It was the work done that mattered, he had pointed out, not the building in which it was done. Obviously he could not have meant that the buildings were unnecessary. What he meant was that stress should be laid upon the full utilisation of whatever facilities were already available and to ensure that new facilities set up for any purpose were also fully utilized.

The question to be asked is whether the facilities in the way of technical training institutes that we already have are being fully utilized. It hardly needs a very careful study of these facilities to suggest that they are not. The crucial portion of any technical institution is its laboratory and workshop capacity. Invariably, however, these facilities are used for only a few hours every day. The students of these institutions have to study the theory underlying their particular subjects. Depending upon the course of study, they are frequently also taught subjects of a general educational value. These occupy them for a considerable portion of each working day and the crucial laboratory and workshop facilities remain unutilised during that period.

Even if different classes have their lectures and practicals arranged in such a way that the laboratory and workshop are in use more or less throughout the working day, this is still not enough. For this usually means only that one batch of students of all classes put together uses the equipment. The 'day' over which the equipment is utilised still forms only a fraction of the 24-hour day.

In either of these cases, it should be possible to arrange a more intensive utilisation of laboratory and workshop equipment by the working of shifts of students. Two or even three shifts can be arranged where the equipment is being utilised for a full 'day' already, but where the equipment remains unutilised even during the present working day, because students are otherwise occupied, the number of shifts over which the equipment can be utilised can be even greater. In the former case, it would imply shifts in the teaching of all subjects, thus giving a more intensive utilisation of lecture halls and other facilities also. In the latter case it would mean not only doing this but also extending lecture facilities only or better still, organising an extended use of lecture facilities in other institutions, not necessarily technical institutes at present.

This is about training of new material. What about opportunities of training for those who are already engaged in industry, of the factory hand who has the educational background or the intelligence and ability to use his brains, if an opportunity is given to him to do so? All the while we hear that the most serious gap in our technical personnel is not so much at the top but in the ranks of the supervisory staff. No factories in Bombay, even the best run ones, some of which recruit only matrics or those who have a number of years of regular schooling, have any arrangement worth the name for enabling ambitious and willing workers to get any kind of technical education, which will enable them to use their brains while working with their hands. And that is the best way of acquiring knowledge and making proper use of such knowledge.

Will it not be an unfortunate result of the present arrangement of training when it begins to bear fruit that many who would otherwise have risen from the ranks, would be robbed of their chances of promotion? If this happens, it would not be a welcome change for the large mass of factory hands. It will remove what little incentive there may be for them to do better and to apply their minds to their job. In the formation of the hard core of industrial skill, which is the backbone of industry, as in other things, we are thoughtlessly ignoring the social waste that is involved in displacing what productive capacity already exists by brand new equipment, the full and proper utilisation of which will itself involve time and labour. As in equipment, so with human material, utilisation of existing capacity must have priority.



Weekly Notes

Steel Imports congest Bombay port

THAT steel imports should be responsible for the serious congestion in the Bombay docks last week, though these are still relatively small in quantity—they are expected to reach a level of 2000 tons per day within the next few months—is disconcerting, for the heavy programme of steel imports has been anticipated for some time now. Newspaper reports add that while the Port is itself increasing its capacity to deal with larger steel consignments, these are piling up in the docks because of the inability of the railways to clear them rapidly. A shortage of the special wagons required to transport long steel tubes, it is added, is at fault but even if this is solved, the general inadequacy of carrying capacity will still be there. Doubling of lines on various sectors of the Western Railway and other steps of the kind to increase the carrying capacity of the routes concerned are already included within the Second Plan. It is doubtful, however, whether an approach along these lines will prove adequate to solve the problem.

More careful thought needs to be given to the question of transport from the view point of ensuring the maximum utilisation of all the transport resources of the country. Expansion of capacity of the railway lines leading from Bombay to the consuming centres is the obvious line of thought, but perhaps northern India could be better served by using Kandla port as the centre for receiving imports to a greater extent. Expediting its programme of development might give quicker results under certain circumstances.

Better utilisation of some of the smaller ports is also possible and is likely to help. It was reported recently that port authorities in Saurashtra and the Bhavnagar Chamber of Commerce had launched a campaign for attracting industrialists and businessmen in Gujerat to channel their imports through Bhavnagar. The Ahmedabad textile mills, which import about three lakh bales of foreign cotton through Bombay, were the target of the campaign. Bhavnagar is only 160 miles from Ahmedabad while Bombay is 310 miles and the difference in railway freight alone amounted to Rs. 5-14 per candy. The overall difference worked out to over Rs 9 per candy. While these facts should operate as a powerful argument with the private sector, they highlight the fact that available transport facilities are not being satisfactorily utilised due to an orthodox approach to the problem. The Gujerat Chamber of Commerce had suggested that the Saurashtra ports could easily handle about one million tons per annum and had suggested a broad gauge rail link between Bhavnagar and Tarapur near Ahmedabad to enable fuller utilisation of these ports. Whatever the merits of this scheme, there could be no doubt that a more intensive utilisation of the Saurashtra ports would repay effort, and the same could probably be said of other ports elsewhere.

A more intensive utilisation of road and inland water transport and of sailing vessels as during the war is also feasible and in fact essential. It is clear that a thorough survey of transport facilities in India and their present utilisation and potentialities for the future is called for in the interest of the successful implementation of the Second Plan. An American technical team is touring the country, looking into our railways. A sea-rail transport co-ordination committee has been working fitfully for some time. A survey of the minor ports has already been carried out. To piece together the findings of all these and to knit them together would call for hard, sustained work. Though there are welcome signs of a change in the attitude to transport problems in the direction of better utilisation of capacity, occurrences like the present congestion in the Bombay Port are rude reminders that action resulting from this change is still far away.

Tax Concession on Motor Cars

AMONG the minor changes in income tax effected by the Finance Bill this year, the provision of a car allowance for salaried employees would be of considerable interest to the car-owning middle class families. The provision has been made for an allowance in the case of salaried persons in respect of the maintainence and normal wear and tear of conveyance used for the purpose of their employment. This would confer a much needed relief to the salaried person who in the matter of tax incidence is at a considerable disadvantage as compared to the business man. The proviso to this amendment, however, restricts the benefit only to persons who are not receiving a conveyance allowance. It will perhaps work a hardship in the case of persons who receive a conveyance allowance which is so nominal that they could have possibly been better off had they never received it. Such cases may not be inconsiderable and therefore necessitate a revision of this proviso so as to allow the benefit to a salaried person in respect of expenses on conveyance to the extent to which he may be entitled.

Mention may also be made here of another proposal which will deny henceforth the benefit of initial depreciation on machinery and plant which is not entitled to development rebate introduced by the Finance Act of 1955. It will not be possible for the business man to change cars as frequently as before with an eye on substantial gain from income tax in the bargain.

Meeting Expanding Demand

DUNLOPS have not done so badly, in spite of the cut in tyre prices, effected on the recommendation of the Tariff Commission. True, the working results for the year 1955 reflect only very partially the effect of price reduction. More important perhaps was the rise in the controlled price of crude rubber which was increased from Rs 138 last year, to Rs 150 per 100 lbs. in February, and again to Rs 155-12 in September if only because it affected the results over a much longer period than did the reduction in tyre prices.

The total sales of the company's products were 10 per cent higher in value than in 1954 but the net profit remained more or less unchanged at Rs 97 lakhs, while the ratio of profits, before tax, to turnover declined from 7 per cent to 6.4 per cent. A number of records in the company's history were set up during the year—one was in the consumption of crude rubber which was nearly 10 per cent higher than in 1954, which itself was a record being 18 per cent above 1953. Despite substantial increase in production and sales, the company had difficulty in meeting the demand for its products, which indicates not only a continued expansion of the economy but also the growing importance of rubber tyres and other products in the expanding economy.

Mr Cecil Stack, Chairman of the Dunlop Rubber Company (India) Ltd., was therefore on unassailable ground when he forecasted the necessity of a considerable expansion in output, if the demand for rubber products in the Second Five Year Plan period were to be met adequately. Naturally his company hopes to play its full part in meeting the needs of the expanding economy. In order to enable it to do so, however, the company would need the assistance of the Government in two directions, in the matter of transport and adequate supply of its principal raw material viz. crude rubber. Regarding the first Mr Stack was by no means sanguine. Referring to the unsatisfactory conditions of transport and the shortage of railway wagons, he ventured the opinion which is being increasingly voiced by all the industrialists in the country that "this problem will become more acute in years to come and that it calls for the most serious attention by the Government of India."

As regards crude rubber Mr Cecil Stack sums up the situation as follows: "Against the total consumption of rubber by manufacturers in 1955 of 27,543 tons, India produced only 22,481 tons which means that there was a deficit over 5,000 tons. In such circumstances, larger manufacturers have to import a portion of their requirements, especially when the world market price is higher than the controlled price." Dunlops, in fact, imported 2,368 tons of rubber last year. But if the above figures are correct and the Indian Central Rubber Committee has not challenged these figures, it is difficult to understand why the tyre companies have to experience difficulty in getting import licences from Government. Mr Stack complains of such difficulty and the resulting decline in stocks which at times sank to a dangerously low level.

More significant than all these, however, are Mr Stack's observations about the developing demand for different varieties of rubber products, and of the difficulty which Dunlops experience, and others also, presumably, in coping with this demand. The situation may be gauged from the fact that despite increased production, the company ended the year with lower stocks. This was due partly to brisk sales of some categories of finished goods and partly to the difficulties of importing crude rubber.

Of the different varieties of products, the demand for bicycle tyres increased so enormously that the company was unable to keep its cycle tyre manufacturing capacity abrest of demand, although it hopes to remedy this before long. Shortages continued throughout the year. In fact the situation got so bad that the company itself suggested to the Government that import of cycle tyres should be permitted and the Government acted upon this suggestion.

The company's products other than tyres are proving increasingly popular, indeed so much so that increased manufacturing capacity is now required in a number of lines. One such is Dunlopillo Latex Form Cushioning which has now become a standard equipment for cinemas, hospitals, hotels and transport services and is being increasingly used for domestic purposes and by car manufacturers as well.

Another is rubber ply transmission belting, the sales of which increased by over 60 per cent compared with the previous year.

There was a similar increase in the popularity of such highly specialised products as anti-corrosive and abrasive linings.

The company's progress and the expansion of the company's activities have been made possible, needless to say, by the development work and research of the world wide Dunlop organisation, which is constantly on the look out for improved production methods, equipment and materials and is constantly turning out new products.

Does Advertising Raise Prices ?

DOES advertisement raise the price which consumers have to pay? It is a misconception that it does, said Shri Dharamsey M. Khatau, incoming Chairman of the Indian society of Advertisers, addressing the fourth annual meeting of the Society in Bombay this week. It is a misconception, however, that is still widely prevalent in this country. It arises, he said, from sentimental attachment to rural ways and values, and unfamiliarity with the real character and modus operandi of a modern, industrial economy. If it is admitted that there is economy in large-scale production, then it cannot be disputed that there is economy in advertisement. Efficient and advanced methods of production call for similar methods of marketing; if machinery and power make for cheaper production, advertising makes for cheaper distribution. What is more, by helping to expand markets, advertising brings technological advances within the realm of practical possibility.

Pleading for a wider recognition of the role of advertising in building up a diversified economy in the country, the new President entered a caveat against the reported intention of the Government to bring in some kind of control on the advertisement budgets of industries.

It is not that the Government does not recognise the value of advertising. The sustained campaigns it is conducting for encouraging the use of handloom cloth and other handicraft products show that it does. Shri Khatau pointed out that the Tariff Commission in its report on the bicycle industry felt it necessary to provide for a larger expenditure on advertising on the ground that "advertising on a more intensive scale is necessary to popularise this handy and cheap means of transport." Too often, whenever there is a check on costs, or control on prices, the axe falls heavily on advertising. Shri Khatau, unfortunately, has yet to persuade his fellow industrialists to take advertising more seriously, to apply scientific publicity techniques to their distribution and help the formation of advertising skill of which there is no glut in the country today.

Who Fathers the Plan ?

A SPECIAL correspondent from Delhi writes:—

During the last five years, the Planning Commission has steadily lost authority. Now it is on the brink of losing the Second Five Year Plan. Recent pronouncements of the Ministers of Finance and of Commerce and Industry have reduced the blue-prints to nonsense. This has happened even before the final drafts have seen the light of the day. In a sense, the Second Plan will be stillborn.

Everyone in the Planning Commission knows that the Plan is neither a true estimate of expenditure nor of the time required to raise the resources or to spend them. Shri Chintaman Deshmukh admitted as

much when he said that the outlay contemplated in the public sector of the Plan may have to be increased by about Rs. 300 to Rs. 400 crores. He also conceded that the Plan may require 6 or 7 years to fulfil. The statement publicly cast the long-felt doubt on the basic structure of the Plan but it was far from frank.

The truth is that the country's mounting defence requirements alone may require a capital expenditure of the order of Rs. 300 crores. Rs. 200 crores was the figure contemplated when the Draft Outline was published: it was not included in the estimates of expenditure for reasons which have little to do with security. If annual returns of the amount that we spend on our defence forces and equipment, included in the budget, do not endanger the nation's freedom, surely an overall estimate of our expenditure on defence installations over the next five year period would not have made the country any more vulnerable. Any how, the Planning Commission chose to ignore the financial implications of the defence programme together with that of the programme for the development of atomic energy (Rs 80 crores), raising the salary of primary school teachers (Rs 66 crores), oil exploration (Rs 30 crores) and subsidy to Amber Charkha (Rs 80 crores). It is now understood that another Rs. 15 to Rs 25 crores would be required for building three townships near the new steel plants and the outlay for coal production in the public sector would have to be increased from Rs 40 crores, provided in the Draft Outline, to Rs 60 crores. The Commission may also have to find money for exploitation of oil found at Nahar-katiya, in partnership with the Assam Oil Co., and possibly elsewhere.

Meanwhile the defence requirements seem to have soared in view of the increasing American arms aid to Pakistan and of course the Finance Minister has known it all along. When he spoke of increasing the size of the Rs 4800 crore Plan, he obviously gave figures which were once again under-estimates.

To the above, the correspondent adds this comment.

"Top authorities in the Planning Commission no longer try to gloss over these and the like aberrations. The talk of Plan's flexibility sounds hollow even to their own ears. Few conscientious artists can denounce their own handiwork as dishonest with greater repulsion than some members of the Commission display towards their own brain child."

Unwilling godfathers, or spurious parenthood?

Economi dan Keuangan

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Modification of Tax Proposals

TAX concessions to companies announced last week by Shri Chintaman Deshmukh do not make any substantial change in the original tax proposals. They are aimed rather at meeting the needs of certain special types of cases which would otherwise suffer hardships.

Three concessions are made to corporations:

1 Premia on shares which are in fact receipts of capital from the shareholders themselves will be treated as such by including them in the capital base, with reference to which the dividend is calculated for purposes of the excess dividends tax.

2 Bonus shares issued from share premia will not be taken into consideration for calculating the extra corporation tax on bonus shares.

3 In the case of companies whose profits consist of taxable as well as non-taxable income, the provisions relating to the extra corporation tax will be applied only after taking into consideration such proportions of the dividends, bonus issued and capital employed as the taxable income of the company bears to its total profits.

Of the two concessions made to registered firms, one does, however, involve a modification of the original proposal under which all registered firms, with total incomes of more than Rs. 40,000, were to pay income tax at graduated rates on the whole of their total income. The first slab of Rs. 40,000 out of the total income will now be exempt from the tax. While the Finance Minister has urged that this proposal is meant to give some relief to partners of firms whose share in the income of the firm is small, there is no doubt that a substantial concession has been made which will benefit not only the proposed beneficiaries but also others. The case of those whose share in the income of a registered firm is small could probably have been met equally well by an appropriate adjustment in their personal liability to income-tax or super-tax as under the second concession discussed below.

This second concession is meant to benefit partners of professional firms like those of accountants and lawyers. It is proposed now that in the case of non-business incomes, super-tax shall not be payable by a partner on that amount on which the tax attributable to such income has already been paid by the registered firm.

While replying to criticisms about his proposal for the taxation of bonus shares, the Finance Minister advanced the curious argument that the shareholder "himself does not have to pay an extra tax on account of what he receives in the shape of bonus shares. What is proposed is that the issue of bonus shares should be taken into consideration while calculating the corporation tax payable by a company on its total income. The burden falls on the company and not on the shareholders".

True, it is not proposed to tax the shareholder himself on the value of the bonus shares as if it were a dividend in his hands. But since the bonus shares would be issued obviously from accumulated reserves, the liability to pay the tax apart from its influence on the decision whether to issue the bonus shares at all, would reduce the proportionate value of the shares that could be issued for any given utilisation of reserves. The tax liability would no doubt fall on the current profits but indirectly, by influencing the amount that could be added to reserve during the current year, it would ultimately have this effect. The fact that the tax would be paid by the company would not make any difference to the fact that the incidence would be upon the shareholder in the shape of a reduction in the proportionate value of bonus shares issued.

From Karachi to Teheran

AMERICA dominated the SEATO Council's conference in Karachi. Britain was the major influence behind the Baghdad Pact Council's meeting in Teheran. This is not the only difference between these two conferences. Since the SEATO conference in Karachi, there has been growing opposition among America's allies to her exclusive reliance on military security. In Teheran, there was less emphasis on the military aspects of the Baghdad Pact. Military security was the main pre-occupation of SEATO Powers in Karachi. Wiser by the hostile reaction to Karachi deliberations, Baghdad Pact members had the wisdom to emphasise the economic aspects of regional alliances.

There are other significant aspects of the Teheran Conference. It has been a constant source of irritation to Britain that America has pursued a policy to west Asia which has caused embarassment and loss of political prestige to Britain. At the initiative of America, Britain became an active member of the Baghdad Pact. But America had not closely associated herself with the Baghdad Pact. Both Arabs and Jews are suspicious of Britain because of her active role as a Baghdad Pact member. There has been resentment in Britain that America's policy to west Asia has caused, directly and indirectly, tension between Britain and most of the countries in this region. In Teheran, America indicated her desire to co-operate more actively with the Baghdad Pact members. London will welcome this gesture by Washington.

Britain's attitude to insistent demands by some members of SEATO and the Baghdad Pact for discussions on issues in which some non-member countries are involved may be a concession to New Delhi. But the references to Kashmir in the Karachi meeting and to Kashmir and Palestine in the Teheran conference raise wider issues. Neither India nor Israel is a member of either SEATO or the Baghdad Pact. India is involved in Kashmir. Israel is actively interested in the Palestine issue. Both Kashmir and the Palestine problems are under reference to the United Nations. Only the United Nations have the right and the authority to discuss these issues. References to these issues during the Karachi and Teheran conferences pose a problem for the United Nations. India has lodged protests against discussions of such issues by SEATO and Baghdad Pact members. It is now for the United Nations to issue the requisite directive to regional military alliances to function within their limitations.

Houses For Whom ?

THERE has been no lack of publicity for Government's schemes for housing industrial labour and low-income groups. How these schemes have fared in various States and what benefits they have conferred on the sections sought to be helped, however, are a different story altogether. If Bombay City's experience is any indication, then there is cause for concern. The building programme has no doubt been proceeding quite steadily, although not in proportion to the

needs of this overcrowded city. The question is whether the rents charged, though comparatively low and now deemed uneconomic, have been such as to attract the less well-to-do classes who are most in need of housing and for whom in fact all this construction has been undertaken. If the extent of unauthorised occupation is as large as it is reported to be, then the answer is in the negative. The prevailing practice would seem to be for workers and others entitled to accommodation to take over the rooms and then pass them, on to better off relatives, friends or acquaintances, with or without a premium. The premises are no doubt made good use of; but the primary object of the scheme, which is to provide relief to the poorer classes, is defeated in the process. Apart from that, the drive against unauthorised occupation, which is periodically conducted with all it means in surprise check, searching inquiry and eviction has tended to give the whole housing programme an unsavoury taste.

Things are not likely to be improved if the rents of these buildings are to raised by 40 to 50 per cent. This is what Bombay's Housing Minister indicated in the State Assembly last week. Rents are being raised, it seems, following the findings of the Accountant-General and the Public Estimates Committee that the rents now being charged are uneconomic. Except for the absence of a premium, the step contemplated by Government now would reduce State-built houses more or less to the same level as private ones, with no special advantage left to the worker or the low-income groups. In consequence, even the bona fide occupants of these buildings who are trying to meet somehow the present rents, which are themselves not within the means of most of them, may have to quit, reducing Government's primary object in providing such housing to a mockery. It is not so difficult to put up houses these days, particularly for Government; and there is no great virtue in it. What is important is whether the rents fixed are such that they can be paid without too great a pinch by those for whom these houses are meant; or if the 'economic' rent cannot be reduced, whether Authority can subsidise it to a reasonable extent. Without finding a solution to this question, it would be no more than a gesture on the part of Government to erect houses and allocate them airily to persons who just cannot make use of them, however much they may need them.

Ground for Hope

CEYLON'S Premier, Shri Bandarnaike has given out that he would be having informal discussions with Pandit Nehru on the issue of Indian settlers in Ceylon at the Commonwealth Prime Ministers' Conference in London in coming June. Formal talks are to follow. Shri Bandarnaike has himself been a party in a sense to the last Nehru-Kotelawala agreement which has been bedevilled by hair-splitting essays in interpretation. The three-page agreement might not have led to so much elaboration, if the desire to implement it were sufficiently keen. Nevertheless, as differences have arisen, there are two alternatives open: either to replace it by a new agreement or to refer the differences to the judgment of a third party acceptable to both the sides, as suggested by Pandit Nehru.

Instead of going over the entire ground again, it might advisable to try the second alternative. In any case, if Ceylon is disposed to play fair to such Indians in the island as are entitled to citizenship, there should not be much difficulty either way. Shri Bandarnaike has given ardent expression to his regard for our Prime Minister; and recent developments have shown that there is much in common between them, whether in respect of domestic or foreign policy. The socialist line that Ceylon's new Government is inclined to folow should make it easy for the Premier to give a fair deal to the Indian have-nots in the island, while the policy of friendship with all that is evolving itself in the foreign sphere, with the accent on Asian countries, makes it imperative that there be no continuing cause of misunderstanding between the two next door neighbours. The problem is essentially a human one, and it must be treated as such. With two warmly human personalities like Pandit Nehru and Shri Bandarnaike tackling it now, there is considerable ground for hope that it will at last be solved.

Cominform Dissolved

DISSOLUTION of the Cominform can be interpreted in more than one way. Time and time again, the Western Powers have reminded Moscow that its propaganda and subversive efforts are intensifying the "cold war". Moscow can now claim that the decision to dissolve the Cominform is a gesture which should be reciprocated by the Western Powers. During Pandit Nehru's visit to Russia, the Soviet Union and India issued a joint declaration in which Russia accepted the principle of non-interference in the internal affairs of other nations. Formal dissolution of the Cominform, Moscow can claim, is an emphatic proof that Russia means what she says.

Unlike the Comintern, the Cominform was never rigid. It was created as the war-time alliance between Russia and the Western Powers showed signs of degenerating into the "cold war". To be precise, the Cominform was the Russian answer to the Truman Doctrine. It has played an active role in the establishment of Communist governments in eastern Europe. Cynics will no doubt insinuate that, with the emergence of the Warsaw Pact, the Cominform has become redundant, even as the Truman Doctrine has been embedded in NATO. There will be hope that the demise of the Cominform will be the prelude to the dissolution of NATO and the Warsaw Pact.

That will depend on the end of the "cold war" through an agreement on world disarmament. Meanwhile, the dissolution of the Cominform will be interpreted as another blow to Stalinism. Strict control and supervision of the Communist parties and movements in foreign countries by Moscow was an integral part of Stalinism. By dissolving the Cominform, Stalin's successors imply that such "centralised control" from Moscow is no longer necessary. This does not mean that Moscow has abandoned its faith in World Communism. It implies that Stalin's successors are inclined to the view that the existence of different types of economy in the different countries is no obstacle to the ultimate goal of World Communism.

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Letters to the Editor

Small Scale Industries

Problem of Technological Change

I WAS induced to read the two articles published in your weekly by Dr. K. N. Raj because of their interesting title. However, they turned out to be interesting for different reasons. The simple and obvious conclusion emerging after a long winded argument, the search for implicit assumptions in his reasoning and some logical flaws proved of greater interest than the thesis put forward by the author.

Dr. Raj's conclusion, put in simple words, is that that technique should be chosen which maximises surplus and hence profits. His ratio of surplus per worker to capital cost per worker is just a measure of the rate of surplus or profit. Technique II in his example is the most profitable and would be chosen by any firm which wants to maximise its profits. His qualification that the surplus per worker should be calculated after providing for the displaced workers would not much affect the choice regarding techniques, as is evident from a comparison between his Technique I and Technique II. Behind his qualification, however, there is an implicit assumption that either the industry or the State (by taxing the surplus) is responsible for providing for the displaced workers. In our institutional set up, it is doubtful whether this assumption holds good.

Though Dr. Raj has not made it clear, when he talks about surpluses, I think he means surpluses in the consumptions goods sector. He mentions with regard to these aggregate surpluses that they would be lower if the capital output ratios were higher. I fail to understand this. There is a difference between aggregate surpluses and the ratio of these surpluses to capital costs (or rate of surpluses).

Now about his logic. The author delves into the subconscious minds of the Planning Commission and finds that they are confused because they are trying to be 'loyal to both Keynesian and Marxist tools of analysis'. He then goes on to say that there is a difference between a state where supply is adequate to meet the demand for consumption goods (Keynesian case) and a state where the surplus in the consumption goods sector is enough to meet the demand for consumption goods of the non-consumption goods sector (Marxist case). I am unable to make any sense of this distinction. All that I know is that a correct analysis should lead to correct conclusions.

Then follows a sentence which is even more incomprehensible. "In fact, if there are fairly long lags between successive rounds of expenditure and income generation in an economy," Dr. Raj thinks, "the rate of investment and the volume of employment can be raised in this way even when the marginal propensity to save of the income receipients is nil." How can both things be true? If there are lags in expenditure, obviously the marginal propensity to save is not nil.

It appears as if the author wrote these articles to provide exercises to the readers for testing their logical faculty. In that he has succeeded. It does not appear that he had any intention to find out the raison d'etre for the development of cottage and small scale industries.

A Reader

Bombay, April 25.

Community Projects Uniquely Indian

A NOTE on "Planning Forums" in the Economic Weekly of April 21st appears to state that India's Community Projects are based on an idea imported from America with the help of the Ford Foundation, and that this idea was first applied in India at Etawah, U.P.

The design for an intensive rural development project which eventuated in the Etawah Pilot Project was worked out in India by Mr. Albert Mayer, a private citizen of New York, in collaboration with members and officials of the Union and U.P. Governments during the years 1946-48. The Etawah design imitated no one project that had existed either in India or abroad. It borrowed certain concepts of administrative democracy from the American TVA and from the New Deal generally; it employed some techniques of extension previously used by the US Department of Agriculture; it took ideas from industrial sociology and cultural anthropology, and experience from the operations of UNRRA and other international agencies. It also borrowed many of its elements from existing efforts within India—from Gandhian constructive workers, from certain Christian programmes, and from previous government projects. Building on and beyond these heterogeneous materials, both indigenous and international, the Etawah Pilot Project developed a new and unique organizational framework at district and village levels, as well as a novel programme of "village participation" or social education.

Etawah and the other Pilot Projects in UP have never called themselves "community" projects, although they seem to have inspired much of the Community Project philosophy, later on. The Ford Foundation, following on the heels of the Indo-US Technical Co-operation programme, did not begin to give assistance to Indian Community Development until 1952, four years after work had begun in the fields of Etawah. Etawah and the other Uttar Pradesh Pilot Projects (seven blocks of about one hundred villages each) were from the beginning and are still up to the present day supported solely by UP Government funds.

While Etawah made use of ideas from many parts of the world, there are thus good grounds to support the claim that it and the other UP Pilot Projects, which pioneered the way for the national Community Projects, represent uniquely Indian developments.

Your note further suggests, "Etawah . . . may not have produced results that will stand scrutiny." Such a suggestion implies that credence may still be given to certain exaggerated and uninformed criticisms of the Etawah project, such as those contained in the article by Thakurdas Bang and Suresh Ramabhai which appeared in your journal and elsewhere some time ago. Full study of the record at Etawah to date demonstrates that all eleven points of criticism listed by Bang and Ramabhai, where they are not simple statements of doctrines or misapprehensions, are simple errors of fact.

McKim Marriott

Poona, April 24.

Our Delhi Letter

Rising Food Grain Prices

Wednesday, afternoon

THE inadequacy and undependability of food statistics have again been causing trouble. No one knows for certain if there is a food shortage and if there is, what is its magnitude. And so long as this is not known, a corrective measure will be in the nature of a shot in the dark. If there is a shortage, priority should go to imports. Not that speculation and hoarding will be allowed a field-day, but imports will have to be rushed. If, instead, there is only a better balance between demand and supply, measures directed against speculation like selective credit control and release of stocks, to tide over the period until the new crops begins to move in, should suffice to meet the rise in food prices. Imports can then be brought in leisurely, after hard bargaining in the international market. Our knowledge of the situation being what it is, we really do not know whether there is time for bargaining. Maybe, the delay caused by the negotiations over price will do us incalculable harm by causing price-upsets. Maybe, the hurry in obtaining imports will weaken our bargaining power.

Whatever may be the actual position, food prices have risen sleeply in all the districts of the Madras State, particularly in the four southern Tamil districts which were hit by last year's cyclone. And prices of rice have shot up at a time when they should have gone down now that the harvesting season is over. To what extent the pressure of Bombay purchases is responsible for this, is anybody's guess. So is the extent of hoarding and speculation The Madras Government, however appears to think that the overall shortage in the country is real and measures against speculation especially those on a State level, cannot do the trick. It thinks that action is called for on an all-India scale. But the question is, is the evidence of shortage conclusive?

North India is experiencing a welcome change in the price situation. With the arrival of the new crop, prices of foodgrains, which were rising since October, have eased during the last three weeks. The grain trade in the north believes prices will move further downward. Rice is, however, an exception. The price of rice has been showing an upward tendency and the general belief is that the rise will continue until the next rice crop comes to the market. On the other hand, the fall in the prices of wheat, grain and barley has been nearly offset by the rise in the prices of pulses and oils.

Grain traders, however, have come to believe that there is an overall food shortage. And this is bound to give rise to hoarding and speculation, which must offset the market supply. Traders are not even prepared to accept that the Food Ministry has a reserve of two lakh tons of wheat. Their estimate of Government stocks is no more than a lakh tons, which are not sufficient to feed Bombay and Calcutta even for two months. And the rice position is considered worse still. The bajra, jowar, pulses and oilseeds position is no better. The trade holds the Government responsible for the present situation. It puts the normal deficiency of wheat at two million tons and thinks that we should have imported this quantity last year. The Government, however, elected to do without imports. The result is, according to this view, this year the deficit in wheat will be of the order of 4 to 5 million tons. What with late rains and rust this year and eating into the reserves of the peasants last year, trade circles fear a serious shortage this year. Whether it is real or not, once trade has got the idea that there is a shortage, food imports have to be arranged double quick. There is little time to lose over price wrangling. If stocks are not released freely and immediately, food prices may go out of control, dragging other prices in their trail. And we may have to pay many times over the loss we may have to suffer in rushing foodgrains deals with other countries now.

Of late, there has been a significant flow of funds from India to the United Kingdom though the rupee being linked with sterling, capital movements of this sort may not have caused a stir in the exchange market, as it has done in Malaya which has been experiencing a considerable outflow of funds. A heavy demand for transfers to the U. K. has made the Malayan banks reduce the sterling value of the Malayan dollar three times during the past month or two. In Malaya, the demand may be related to political factors like impending constitutional changes, though it is likely that fears about the future of rubber constitute a more important reason. But what can be the reason for the outflow of funds from India? The outflow, to be sure, is not small in volume. The balance of payments figures show that the outflow of private capital was of the order of Rs. 14.8 crores last year as against net receipts of Rs. 7.4 crores in 1954, reversing the previous inflow from the U. K. It is not possible to explain it in terms of the payments position. For the country last year had on current account a surplus of Rs. 41.6 crores compared with a deficit of Rs. 4.1 crores in 1954.

This is not a laboured attempt at being clever; this is how "Lombard" poses the question in the The **Financial Times** (April 20). The answer that would occur to the Indian money market correspondant is that funds were moving to or being repatriated to U. K. because of the high Bank rate. "Lombard", however, does not think so. He is convinced that there is repatriation of capital, the explanation for which must be sought in the Government's decision to embark upon a socialisation programme. The fact that he considers fears about the safety of capital invested in this country unwarranted and that he has advised, if only by implication, against such repatriation suggest that there is no attempt at browbeating the Government of India. What, then, is the correct explanation? Would the Government of India or the Reserve Bank throw some light on the question?

Industrial Policy—New Look

(From a Delhi Correspondent - Delayed in Transit)

THE Government of India's new industrial policy is on the anvil. The accent is on the expansion of the Public sector. It will be in keeping with the socialist pattern of society that the Congress Government is pledged to evolve. Pandit Nehru himself has undertaken to inject political content into the statement. Whether he succeeds in that objective, everyone concerned agrees, will be merely a matter of drafting. The danger is that the resolution may emerge more as an elaboration of a political slogan than as the enunciation of a clear policy.

It is known that the Ministry of Commerce and Industry as well as the Planning Commission were opposed to the supersession of 1948 industrial policy statement. All that the Government desired to achieve could be effected within the four corners of that resolution. It was flexible enough. When pressure from the Prime Minister made action inescapable, the Planning Commission put up the widely-publicised draft in consultation with the Ministry of Commerce and Industry. It lists fourteen industries whose future development will be the concern of the State unless the State itself considers it necessary to seek the cooperation of private sector. Another schedule enumerates eleven industries in whose development the State will progressively participate though the private sector will continue to promote them as well.

The industries included in schedule A are:

1. arms and ammunition and allied defence industries;
2. atomic energy;
3. iron and steel;
4. heavy castings, forgings and structurals;
5. heavy plant and machinery required for making machine tools and other basic industries.
6. heavy electric plant including large hydraulic and steam turbines;
7. coal;
8. mineral oils;
9. copper, lead, zinc and molybdenum;
10. aircraft;
11. air transport;
12 railway transport;
13. shipbuilding: and
14. telephone, telegraph, wireless apparatus excluding radio receiving sets.

In schedule B the following industries were listed:

1. iron ore;
2. manganese ore;
3. kyanite, bauxite, chrome ore etc;
4. aluminium, machine tools and ferro-alloys;
5. basic and intermediate products required for chemical industries like the manufacture of drugs and dyestuffs and plastics;
6. carbonisation of coal;
7. fertilisers;
8. synthetic rubber;
9. chemical pulp;
10. generation and distribution of electricity;
11. sea transport.

The rest of the industrial field will be open to the private sector.

It is quite on the cards that Schedule A may be expanded both at the expense of Schedule B and by the addition of new industries like telephone cables or diamond mining. A suggestion that low grade coal should be reserved for Schedule B has been rejected. Fertilisers and drugs, including antibiotics, are sought to be promoted to schedule A though not without controversy. It is proposed that non-ferrous metal industries should be in Schedule A.

While the Prime Minister may drastically recast the basis of classification, certain cardinal principles are likely to remain unaltered.

First, nationalisation would affect only new undertakings.

Second, financial aid of the State for the promotion of new industries would be by way of equity participation rather than extension of loans.

Third, the policy of nationalisation would be hemmed with provisos so that co-operation of the private sector might be obtained wherever necessary. Even equity participation may be modified in the interest of securing a diversity of capital resources for the nascent industry.

In effect, therefore, the new policy statement may just add up to verbal irritation and ideological gas. It may offend the private sector without necessarily enlarging the role of the public sector. In any case, its tenets would be ignored with or without recourse to the provisos. The Mysore Government has already decided to nationalise the Kolar Gold mines and flouted the Planning Commission's considered view that the State's resources should be utilised for the promotion of new industries rather than taking over existing enterprises. The Ministry of Natural Resources and Scientific Research proposes to do the same thing in regard to the Panna diamond mines. Such cases are bound to multiply with the noticeable decline in the prestige and power of the Planning Commission. Already the Government has begun to ignore unpalatable advice from this direction by not seeking it. The ghost of Dr. John Matthai is coming home to roost.



From the London End

Budget

"We asked for a prescription but got instead a betting slip"—Ian Mikardo, M.P.

THE Chancellor of the Exchequer took two hours to make his Budget statement. The presentation however was masterly. By the time he had finished, the Commons and the whole nation was enmeshed in the originality of his suggestion of an issue of "Premium Bonds", a type of state lottery. It took the country a whole day of reflection to realize that the premium bond suggestion (and it was no more than a suggestion) was merely an aside and irrelevant, so far as basic issues were concerned, and that the Budget contained little that was new in economic policy and that it brought no change in the tax-burden now borne by the tax-payers. The **Economist** thought the Budget was a "missed opportunity" and the Stock Exchange went on to add five points to the value of industrial shares. The present Conservative Government has a remarkable ability to devise slogans—slogans which quickly turn out to be dangerous and disastrous. The April 1955 slogan was "Invest in Success". Today, the slogan is: a savings drive. The trends in the motor industry may well show this to be as inappropriate (or disastrous) as was the earlier catch-phrase.

The Budget proposals involve no change in the income tax. What little is given away as concessions is recouped by some small (and nasty) measures. The concessions include, first, a reduction in stamp duty on conveyances of houses, freeing from tax interest receipts up to £15 on savings deposits, and tax-reliefs on pension premiums of self-employed persons. These, in all, will reduce Exchequer receipts by £20 millions this year. The second concession concerns an extension of family allowances involving a loss of £5 million to the Exchequer this year. As against these concessions, the Chancellor recoups £12 million this year by the removal of the remainder of the bread subsidy. Further recoupments are £27 million by an increased tobacco duty and £750,000 from increases of 2½ per cent and ¼ per cent on the distributed and undistributed profits respectively. As a result, the 1955-56 Budget surplus of £397 million is expected to increase to £460 million in 1956-57.

There is one other substantial policy pronouncement in the Budget. The Exchequer has now decided to finance the capital needs of nationalized industries up to £700 million in the next two years. This represents a certain reversal in the previous policy. In the past year nationalized industries, like local authorities, had to find their capital in the money market. The reasons for the change are not particularly clear. When these Public sectors were told to go to the market, it was argued that it would not only be a good thing for them to be subject to the rigours of the market but that it would relieve the monetary authorities of the embarrassment caused by an excess issue of Treasury bills. The Chancellor now says that the Public sectors should be enabled to borrow "autonomously" and that in the past year the Exchequer had to provide assistance to the nationalized industries whenever they had to fund their bank borrowings by market issues of stock.

The Budget expresses a hope—a hope which increasingly appears to be beyond realization. The Chancellor claimed that he "hoped" for a reduction of £100 million in Government expenditure. However, in the Commons debate following the Budget statement, a Government spokesman pointed out that such a reduction in expenditure must involve changes in policy. He, however, doubted policy changes on defence or on social welfare taking place. Whence and wherefrom the reduction, then? Since it is a "hope", the question does not call for a reply.

The Budget has been received with little enthusiasm in the country. From the prima donna of British anarchists, Mr Malcolm Muggeridge, to the pro-Macmillan **Economist**, comment has been critical of the fiscal proposals. To Mr Muggeridge, the Budget presumes the continued Great Power status of Britain, thus making it necessary to have such large defence expenditure. This, says Mr Muggeridge, is a disastrous presumption. The **Economist** finds the Budget lacking the "dynamo"—it "will not lose Britain any wickets, but will also not make it any runs".

The April 1955 one was an unabashedly political budget. The present one has the same unmistakable political overtones. The authorities are obviously afraid, as then, to attack the problem of inflation by measures of further restraint on demand. They have chosen to effect a disinflationary policy via the dubious path of exhortation for higher private savings, to be supported by the premium bond bribe. The City of London, the larger industrial interests and the Conservative economists had all hoped that, in the words of the **Economist**, "the object of the Chancellor's new policy is to secure greater stability of prices even at the risk of some sacrifice in terms of production". The hope that the Budget would engender unemployment and thus some price flexibility is now belied. Maybe the fear of trade union retaliation to such a policy made the authorities hold their horses. Government has also refused to meet the demands for implementation of some of the more crucial recommendations of the Royal Commission on Taxation, in particular, a reform of the tax system. The reform favours incentives in industry—in practice this would mean a tax structure that is less progressive. Here, too, the Chancellor's political fears must have dictated his decision to postpone (and maybe relegate into oblivion) all the Royal Commission asked to be effected.

The most active aspects of the Government's attack on inflation is still to be found in the monetary field. It is true that large fiscal surpluses are being persistently reaped and this constitutes the most vital form of the anti-inflationary attack. On the other hand, the active, more public and conscious attack remains the purely monetary measures. But, as the Chancellor admitted, the monetary controls which he and his predecessors have set in motion have taken a long time to work. What he refused to admit, however, is the tremendous cost to the Government of an economic policy largely based on flexible interest rates and credit controls. The interest burden on the national debt has risen by over £100 millions in one year. And having regard to the inequitable nature of the monetary transfer involved in the State payment of interest from tax receipts, the objectives of social policy also appear to be retarded by

monetary controls. What is remarkable, however, is the contradiction between the pursuit of this monetary policy and the decision of the authorities to finance the capital needs of the nationalized industries. Since the nationalized industries' requirements are to be met by the Exchequer, it will mean two things: an increase in the amount of Treasury bills issued and, secondly, greater liquidity in the capital market (since the demands of the nationalized industries will now not be present). Both these factors can engender a degree of liquidity in the banking system and banks will now be "forced" to extend credit facilities to their clients. The larger volume of Treasury bills will assist the movement towards increased liquidity since these bills constitute the best of short-term paper against which banks can confidently extend the national credit base. And yet the Government continues to persist in its belief that all that it is doing will maintain the credit squeeze.

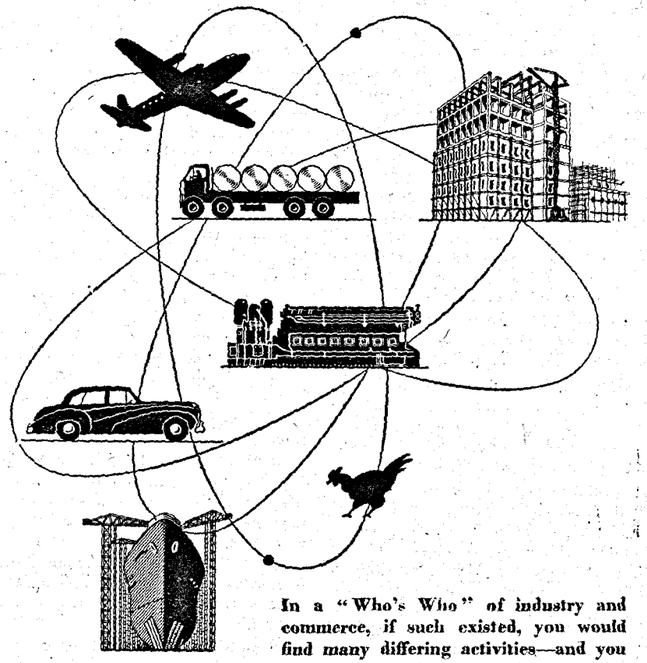
Mahindra & Mahindra

WORKING results of Mahindra and Mahindra, Ltd. for the first year since its conversion into a public limited company, were satisfactory. For the year to October last, the Company declared a dividend of 10 per cent to ordinary shareholders. As it is a Section 23A Company, an application has been made to the Income Tax Commissioner for relief under subsection (3) of the Income-tax Act.

In the year under reference, the Company's sales reached a record figure. Sales of jeeps, allied vehicles and spares and trailers were about fifty per cent more than those of the previous year. More than thirty-six per cent of steel imported by the Iron and Steel Controller was booked through this Company. In collaboration with David Brown of UK, the Company has plans to manufacture tractors. This plan is under consideration by the Government.

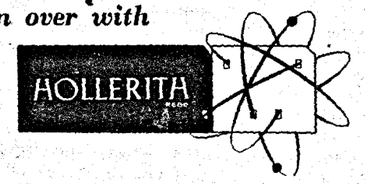
In the report, it is stated that the Company's plans for the manufacture of jeeps started last January. In April, 1955, the automotive plant at Bhandup was acquired. This plant's machinery and equipment were renovated, additional machine tools were purchased and various steps were taken for strengthening its resources to serve as a pilot factory for the manufacture of jeep components and for training of skilled operatives.

It is stated in the report that the steel stockyard in Calcutta has been working satisfactorily. With the transfer of the stockyard to the new area leased from the Port Commissioners, the directors hope that sales will improve further. Active investigations for similar stockyards in Bombay and Madras are being made. Arrangements for the assembly of trailer units in Madras have been completed. "Consideration is being given," it is stated in the report, "to the setting up of an export desk under the aegis of Mahindra Engineering Co. Ltd.—a wholly owned subsidiary of the Company".



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Book Review

As an Independent Tool of Analysis

National Income And Social Accounts: An Australian Study by R I Downing. Melbourne University Press, Victoria. Pages 58. Price 6 sh.

Reviewed by **Hannan Ezekiel**

THE controversy over whether economists should have a knowledge of mathematics is no longer a live one. The increasing volume of economic literature with a mathematical approach and the large number of econometric studies indicate how that controversy has been resolved. Now it is suggested that a knowledge of accounting principles is as essential a part of the economists' equipment as is mathematics. The demand for the inclusion of accountancy in the basic courses in economics has come principally from those who have devoted themselves to studies in national income and to the comparatively recent development of an approach to it described by the term 'social accounting'.

The social accounting approach indicates in reality a fundamental change in the character of national income studies. These were formerly concerned chiefly with estimates of national income aggregates and their distribution with a view to providing comparisons over space or time. Keynes' **General Theory** brought about a shift in emphasis to the obtaining of information as a basis of policy, with the object of achieving and maintaining full employment and increasing the wealth of the community.

The dependence of the national income on the level of spending has focussed attention on it's components. The need to break-down the aggregates on which emphasis was laid in the past has ultimately led to the development of the social accounting approach.

Economists who consider the basic principles of accountancy a necessary part of their equipment base their case, however, not only on the need to understand the new approach to national income, since excepting for the expert in national income studies, a study of accounting principles is really not essential for an understanding of the fundamentals of social accounting. They argue that the study of accounting principles will introduce an element of realism into economics. The inclusion of a section on accountancy in a standard text book like Seligmann's **Principles of Economics** indicates the extent to which this view has found support in academic circles already.

The present work does not, however, take that view. It is intended to explain the basis of the social accounting approach and does so without any undue emphasis on an understanding of accounting principles as a necessary pre-condition for the purpose. The book is in fact an elementary introduction to the study of social accounting. Under the new approach to the teaching of economics, students should be introduced to this subject at an early stage. The author points out that this should be done for two reasons. First, the concept of national income is basic to the whole set of problems arising in connection with the study of economic welfare. Secondly, "social accounts are an economic tool which can be understood, although not fully appreciated, without the support of economic analysis used in other fields". Implicit in the first reason—though it needs to be made explicit—is the fact that an understanding of the fundamental principles of the system of social accounts throws light on the general working of the economic system, making the subject both more interesting and more significant to the student who is being initiated into economics for the first time.

The social framework approach to the study of the subject of economics by the student has already found wide acceptance in the West. But the lack of a suitable introduction, which does not complicate the subject too much at this initial stage, has been a grave difficulty in this connection. Prof Downing evidently aims to provide such an introduction and succeeds admirably in this task. His little work is a masterpiece of exposition, simple and clear and yet fairly comprehensive. It is sub-titled "An Australian Study" because the chapter covering the application of the social accounts is based on the latest available Australian figures of national income and its components.

The author begins by describing the income flow, and outlining the various methods of measuring the national income. The problem created by saving and by investment are then discussed. "The Structure of the Social Accounts" is then explained, with particular reference to the treatment of transfer incomes. This latter is a particularly controversial item, and Prof. Downing follows, apparently in accordance with official Australian practice, the principles laid by Earl R Rolph in his article on "The Concept of Transfers in National Estimates" in **The Quarterly Journal of Economics**. After discussing some of the problems involved in determining the scope of national income measurements—rather sketchily—the author goes on to the application of the social accounts in terms of figures of Australian national income for 1952-53.



"One has no protecting power save prudence."

Juvenal.

★

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Role of Small Industries

Economic Pundits Confuse

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(Contributed)

THE controversy about the place of cottage and small scale industries in the country's economic set-up has been dragging on since Gandhiji published his **Hind Swaraj**, way back in 1908. Gandhiji had argued all through his life, in a lucid, persuasive manner, for the adoption of these industries for curing unemployment. But Gandhiji was no economist and the economists, trained in the belief that economic development means technical progress, had all along rejected Gandhiji's views as out-moded, which if accepted would be like turning the hands of the clock backwards.

Prof. Mahalanobis is no economist. Being primarily a statistician, perhaps, he could accept Gandhiji's remedy in his own way. And the Planning Commission is known to absorb everything like a blotting paper; and it accepted Mahalanobis' thesis, though it is no secret that the economists of the Planning Commission have severe mental reservations on this point. In a fit of absent-mindedness, the Panel of Economists, a solid body of economic pundits, also accepted this line of thought. Now, however, some of these pundits have awakened from their slumber and with a praiseworthy loyalty to their science, have openly repudiated what they had accepted earlier. One admires them for their regard for truth and their courage to own their mistakes and for this virtue, if for nothing else, they deserve to be recognised as being as great as Gandhiji himself.

The economists' case is that they have no objection to these industries, if it is made clear that their development is sought purely on humanitarian grounds. Then, of course, they admit that as economists qua economists, they have nothing to say. But if the development of these industries is to be justified on economic grounds, they, as economic pundits, would not support this move; for they have been taught that economic development is possible only when those industries are developed in which labour productivity is highest. Some economists, however, who seem to have been recently initiated into the Marxian literature, have a different line of criticism. They argue that according to one eminent authority, viz, Keynes, there is probably a justification for these industries; but according to another authority, not merely on employment and output but also on economic development, viz., Marx, there is no justification because, though cottage and small scale industries may maximise output and employment in the short run, they would slow down the rate of growth. As did the Pundits of old, while interpreting their Shastras, these economic pundits draw a subtle distinction between Marx and Keynes. Their argument is that there is a difference between a State, where the supply of consumption goods is adequate to meet the demand, and a State, where the surplus consumption goods in the consumption goods sector is adequate to meet the demands of the non-consumption goods sector. The subtlety of the reasoning behind this highly learned discourse completely beat me. But then I happened to read Mrs. Joan Robinson's article in this weekly. I knew that she was highly respected among the economic pundits here and also knew that she is an eminent authority herself on Marx, Keynes and economic development. She, however, I found to my utter surprise, did not argue with the pundits here; on the contrary she made out a very vigorous case in support of cottage and small scale industries! This threw me into confusion. Could the most erudite of our Shastris be all wrong? I thought that instead of trying to determine the degree of authoritativeness of these eminent masters, if I wanted to find out the truth, I should try to think for myself. And here is how I figure out the problem:

For the sake of simplicity, I divided our economy into two sectors, the sector of the employed and the sector of the unemployed. Now supposing we drew up a plan for the full utilisation of all our scarce resources, this plan would, in the course of its implementation, employ, say, 100 persons out of a total of employable persons of, say, 150. What to do with this 50? They cannot be employed within the framework of the Plan, as it has been so drawn up as to use fully all the scarce resources. Supposing, I thought, these 50 persons started hand-pounding of rice for their own use, or manufacturing gur out of sugarcane which their relatives were just throwing away, or spinning cotton yarn on the idle spinning wheels, or making handlooms and using them for weaving their own cloth. By doing all these, they could increase their own consumption of certain commodities and they would certainly be better off than what they otherwise would be. Should they not do all these, simply because the techniques which they would be using are old, simple and primitive? However much I tried to understand our economic pundits, I could not persuade myself to believe that these crafts and cottage industries do not make the unemployed, and hence the country, richer. On the contrary, I realized that the case I was thinking about was exactly the case presented by Mrs. Joan Robinson. So, then, we will call this case when the unemployed work at simple cottage industries to increase their own consumption as the Robinson case for the justification of cottage industries.

In this case, employment increases from 100 to 150. What happens to income? Supposing the income produced by the 100 employed persons was 100 units. This would certainly increase, when 50 persons work at cottage industries, say, by 15 units. Thus then both employment and income would be greater in the Robinson case than in the case where the unemployed just remained idle.

The Robinson case, it might be argued, is understandable. But what if the unemployed are not prepared to work on the basis of what they might produce themselves? In other words, what if the prospective additional consumption does not provide enough incentive for them to work?

In the Robinson case, the employed worker gets 0.75 units of consumption goods (on the assumption that 90 units out of 100 are consumption goods) while the unemployed gets 0.3 units. On the basis of an increment of 15 units

in consumption goods output on account of the unemployed working at cottage industries, he would get 0.6 units per capita. Now suppose he is willing to work only if he gets 0.62 units per capita. In that case a subsidy of 5 units will have to be provided by the 'employed sector'. This will mean reduction of workers in the investment goods sector by 5 (previously 10 persons were producing 10 units); hence also a reduction in the output of investment goods by 5 units. Five more persons will swell the ranks of the unemployed who will number now 55. Their consumption would be now 15 units which the 50 unemployed were already getting when they were unemployed, plus 15 units, the output of cottage industries (assuming that now 55 persons engaged in the cottage industries produce the same output i.e. 15 units, as would have been produced by 50 persons) plus 5 units of subsidy. This would mean a per capita consumption of 0.62 units in the 'unemployed' sector. Even with this subsidy, the point to be noted is that the output of the economy, when the unemployed are sent to work, is more (110 units) than the output (100 units) produced when they remain idle. However, investment is reduced from 10 per cent of the total output (when the unemployed remained idle) to 4.6 per cent in the case of the subsidy (instead of to 8.7 per cent in the case of no subsidy). Even in the extreme case of such a big subsidy, it appears worthwhile to develop cottage industries with a view to maximising output and employment.

But what about the rate of growth? Some economic pundits have already conceded a la Keynes that cottage industries, if developed, would maximise both output and employment; but they argue that, in that case, the rate of growth would be slowed down. Not being adept at economic terminology, I thought hard as to how this rate of growth is calculated. On investigation I found that it was not as frightening a concept as I had imagined. It is just an arithmetical relationship between investment and productivity of investment. The economic pundits define rate of growth as the proportion of investment to income multiplied by the productivity of investment. If, say, investment as a ratio of income is 10 per cent and the productivity of investment is, say, 20 per cent, the rate of growth in percentage terms would be 2. On this definition, it is easy to see that if 10 is invested when income is 100 and the same amount viz. 10 is invested when income is 115 (in the case where cottage industries employ the unemployed), the ratio of investment to income in percentage terms would be lower at 8.7 per cent than the previous 10 per cent. Productivity of investment remaining the same, viz, 20 per cent, the rate of growth in the Robinson case would be about 1.7 per cent and in the subsidy case a little less than one per cent instead of 2 per cent in the case where the unemployed remained just idle.

So, then, the economic pundits are right. In the Robinson case, the rate of growth is smaller. But what does it prove? It proves nothing. It could not be advanced as an argument against the cottage industries. For in the Robinson case, the country's income is higher (115 instead of 100) and that being so, simple arithmetical exercises are enough to show that when a larger initial income grows at a little slower rate than a smaller initial income, the per capita income in the former case would still be larger in absolute amount for many years (for about 10 years in the subsidy case and for about 50 years in the case of no subsidy) than in the latter case. If we are going to have larger per capita income in absolute amount in the near future by developing cottage industries than by not developing them, there does not seem to be any prima facie case even on economic grounds against their development; one would admit, however, that here is a problem of choice between a larger initial income and a slower rate of growth, and a smaller initial income and a faster rate of growth. If a country chooses either of these, I fail to understand how its choice can be condemned on economic grounds.

Mahalanobis' Case

In the Robinson case, the unemployed were working at cottage industries to increase their own consumption. The factory consumption goods industries employed 90 persons, while the investment goods industries employed 10 persons and the unemployed 50 persons were working at cottage industries. In this case, 90 persons in the consumption goods industries were producing enough to feed 10 persons engaged in the investment goods industries. Now suppose we want to increase employment in the investment goods industries and thus investment also by, say, 5 (as a result of, say, a gift of some scarce materials from other countries). The unemployed then would be 45. Assuming that the consumption of this additionally employed 5 persons would be greater than what it was when they were unemployed, the problem is: How to provide for this additional consumption? Mahalanobis' strategy is to provide for this additional consumption out of the income of the 45 persons who would be working at cottage industries. If these 45 persons are enabled to produce, as a result of some increased facilities given to them, an increased output of consumption goods such that they would not only be able to increase their own consumption but also to provide for the additional consumption of these 5 persons, there would not be any problem. Under these circumstances, the country not only maximises its output and employment, but it is also able to increase its rate of growth as compared to the case where the unemployed just remained idle. Mahalanobis, a non-economist, thus has shown how absurd the arguments of economic pundits are.

Thus I found that non-economists like Gandhiji and Mahalanobis are better interpreters of the shastras and foreign economists like Mrs. Robinson show greater insight into our problems than our own Shastris. How could that be? Our pundits, in spite of their learning, seem to be confused. But there is that Sanskrit adage: "How can a mirror help a blind person?"

यस्य नास्ति स्वयं प्रज्ञा,
शास्त्रं तस्य करोति किम् ।
लोचनाभ्याम् विहिनस्य,
दर्पणं किं करिष्यति ॥

Those who have a stomach for figures may find the accompanying table useful. Those who haven't, do not have to bother.

Case where 50 persons remained idle

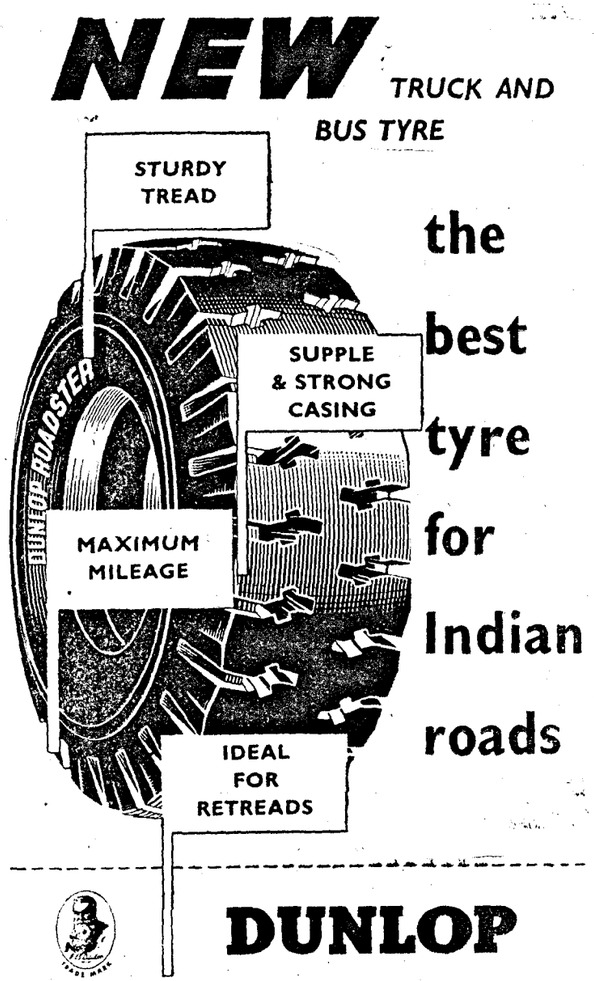
	Units	Per capita Consumption (units)	No. of workers
Consumption goods output	90	—	90
Consumption of 100 employed persons	75	0.75	—
Consumption of 50 unemployed persons	15	0.3	—
Investment goods output	10	—	10
No Subsidy Case			
Consumption goods output through cottage industries	15	—	50
Consumption of the 'unemployed' working at cottage industries	—	0.6	—
Subsidy Case			
Consumption goods output	90	—	90
Investment goods output	5	—	5
Consumption of 95 employed persons	—	0.73	—
Consumption of 55 (unemployed) at work in cottage industries	16.5	0.67	—

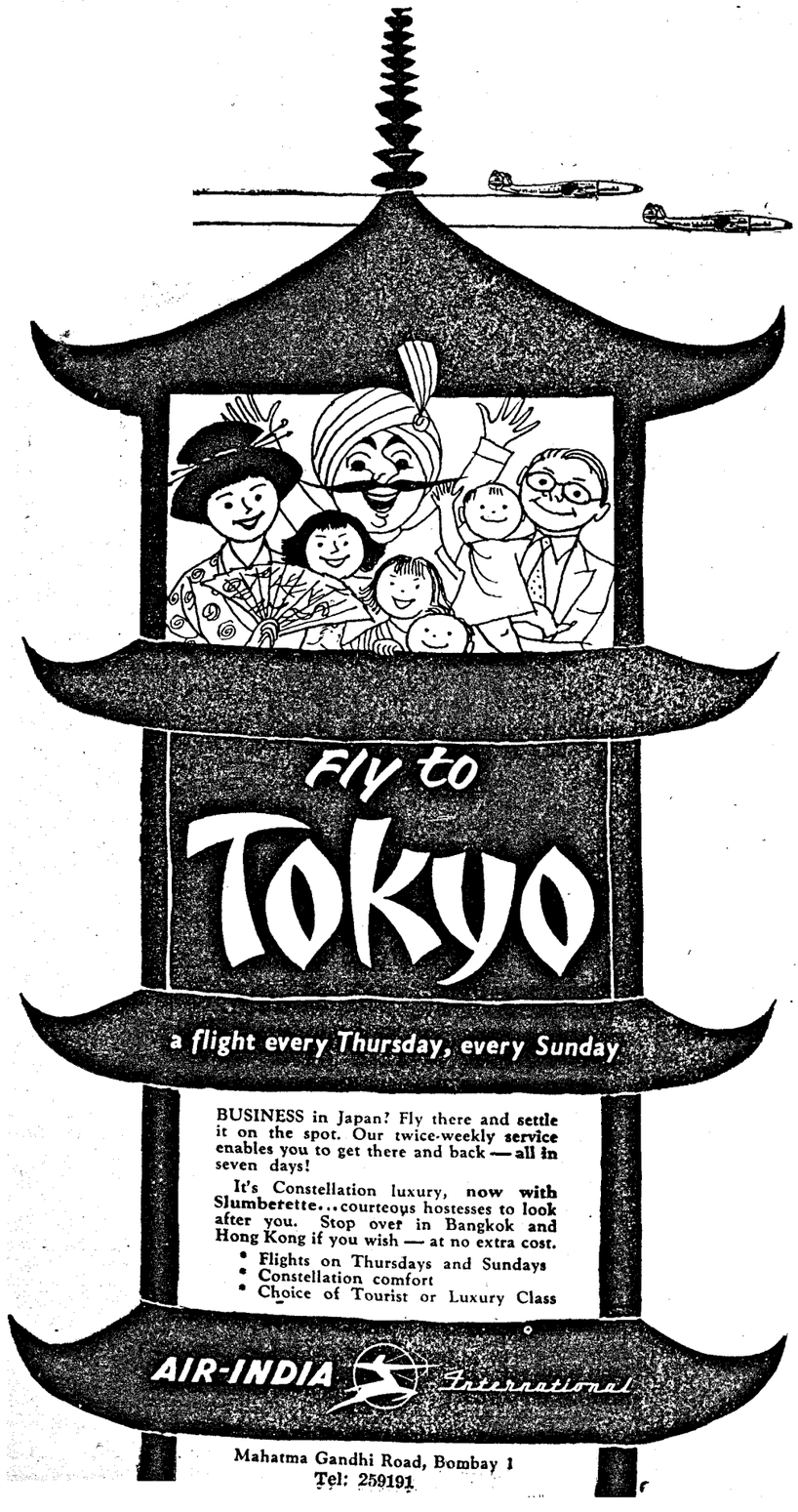
Titaghur Paper

SATISFACTORY working results are reported for the Titaghur Paper Mill Company Ltd. for the half-year to September last. Though production during the period under report was slightly less, sales were higher by Rs 52 lakhs. The dividend and the bonus have been maintained at one rupee and four annas, respectively.

Implementation of the Company's renovation plans is according to schedule. During the half-year under review, the Tomlinson soda recovery unit was installed, and the unit started functioning. There has been an improvement in the operation of the plant since. After certain other adjustments have been completed, the operation of the plant is expected to improve still further.

For the Orissa mill project, negotiations are going on with the Orissa Government for the acquisition of the necessary land. Preparations have been made to start work on the mill buildings and railway siding as soon as the negotiations regarding the land have been completed. It is stated in the report under reference that the draft lease for the bamboo areas which will supply the raw material to the new mill is expected to receive the approval of the Orissa Government soon.





FAO on Jute in the Post-War Period

THE partition of the country transferred the main jute growing areas of undivided India to Pakistan, but subsequently the position of India as the major producer of raw jute has been restored. Not so, however, the virtual monopoly of jute enjoyed by India. Many changes have taken place in jute economy, among others, in jute manufacture also. Pakistan has emerged as an important manufacturer, and the rapid modernisation of the jute industries in the countries of Europe has meant a shift in the relative positions of different countries in the field of jute manufacture. The results of a recent FAO survey of raw jute production, consumption of raw jute (providing an index of production of jute goods) and of consumption of jute goods, set out in the three tables below, bring out some of these changes.

The concentration of raw jute in the Ganges and Brahmaputra valleys continues, though the relative share of India and Pakistan has changed, so that India has actually become the world's major producer. India and Pakistan together produce 97 per cent of the world's output of raw jute and allied fibres (principally mesta), roughly in about equal proportions. There has been a sharp change in the proportionate shares of the two countries during the post-partition period, as can be seen from Table I.

The importance of climate and rainfall in raw jute production is well known. But that the supply of labour in growing areas also plays a part is not always realized. In the jute growing areas, the cultivation of jute forms part of a traditional rotation with rice. The FAO found a marked correlation between the ratio of jute to rice prices and the area under jute. Before World War II, nearly two-thirds of the variations in jute acreage in Bengal were attributable to variations in this price ratio. That the consequent variation in the area under jute are wide and are not compensated for by variations in yield is well-known. This results in wide variations in raw jute production from year to year.

The demand for jute depends upon the state of world economic activity as well as the price of jute. Variations in demand were found to coincide with variations in supply in two-thirds of the years, but over the whole period, the variation in demand was not as wide as the variation in supply. It is this relation between demand and supply which has caused the wide fluctuations in the price of jute and jute goods.

In the period after the partition, the fact that area under jute in Pakistan has been subject to licensing has prevented over-expansion. Planting in India has depended to some extent on the price of the marginal imports from Pakistan. The relatively high value of the Pakistani currency between 1949 and 1955 and the limitation of production in that country were, according to the FAO, the reasons for the stimulation of production in India. In the early post-Partition years, short crops and trade and currency difficulties restricted supply and stocks reached low levels, particularly as a result of the Korean boom. Later, however, the raw jute output expanded more rapidly than demand and in 1951-52 and 1952-53, there was little demand and in Pakistan, jute was purchased officially at minimum prices.

In 1955-56, the demand was somewhat better and supply was reasonably adjusted to it. The FAO report suggests that "The recent devaluation of the Pakistani currency could very well have the effect of increasing the incentive to grow jute there; but the effect of increasing Pakistan supply being minimised as far as external prices are concerned, discouragement to jute growing in India may not be very great." The study also points out that Pakistan authorities are giving consideration to limiting the growing of jute to the extent planted this season.

Sixty per cent of the total manufacture of jute is at present concentrated in the main jute growing region. While all the mills were in India at the time of Partition, Pakistan has been attempting to establish a jute industry and her achievements so far can be seen in the table below, 3 per cent of total raw jute consumption for manufacture being in Pakistan in 1954, against 57 per cent in India. The fall in India's share from 65 per cent on the average during 1948-50 to 57 per cent in 1954 is explained, however, by the

Table I - Production of Raw Jute

	1948-50 average	1951-53 average	1954
	Million metric tons		
World Total	1.54	1.82	1.48
	Percentage of world total		
Pakistan	64	53	47
India	33	*45	*49
Others	*2	*2	*3

* Including allied fibres e g mesta

Table II - Consumption of Raw Jute

	1948-50	1951-53	1954
	Million metric tons		
World total	1.62	1.79	1.92
	Percentage of world total		
India	65	57	57
United Kingdom	6	7	7
Germany	3	4	5
France	4	5	5
Belgium	3	4	4
Pakistan	—	1	3
United States	4	5	3
Italy	2	3	3
Spain	2	2	2
Brazil	2	2	2
Japan	1	1	1
Others	7	9	8

Table III - Consumption of Jute Products

	1948-50	1951-53	1954
	Million metric tons		
World total	1.69	1.77	1.85
	Percentage of world total		
United States	19	18	15
United Kingdom	15	14	13
India	10	10	12
Australia	6	5	7
Germany W.	2	3	4
Argentina	5	4	4
France	4	4	4
Italy	1	2	3
Pakistan	1	2	2
Cuba	3	3	2
Belgium	1	1	2
Brazil	2	2	2
Spain	2	2	2
Canada	2	2	2
U. of S. Africa	1	1	1
Burma	1	2	1
Indonesia	1	1	1
Netherlands	1	1	1
Egypt	2	1	1
Japan	1	2	1
Thailand	1	1	1
New Zealand	1	1	1
Philippines	1	1	1
Others	17	17	16

increase in the shares of the United Kingdom, West Germany, France, Belgium and Italy, whose combined share increased from 18 per cent on the average of 1948-50 to 24 per cent in 1954. India's present position is to be compared with her 80 per cent share before the war.

As compared with the pre-war period, the study notes, there has been a reduction in installed capacity in British industry and a sealing of a proportion of the looms in Indian industry, but this has been offset by expansion of capacity in other countries. There has also been widespread modernisation in Europe as well as in India.

The entry of Japan into the field of jute manufacture, with a roughly one per cent share in the total consumption of raw jute, is also a notable development. The competitive position of different countries is affected by the availability of cheap and abundant raw material, abundant labour supply, modernisation of machinery and location of markets.

Manufactured jute is principally used as a container and its utilisation for the purpose is geographically widespread. The use of jute has not, however, kept pace with the growth in agricultural output. The study ascribes this to the following three reasons:

(a) Production or movement into commercial (including export) channels of some agricultural commodities for which jute packaging is particularly suited, has expanded less markedly than that of commodities for which jute packaging is less suited;

(b) Development of bulk handling facilities (inland and at ports) and of pre-packaging for the retail trade, eliminating the traditional type of container; and

(c) displacement of jute containers by those made from other fibres or materials, notably paper.

Evaluating long-term prospects for jute, the FAO study finds that there are conflicting trends. Increasing population and rising standards of living suggest the possibility of increasing demand. The adoption of jute either by itself or in combination with other materials for other uses through research will open up new possibilities.

As agricultural production of such commodities like rice expands in the Far East and there is a freer flow of trade in them, demand for jute bags is likely to rise. Coffee and cocoa are other products whose output is likely to expand as new plantations mature. Even in cotton where, pending surplus disposal, expansion is likely to be arrested, the long-run trend appears to be towards an expansion of output and trade, and hence of the demand for jute.

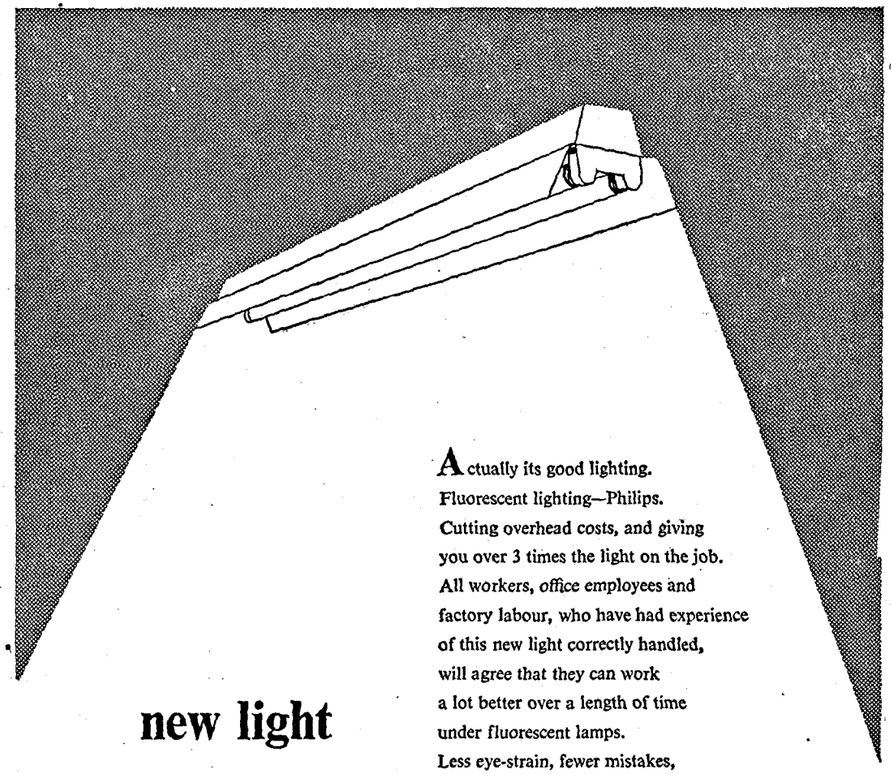
At the same time, increasing use of bulk handling, which becomes economic as full employment is reached, indicates the possibility of a reduction in demand for jute. The lower levels at which agricultural prices are tending to stabilize will also stimulate research into alternative packaging materials and cotton textile and paper bags may be increasingly utilised. At present, however, paper prices appear to be on the upgrade and the same tendency is likely to prevail in cotton textiles also. The problem is, therefore, ultimately largely one of price.

The FAO's conclusions are interesting. The market for jute depends on two factors. A reasonable degree of price stability will impart confidence to users and slacken the search for alternative containers. Paper prices have such stability while jute prices do not. This conclusion reinforces the argument of the Indian Jute Enquiry Commission that price stability is necessary, if the industry in the country is to develop.

The second conclusion of the study is that as freight rates form an element in the landed cost of jute and jute goods, an upward trend in these rates will be generally adverse to jute prospects, particularly in the more distant markets of the West where substitute materials are locally produced and manufactured.

With all respect to FAO experts, however, the prospects for jute cannot be fully studied in terms of relative prices without some consideration of the technical qualities of jute which makes it the packaging material of world trade. Its resilience, resistance to climatic conditions and other qualities also require a careful assessment without which the competitive position of jute vis-a-vis substitutes cannot be fully understood.

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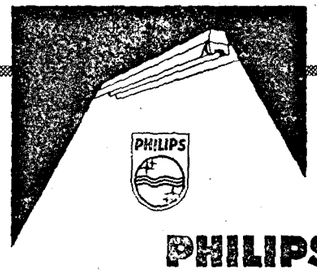


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The Dunlop Rubber Co. (India) Ltd.

Mr Cecil Stack's Review

THE 30th Annual General Meeting of The Dunlop Rubber Co. (India) Ltd. was held on the 25th April, 1956, in Calcutta. Mr. Cecil Stack, Managing Director, said:

Gentlemen,

The Directors' Report and Accounts for the year 1955 have been in your hands for some time and with your permission I will take them as read.

The Year's Trading

From the point of view of volume of sales the year under review may be considered very satisfactory. Progress was achieved in all products and the factory worked to full capacity throughout the year, thus maintaining the highest possible level of employment. In my speech last year I advised you that our consumption of crude rubber in 1954 was the highest recorded, being 18% above 1953. Another record was created in 1955, rubber usings being nearly 10% higher than in the previous year. Nevertheless we had difficulty in meeting the demand for our products which is indicative of the continued expansion of India's economy and the growing importance of our own particular industry. As I suggested on this occasion last year, the level of output and employment will require to be expanded considerably if the demand for rubber products under India's second Five Year Plan is to be met, and we as a company hope to play our full part.

Distribution of the Company's products was again adversely affected by unsatisfactory transport conditions and shortage of railway wagons. The indications are that this problem will become more acute in years to come and in my opinion it calls for the most serious attention by the Government of India.

Total sales in value were 10% higher than in 1954 but as the result of selling price reductions the net profit at Rs. 96,72,154 was approximately the same as for the previous year and the ratio to turnover declined from 7% to 6.4% before taxation. The price reductions on this occasion arose out of Government's implementation of the Tariff Commission's recommendations regarding tyre prices. I do not propose to comment on the Commission's report other than to say we do not necessarily agree with some of the findings but th's has not in any way affected our relations with the Government which I am pleased to say remain satisfactory.

Products

In the Rubber Industry in recent years the most intensified research has been undertaken in relation to new varieties of raw materials and new methods of manufacture. Development work continues on a vast scale and no manufacturer can afford to stand still. In this respect we are fortunate in having available the benefits of Dunlop research activities not only in Great Britain but in many other countries, notably Canada, United States of America, Germany, France and Malaya. Our technical staff are in constant liaison with the world-wide Dunlop Group research organisation, which ensures that the most modern production methods, equipment and materials are available to us.

The Dunlop Trakmaster Giant tyre, which is specially designed for rough roads and cross country routes, has proved most popular and it is hoped that this year supplies will be sufficient to meet all demands. Another important development has been the introduction this year of the new Dunlop Roadster Giant tyre which I have no doubt will be equally successful. This tyre has been thoroughly tested in many countries of the world on some of their worst roads and results everywhere have been outstanding. The tubeless car tyre which your Company were first to introduce in 1954 has given excellent results and is now being fitted as original equipment by most car manufacturers.

Further progress was made in our sales of tractor, off-the-road and aero tyres and new records were again created in our production and sales of cycle tyres and rims. The use of the bicycle has grown so rapidly that we have not so far been able to keep our cycle tyre capacity abreast of the demand although it is hoped to remedy this before long. Stock shortages unfortunately existed throughout the year and to ease the situation Government have now adopted our suggestion of permitting tyres to be imported.

Substantial increases were also achieved in sales of other products, for which increased manufacturing capacity is also required if the needs of our customers are to be met. Great strides were made in Dunlopillo Latex Foam Cushioning, which is now firmly established as the most economical and hygienic material for cinemas, hospitals, hotels and transport services. It is also being used increasingly for domestic purposes and by car manufacturers.

Our rubber-ply transmission belting sold well throughout the year and we have had difficulty in maintaining dealers' stocks at an adequate level. Many important contracts for Conveyor belts which are supplied only against firm orders have been fulfilled from our Sahaganj factory. It is gratifying to know that our industrial vee belts and fan belts are proving so popular as borne out by an increase in sales of over 60% compared with the previous year. The excellent quality of our braided hoses has justified our decision to increase our range of sizes so that we can meet consumer needs more fully.

During 1955 we further expanded our activities to cover the highly specialised field of anti-corrosive and abrasive linings. This service is available to a wide range of industries and not only do we undertake the application of linings to vessels and pipes at our factory, but at customers' premises as well.

Raw Materials

The raw material supply position was satisfactory throughout the year except in the case of crude rubber. Against the total consumption of rubber by manufacturers in 1955 of 27,543 tons, India produced only 22,481 tons which means that there was a deficit of over 5,000 tons. In such circumstances it is the larger manufacturers who are forced to import a portion of their requirements, especially when the world market price is higher than the controlled Indian price. We in fact imported 2,368 tons of rubber in 1955, but we experienced considerable difficulty in obtaining import licences from Government and our stocks at times fell dangerously low.

The controlled price for local rubber was increased from Rs. 138 to Rs. 150 per 100 lbs. in February 1955 and again to Rs. 155-12 in September. The prices paid by us for imported rubber ranged from Rs. 144 to Rs. 207. There were no significant price changes in other raw materials.

Profit And Loss Account

The net profit for the year was Rs. 96,72,154 and after deducting the provisions for taxation and retirement gratuities the balance of profit available for disposal is Rs. 61,28,686 compared with Rs. 69,45,891 for 1954. The Directors propose the same rate of ordinary dividend as for 1954, that is 15%, which will absorb Rs. 24 lakhs. The Directors also recommend the transfer of Rs 22 lakhs to General Reserve as against Rs. 30 lakhs last year. This will increase General Reserve to Rs. 1 crore 90 lakhs as shown in the Balance Sheet. The total amount transferred to Reserves during the last 11 years was Rs. 2 crores 67¼ lakhs, representing earnings retained and fully employed in the business.

Balance Sheet

The additions to Fixed Assets during the year amounted to Rs. 33,70,000 consisting mostly of plant for expansion and modernisation. The amount of depreciation written off in 1955 was Rs. 27,51,000 as against Rs. 30,20,000 in 1954. Schedule VI of the Indian Companies Act, 1956 lays down that any future amount written off for depreciation in excess of the amount reasonably necessary shall be treated as a reserve and not as a provision. In view of this the Directors have considered it desirable to transfer to Special Depreciation Reserve an amount of Rs 113,86,000 representing depreciation on Buildings and Plant provided in the post-war years at higher than normal rates.

Stock inventories at Rs. 391,63,000 are Rs. 4,18,000 lower than at the close of the previous year in spite of expansion in the volume of production and sales. This was due mainly to abnormally low stocks of raw rubber and some categories of finished goods. Bank and Current Balances are also lower by Rs 6,90,000 but Sundry Debtors are up by Rs. 16,74,000 as a result of the higher sales turnover, giving an increase of Rs. 7,16,000 in total Current Assets. Net Working Capital is, however, approximately Rs. 6 lakhs lower than at the end of 1954 and the closing bank overdraft is reduced by Rs. 17,49,000.

Employee Relations

During the past year no effort has been spared in maintaining our high reputation for working conditions and general labour relations, which, I am happy to say, remain consistently good. Further extensions and improvements have been made to our housing and social amenities for the benefit of our factory staff and operatives. The construction of new quarters for 30 of our Watch and Ward personnel was completed and these are now fully occupied. Work on the additional married operatives' quarters which I mentioned last year was unavoidably delayed but we shall shortly commence the building of 65 further houses. During the year electric lighting was installed in 800 single quarters. The addition of a Tennis and Social Club, consisting of a clubhouse and 3 floodlit tennis courts, has proved extremely popular and successful. A retirement gratuity scheme, which is additional to the provident funds which have been in force for many years, was introduced at the beginning of 1955 and will benefit all long-service staff and operatives.

Once again all our employees, at head office, factory and in the field, have shown initiative and devotion to duty and played their part in the achievement of the year's results. I know you will wish to join with the Directors in sending them a message of thanks and appreciation of their continued efforts.

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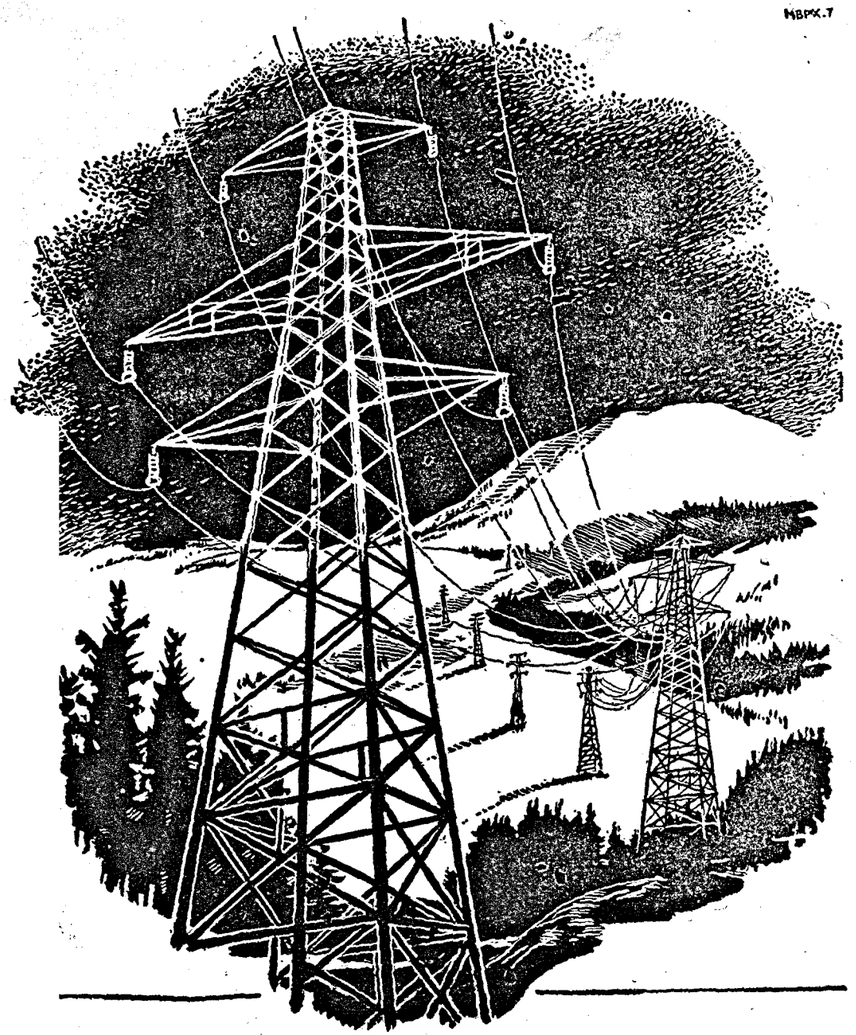
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Around Calcutta Markets

Tax Policy And Equities

Wednesday, Evening

APPREHENSIONS prevail about the new industrial policy of the Government. But the diminished activity in stock markets is not solely due to such fears. There is not much of selling pressure. But equities have developed a hesitant trend as buyers are reluctant to add to their commitments. Investors remain cautious. Even speculators seem unwilling to extend their operations. In a dull market, equities are, thus, gradually losing ground.

On a closer examination, the present behaviour of stock markets should cause no surprise. Indeed, some are inclined to the view that equities are likely to remain rather stagnant during the duration of the second Plan. There is, of course, always the possibility of an inflationary spurt in equities. That was the main reason for the recent rise in share values. But the spurt has proved temporary, as the belief has grown that the Government is determined to prevent run-away inflation.

Tax Trends

For a proper assessment of the behaviour of stock markets during the duration of the second Plan, it is necessary to appreciate certain developing trends in taxation. It is now common knowledge that the financing of the Plan would involve additional annual Central taxation to the extent of Rs 50 crores. This is not necessarily a "bear" factor for equities. For, even New Delhi concedes that there is not much scope for further direct taxation of incomes. Up to a certain limit, increases in direct taxation are not likely to affect equities adversely.

Not only is the scope of further direct taxation limited. There are possibilities that the direct taxation of incomes may be so adjusted as to increase incentives to greater efforts. Taxation of direct incomes in this country is too high. Current reports emanating from New Delhi indicate that the problem of a scientific re-adjustment of the system of taxation of incomes is under active consideration of the Government. Under certain circumstances, a downward revision of the level of income-tax is not unlikely.

This problem is, in its practical aspects, directly related to the evasion of income-tax. As recently disclosed by the Finance Minister, annual evasion of income-tax amounts to Rs. 30 crores. It is, therefore, arguable that, with improvements in the system of administering the income-tax, there is hardly any case for any increase in taxation as a whole, or in direct taxation, to finance the second Plan. Even if the need for additional taxation is conceded, there is a case for a downward revision of the rate of personal income-tax.

In this context, it is interesting to discuss the trend revealed in the budget proposals for taxation. Tax proposals were significant not for certain upward re-adjustments in super-tax, but for increased taxation of industrial profits in various forms. This basic trend in taxation is likely to become more pronounced. Business undertakings and industrial profits are likely to be taxed more. Taxation of personal incomes may even be lowered.

Effect On Rentier

There is much to be said in favour of such a system of direct taxation. Any such plan would involve, as the Finance Minister recently hinted, more taxation of all forms of surplus incomes. It will mean steeper death duties. Such a plan should include specific provisions for taxation of capital gains. With these forms of direct taxation developed and fully extended, the tax on personal incomes can be lowered in order to offer reasonable incentives to the entrepreneur.

On the assumption that the system of direct taxation will be changed to lower the tax on personal incomes with simulaneous increases in the level of taxation of industrial profits and various forms of windfalls and surpluses, it is interesting to discuss the future behaviour of stock markets. It is clear that, on these assumptions, the next five years should be hard on the coupon-clipper. Here, the problem of the function of the rentier is not under discussion. Nor is that of the changed and changing role of the private investor and the institutional investor, both within and outside the public sector.

Effects On Markets

On the assumption that the stress would be more on taxation of industrial profits as against personal incomes, equities are likely to remain depressed during the duration of the second Plan. This is a possibility, despite the continued growth in money incomes and gradual reductions in the rate of taxation of personal incomes. That is because, under such a system of taxation, equities must yield enough to compensate the higher burdens on the rentier. This is the main reason behind the anticipated decline in equities under the assumed system of taxation.

Assumptions made above indicate a fall in equity values so as to raise yields. But these assumptions, and their market consequences, are not necessarily against the investor. Equity yields in India are relatively low. There is much to be said for higher yields on equities. This has some relation with Bank Rate and interest rates. But the American experience suggests that the relation need not be as close or direct as is generally assumed. Behaviour of equities in the last few weeks would seem to indicate that stock markets are trying to adjust themselves to the hidden implications of the last budget, and subsequent discussions on a proper system of direct taxation for financing the second Plan.

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Around Bombay Markets

Undertone Still Subdued

Thursday, Morning

IT is not unusual for the stock market to react faithfully to official statements of policy. This week, the Finance Minister's warning, by implication, that there would be additional taxation in the future put the brake on operations. The warning, however, came in handy for bringing about a technical correction which was long overdue. The volume of liquidation which was more than average would indicate that the market should be on the way to a technically healthier position. Budla rates turned out to be generally moderate, and strengthened these expectations.

For calculating the extra Corporation Tax (dividend tax), it is now provided, the share premium reserve would also be included. This would certainly benefit companies which have a sizeable share premium reserve, e.g. ACC and some plantation companies. The companies which have a share premium reserve can now issue bonus shares by capitalising this reserve. They will not have to pay the tax of 12½ per cent on the issue of these bonus shares. In the case of companies whose profits include both taxable and non-taxable income, the corporation tax will be applied after taking into consideration only such proportion of the dividends, bonus issue and capital employed as the taxable income of the company bears to its total profits, including non-taxable income. Had it not been the end-of-account, and had there not been the simultaneous warning of higher tax impositions in future, these concessions would have been received by the market in quite a different manner.

The circumstances being what they were, the market remained listless throughout the week. Towards the close, a leading firm of industrialists, it was reported, had sold a block of 4000 shares of Tata Ordinary, taking up the total during the week to about 10 to 15,000 shares. Block sales were reported in Centuries also.

In an otherwise declining market, Bombay Burmahs were exceptionally steady, on reports of a prospective reorganisation of the capital structure of the company, which is expected to benefit investors.

Premier Construction and Svadeshis are being quoted ex-dividend since Tuesday. The ex-dividend quotations for both were marked down.

Cotton

Stalemate Extends to Spot Market

THE most significant development in cotton during the week was the resignation of Sir Purshotamdas Thakurdas from the East India Cotton Association, of which he had been the President for the past thirty years. The other was the virtual closure of the spot market also. Following the intervention of the Forward Markets Commission in the affairs of the cotton market, futures trading has now been almost forgotten, there being none for the past four months. It was now the turn of the spot market to be "locked out", though only for a brief while.

P T has been the architect of the EICA. His resignation is a protest against the "regimentation of the cotton trade" by the FMC and the Government which, he thinks, would prove detrimental to the trade. From just being a supervisory body, the F M C has now assumed such control as to virtually displace the Association which had been formed for the purpose of conducting and has been conducting the cotton trade for so many years.

The Forward Market Commission in its fight against speculation has opened a second front. It has launched an attack on speculation in non-transferable specific delivery contracts as well as against dealings in options. These are fields in which the Commission can do much good to the trade, if it succeeds. In fact trade would welcome such action. But because it is invested with powers, trade is far from convinced that the FMC should go beyond supervision, except in the event of an emergency. True, P T is out but this is only the first round. Cotton circles are not disposed to accept that this is the final.

In view of these developments, there was hardly any trading worth the name in the spot market. What shape the EICA would assume after the resignation of P T is now the principal subject of speculation. Pending the re-constitution of the EICA, trading must perforce remain nominal.

Oilseeds

No Relief

THE delegation of oilseeds representatives which went to New Delhi to put its case before the Government and lodge a protest against the recent increases or fresh impositions of export duties has come back disappointed. It was firmly told that if heavy export duties make oil exports impossible, it would be so much the better for the country, for it would ease the domestic supply position. If exports could still be effected, the Government would not mind. But overseas demand at relatively higher rates must not be allowed to raise domestic prices too high.

The trade has also been pleading for the exemption of outstanding foreign commitments from the consequences of the recent revision of duty. But the authorities are not to be moved on this score either. They point out that the trade has itself to thank for such a situation as it should not have made large commitments without adequate covering.

If the trend in linseed oil was still firm, despite all these, it was due to persistent buying by an export house in order to fulfil outstanding contracts.

Groundnut was supported to some extent and fairly keen interest was shown by Vanaspati interests.

Castor futures, however, developed a distinctly easy tone on long liquidation and fresh sales, though on a small scale.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1509.65	1515.98	1453.78	1316.14
2. Rupee Coin	106.16	105.87	103.28	105.84
3. Deposits				
a) Central Government's	55.86	53.28	52.66	53.11
b) Banks'	53.33	50.95	49.72	48.31
c) Other Governments'	25.53	32.36	48.52	30.42
d) Others'	17.03	17.10	17.25	22.70
4. Foreign Securities	681.45	681.45	676.29	661.98
5. Balances held abroad	52.71	58.73	71.54	83.26
6. Rupee Securities	698.69	698.69	644.40	533.75
7. Investments	44.64	46.56	37.41	43.63
8. Loans and advances to Governments	1.00	1.20	0.20	0.17
Scheduled Banks				
1. Demand liabilities (net)	643.55	645.4	610.67	581.62
2. Time Liabilities	423.56	418.55	413.73	380.98
3. Cash on hand	37.20	38.29	35.56	35.96
4. Borrowings from Reserve Bank	49.42	50.88	61.59	24.61
of which against Usance Bills	28.95	25.44	24.62	23.28
5. Advances and Bills discounted	707.82	711.13	689.80	585.09
of which State Bank's	135.49	137.22	135.59	125.86
6. Invst. in Govt. Sec.	3 6.37	359.55	363.84	342.56
of which State Bank's	94.98	97.10	97.93	92.57
Cheque Clearance	146.98	193.03	161.65	133.02

†For Reserve Bank week ended 20-4-56. Scheduled Banks and Cheque Clearance week ended 13-4-56.

Bombay Money Rates	13-4-56	6-4-56	16-3-56	15-4-55
Inter-Bank Call Rate	3¼	3⅜	3 5/16	3
3 months deposits	3⅜	3 7/16	3⅜	3
6 months deposits	3⅜	3 7/16	3⅜	3

Bombay Bullion	26-4-56	Week Ago	Month Ago	Year Ago
	In Rupees and Annas			
Gold (per fine tola)				
Spot	106-0	105-8	105-5	95-11
Forward	105-10	105-6	105-5	95-11
Silver (per 100 tolas)				
Spot	180-13	180-10	182-8	166-12
Forward	180-9	180-6	181-14	162-12

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group	Week ending 7-4-56	Week Ago 31-3-56	Month Ago 10-3-56	Year Ago 9-4-55
I **Food Articles:**	**365.4**	**358.8**	**339.8**	**286.4**
Cereals	458	447	427	334
Pulses	387	355	370	219
Others	240	243	221	232
II **Industrial Raw Materials:**	**472.9**	**477.9**	**476.**	**400.4**
Fibres	460	465	481	440
Oilseeds	524	538	496	326
Minerals	451	438	447	402
Others	402	401	412	473
III **Semi-Manufactures:**	**373.8**	**375.0**	**365.8**	**326.9**
Leather	410	411	409	393
Mineral Oils	208	208	202	221
Vegetable Oils	510	524	467	324
Cotton Yarn	452	453	451	432
Metals	282	282	282	244
Oilcakes	411	396	356	285
Others	363	363	364	328
IV **Manufactures:**	**375.8**	**373.6**	**376.1**	**377.9**
Textiles	409	405	410	422
Jute	396	395	425	459
Cotton	408	403	403	411
Rayon & Silk	502	502	502	484
Woollen	274	274	274	310
Metal Products	371	371	371	340
Others	286	286	284	287
V **Miscellaneous:**	**495.5**	**494.1**	**511.1**	**543.0**
All Commodities:	**392.2**	**390.2**	**383.2**	**346.9**

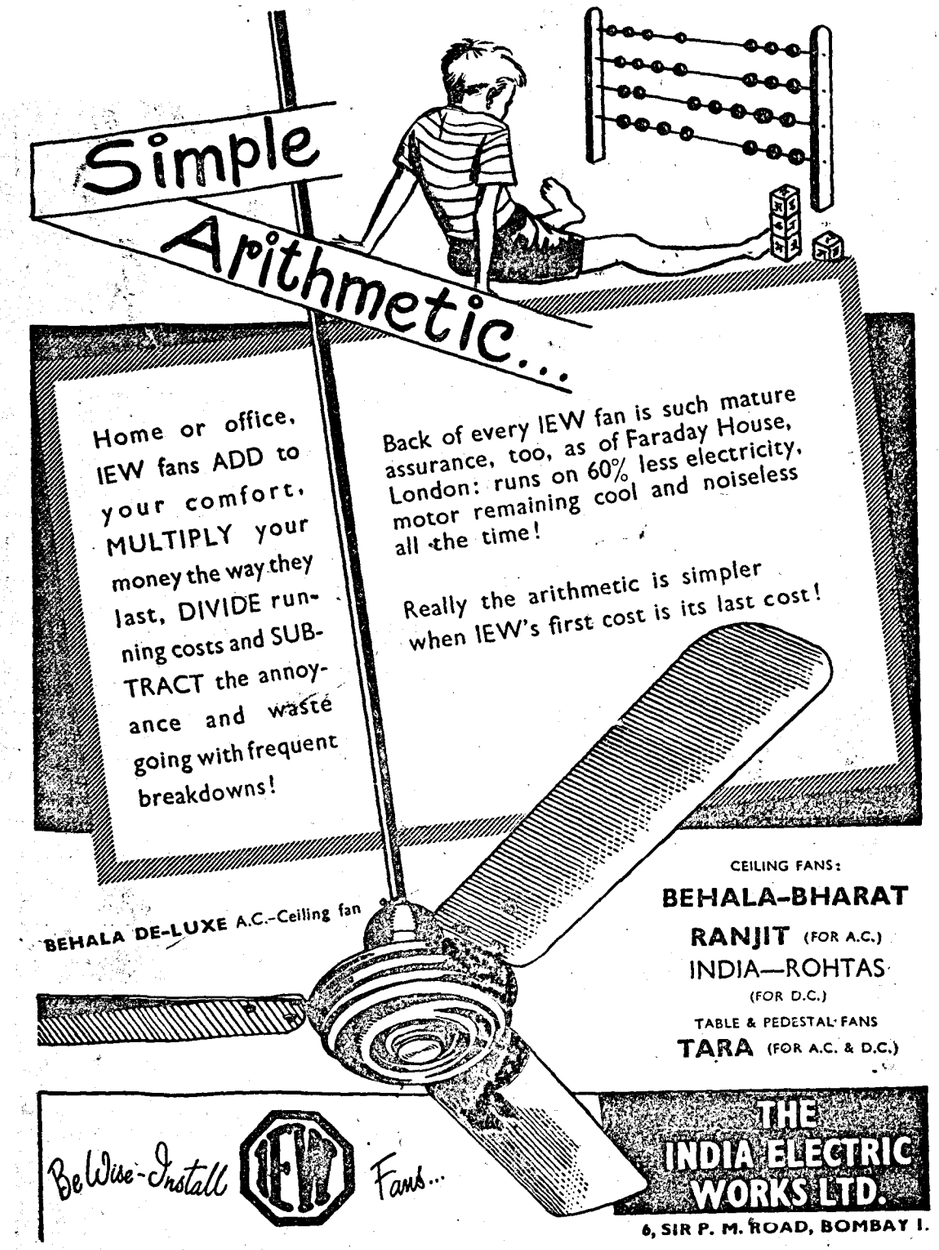
Progress of Bhoodan Movement: Gifts of land

	Collection: Acres donated	Collection: No. of Donors	Distribution: Acres distributed	Distribution: No. of Families	Whole Villages Donated
Assam	..	..	..	..	11
Andhra	50,754	..	..	..	..
Uttar Pradesh	5,76,728	24,709	1,14,174	34,318	..
Utkal	2,85,029	92,715	41,378	12,640	971
Karnatak	3,729	768	559	204	..
Kerala	28,465	4,364	1,426	448	1
Gujarat	44,252	..	10,886	3,477	2
Tamilnad	47,092	12,998	14,582	1,748	4
Delhi	9,388	222	157	94	..
Punjab-Pepsu	15,497	3,563	1,010	248	..
Bombay	578	10	..	..	..
Bihar	24,41,684	2,99,390	85,690	..	27
Bengal	11,580	6,550	1,963	1,612	5
Madhya Pradesh	1,35,265	31,045	41,907	7,881	..
Madhya Bharat	47,505	5,939	678	173	1
Maharashtra	30,846	7,235	3,983	1,072	..
Mysore	9,065	..	100	15	..
Rajasthan	3,74,667	5,760	18,049	2,946	3
Vindhya Pradesh	8,370	1,668	927	350	..
Sourashtra	30,819	..	5,818	..	..
Himachal Pradesh	1,564	112	21	8	..
Hyderabad	1,52,664	8,437	37,044	7,610	4
Total	43,05,541	5,05,476	3,70,352	74,844	1,037

Source : Bhoodan, Vol I. No. I.

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Reaffirmation of Welfare State

THE Prime Minister has a reputation of being a master draughtsman. During his long years in the Congress, whenever a tricky situation arose in the past or a crisis had to be faced, his services have invariably been requisitioned, and invariably the crisis was tided over, aided by his superb draughtsmanship and the leadership that the Congress could command in those days with Gandhiji at the helm.

Dissatisfied with the draft that the Cabinet had drawn up, when Pandit Nehru undertook to draft the resolution himself, an irreverent Delhi correspondent had remarked that his drafting might add to verbal irritation and ideological gas, but he was sure to offend the private sector, without necessarily enlarging the role of the public sector. The correspondent felt that Pandit Nehru would inject political content into the statement and was suspicious that the result might only be an elaboration of the political slogans rather than the enunciation of a clear policy. The suspicion was not baseless, as the text of the resolution clearly shows.

Another, and a better way, perhaps—that depends on one's predilections—would be to describe the result, not as a policy statement but as an enunciation of an industrial, if not an economic philosophy. It is definitely far above the level of party manifestos or electioneering literature; it should be read as an affirmation of faith, whereby the Government affirms that it stands by the promises in the preamble to the Constitution, reaffirms that ours is a Welfare State, and accepts once again the directives of State policy which promise everything to every body, but make no provision for the eventual realisation of those promises, and do not bother to say which ones are to prevail, if the Directive Principles conflict with one another, as many of them do.

The resulting document is not unlike patent medicine literature, in which the medicine advertised promises cure for every imaginable malady. But as a statement of industrial policy, there is hardly any change of substance from the one which has adorned the statute book for all these years.

The list of industries for which all new units, save where other establishments in the private sector have already been approved, the future development of which will be the exclusive responsibility of the State, has been considerably expanded. But the only additions of importance are manufacture of heavy plant and machinery, required for basic industries and heavy electrical plant. Though coal had also been in this category in the earlier statement, the significant change is in the emphasis on the development of minerals, mining of iron, manganese and chrome ores and gypsum, sulphur, gold and diamonds, and in the mining and processing of copper, lead, zinc, tin, molybdenum and wolfram. It is not, however, that all basic industries are reserved exclusively for the public sector. Basic chemicals as well as essential drugs appear in schedule B where co-existence is assured, not only to the existing units but private enterprise will be allowed to set up new units also. But even in schedule A, there is no bar to the co-existence of the existing units. These are not to be nationalised, but no new units will be permitted to be set up in the private sector, except those which have already been approved. Central monopolies are only in railway and air transport, arms and ammunition and atomic energy. Even in industries in schedule A expansion of existing privately owned units is not precluded nor the

possibility of the State securing the co-operation of private enterprise in the establishment of new units when national interests so require. All the remaining industries will fall in the third category which are to be normally left to be developed by private enterprise.

It is then one comes to the third category of industries which are left to be developed by private enterprise that one realises how thin have the lines of demarcation become. It could not have been otherwise, since freedom of enterprise that can be allowed has to be consistent with the targets and objectives of the national plan. The greater the degree of control exercised over industries, the less the difference in substance between one sector and another. The situation is not far distant when there will be only one sector in industry and that the National Sector, which will combine different management patterns according to their suitability for particular undertakings and according to the advantages of organisation.

The policy statement has been welcomed and found reassuring, both by the sections of the public which want the State to go ahead more actively with development of industries and by the private sector on which the sword of Damocles had been hanging so long, since its continued existence in the reserved fields after a period of 10 years of the last policy statement of 1948 had been left undecided. No time limit has been set for the operation of the present policy.

While a more active participation of the State in industry is thus reiterated more strongly than in 1948, a significant omission is about the manner and method of organisation of industries in the public sector. In the earlier statement, it had been provided that "management of State enterprise will, as a rule, be through the medium of public corporations under the statutory control of the Central Government, who will assume such powers as may be necessary to ensure this". The present statement is silent on the form of organisation to be adopted for this purpose.

Though Government has found it difficult in practice to reconcile itself even to that degree of decentralisation which is called for if management of industries in the public sector is to be handed over to public corporations—and if truth has to be told, Parliament must be held equally guilty for it—how much more difficult would it be for it to promote decentralisation, except in the co-operative sector of small industries which has yet to come, when electricity is taken to the villages and small units can compete on their own on the strength of superior technical efficiency. While decentralisation is the key word and prevention of concentration of economic power in the hands of a few is the aim of policy, greater and greater control is leading in the opposite direction and all the plums are falling into the laps of big business which knows how to deal with Government and run industry under control, though we are told that the plums are no longer as luscious as they used to be!

Anglo-Soviet Talks

REACTIONS to the Anglo-Soviet discussions on world problems are ironical reflections of the continuing "cold war". Everybody, except the parties directly concerned, seems to be satisfied or disappointed that the London talks have been barren. Washington was apprehensive that Soviet leaders might wean Britain away from the Anglo-American alliance. Washington seems to be pleased that the Soviet leaders have not succeeded in their seductive efforts. So is Bonn by London's specific assurance that Britain has no intention to reach an agreement with the Soviet Union on Germany, which is contrary to the declared policy of the Western Powers. Paris seems to be disagreeably surprised that the Anglo-American alliance remains unimpaired. London has seemingly convinced Bonn and Washington that Britain has not gone neutralist as a result of the Russian leaders' visit. Cairo seems to resent the Russian concessions in relation to west Asia. New Delhi's reactions are not known. But the Press in this country seems to be unanimous that the London talks have achieved no positive results. Only Sir Anthony Eden, M Bulganin and M Khrushchev seem satisfied with the outcome of their discussions.

Neither Britain nor Russia has made any secret that each desires more and freer trade between the two countries. It would be cynical to insinuate that the Soviet offer of enlarged trade is a bait offered by Russia to wean Britain away from America. Britain is as much interested as Russia in freer trade between both countries. This is one of the major issues on which there are growing differences between Britain and America. Both China and Russia are potential markets for Britain. Britain hopes to ease her balance of payments troubles by expanded exports to these countries.

During last year's talks with President Eisenhower, Sir Anthony made it clear that Britain resented the trade embargo against China. British industry, it is evident, is eager to enlarge exports by establishing trade relations with the Communist bloc. This is one of the means by which Britain hopes to avert depression in the event of any agreement on disarmament. Similar compulsions explain Russia's desire for freer trade with the world. One of the positive results of the London talks is the mutual undertaking to explore prospects of freer trade between the two countries. It is probable that, as a result of the Russian leaders' visit to Britain, trade relations between Britain and Russia will grow, although the ban on exports of strategic materials will necessarily continue.

On two other major issues, there has been no firm agreement. But the London discussions have enabled Moscow to strengthen Russia's diplomatic initiative. West Asia was the main issue under discussion between Britain and Russia. It would be wrong to interpret the London talks as acceptance by Russia of Britain's oil interests in west Asia. Nor is it correct to infer that Russia is reconciled to the Baghdad Pact. She is as firmly opposed to the Baghdad Pact as ever. She insists that the Baghdad Pact is the direct cause of disturbed relations between Britain and Arab States. But she is not wrong in her implication that the tense relation between Britain and Arab States and the Arab-Israeli dispute are different issues which must be treated separately.

It would be wrong to interpret the Russian gesture on the issue of Arab-Israeli dispute as a concession. Immediately on America's declaration that the Arab-Israeli dispute should be solved under the auspices of the United Nations, it became evident that Russia would accept such a settlement of the problem. By agreeing to co-operate with any UN-sponsored plan to stop or to ration supplies of arms to Arabs and Jews, Russia has shown her willingness to co-operate with other nations to maintain regional or world peace. In making this gesture, Russia is not unaware that the acceptance of any such plan automatically entitles her to have a voice in matters relating to West Asia.

But the Russian gesture poses a problem for the Western Powers. Though the Baghdad Pact and the Arab-Israeli dispute are distinct issues, these are not entirely unrelated. Any UN plan to ban or to ration supplies of arms to west Asian States must necessarily involve liquidation of the Baghdad Pact. It is evident that the Russian concession in relation to supplies of arms to west Asian countries has been influenced by such considerations. But this also raises doubts whether any plan for a general UN embargo on war supplies to west Asia will be accepted by the Western Powers, or whether any such plan can be effectively implemented.

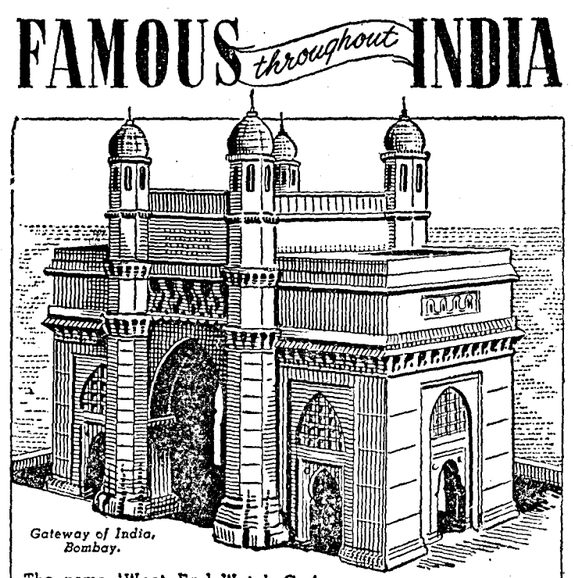
As in west Asia, so in Germany, the Western Powers are in a dilemma. Both Russia and the Western Powers agree that the Arab-Israeli dispute should be settled peacefully and that the German problem should be solved. Even as there are doubts whether any concerted UN policy can be framed in relation to west Asia, there are differences as to how to achieve European peace and security. Russia will not accept any solution of the German problem which involves Germany's inclusion in NATO. Nor will the Western Powers agree to any settlement of the German problem outside NATO.

On disarmament, as on west Asian problems, the initiative is with Russia. Russia's disappointment with the Western Powers' attitude on disarmament is widely shared. Russia has now accepted all the proposals put forward by the Western Powers, including simultaneous reduction of conventional and nuclear weapons. But the continued dealock in the UN disarmament sub-committee's deliberations in London indicates that the Western Powers are reluctant to accept any plan for disarmament in the absence of a solution of the other disputed issues.

This is bad logic. Thinking persons will endorse the French Socialist Premier's order of priorities. Disarmament is the main problem on which both sides must reach an agreement in order to attain and to maintain world peace. Once an agreement on disarmament is reached, other world issues in dispute will be settled automatically. There are strong reasons to believe that Russia is sincere about disarmament. She would welcome an agreement on disarmament so that she can mobilise her resources to fortify her economic strength in her bid to emerge as a major world exporter.

Can it be that America is fearful of this potential economic challenge from Russia? America may be, but her allies, Britain and France, have nothing to fear from competitive co-existence. In the interests of world peace, it is the duty of Britain and France to convince America of the imperative need for an agreed plan for world disarmament. Russian leaders' visit to Britain may not have brought the problem of disarmament nearer solution. But there will be hope that, as a result of London talks, Britain is convinced of Russia's peaceful intentions so that Britain, along with France, can persuade America to pursue a more conciliatory attitude to Russia.

FAMOUS throughout INDIA

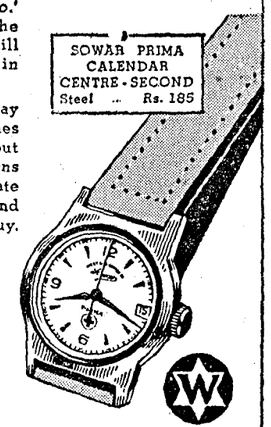


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Weekly Notes

Wage Boards or Living Wage ?

THERE is a move inside the Indian Trade Union Congress to put up a demand for a living wage as the wage policy of the future. Though a living wage is hard to define, and its determination in particular situations has necessarily to be somewhat arbitrary the fair wage committee which reported in 1946 made it quite clear that it has not only to ensure a measure of 'frugal comfort' to the worker and his family which a minimum wage does not, but the margin over the minimum has to be determined in relation to a number of other factors also, such as

(1) the productivity of the worker, as calculated by time and motion studies,

(2) general level of wages not only in the particular industry under consideration but also in the other industries in the same region,

(3) capacity of the industry to pay, and

(4) the level of national income and its distribution.

Unfortunately, these are also equally important as the working cost of living with frugal comfort.

Now the statistical difficulties of computation are not insurmountable. The Textile Labour Enquiry Committee worked out a living wage for Bombay at Rs 50 to 55 as against a minimum wage of Rs 30. That was in 1938. Based on the findings of these two committees and making some modifications which were necessary, the rates were computed for Bombay textile workers roughly at Rs. 176 for December 1953 when the minimum wage was Rs 98, Rs 30 basic plus Rs 67-14 dearness allowance. (Estimate of Living Wage—for Cotton Textile workers in Bombay City. **Economic Weekly** July 3, 1954.) But then the trouble was to relate living wage to the other factors mentioned above. The study led to the conclusion that,

"Taking the cotton textile industry in the Bombay City as a whole, this living wage is beyond the capacity of the industry to pay. Assuming the average monthly earnings, including dearness allowance of a mill employee to be Rs. 105, the additional monthly cost which a living wage would entail, would be Rs 71 per employee. For the two lakhs of textile workers in the City, the extra expenditure would, therefore, amount to Rs 17 crores per annum, which is more than twice the gross profits of the 38 mills which made profits during the year 1952".

During the last couple of years labour productivity in industries—in the sense in which it had been going down in the earlier years, according to our industrialists—has gone up substantially. In their speeches at the annual general meetings, Company Chairmen are now discreetly silent on the point. But there are many groups in the labour movement who are waiting for an opportunity to take up the issue and press for a rise in wages. Indications are not wanting that the Congress Wing of the Trade Union Movement may be jostled into putting up this demand. Why not ask for the institution of Wage Boards instead, which are in any case overdue? It is in the sharing of the surplus, whether in agriculture or in industry, that rival claims have to be reconciled in a manner that development can be helped instead of being retarded. The Congress Government has its eye on this surplus all the time. With the Congress Trade Union Wing dispute on the division of spoils the situation would be both intriguing and embarrassing. To avoid it, claims for living wage—some one is going to put it up if the INTUC does not—should be forestalled. What is Shri Khandubhai Desai waiting for?

No Panch Shila for Shipping ?

IT was Shri M A Master's thesis in a well reasoned and forthright speech in Bombay recently that there have been in the last few years such crucial shifts and changes in the policy of the Government of India towards private shipping interests as to leave little room for hope that Government really wishes private enterprise in shipping to grow and prosper, despite public declarations to the contrary.

He delineated the fundamental shifts and crucial changes in the shipping policies of the Government since 1947. Government then visualised a Mixed Economy in shipping, as "very few of the shipping companies in the country have the resources to buy sufficiently large number of ships for the rapid expansion of the Indian mercantile marine". In actual fact, in the eight years that have elapsed since then, private enterprise has made for more impressive progress than the State-owned shipping corporation in expanding the tonnage and multiplying the routes of Indian ships.

Government can, no doubt take credit for the enlightened policy of giving loans to the industry at a concessional rate of interest; but Shri Master pointed out that this is no more than the recognised practice of all the great maritime countries of the world, including the United Kingdom. But it is now proposed by some leading congressmen and the Planning Commission that loans given to shipping companies be turned into equity capital. This is surely an example of aid with strings attached!

Shri Master also referred to other developments in the shipping world during the last four years, all of which point to the same conclusion. Thus, on the one hand Government has been appealing to private enterprise to expand the area and scope of its activities, but on the other hand, it not only curtails the area open to private enterprise but also bangs the door by reserving certain trades and routes entirely for State-owned ships. Also, Government is reportedly thinking in terms of reserving the tanker trade for itself. This is no small matter. Here is a question of principle. In a mixed economy, in a sector in which the State and private enterprise are operating side by side, is the State justified in using its power to give itself a monopoly in certain spheres of business?

Shri Master had another grievance. While Government has been magnanimous enough to assure assistance to Indian Overseas Shipping by allocating them as much Government cargo as possible, it expects shipowners to carry this cargo at tariff rates less 30 to 50 per cent and in some cases at tariff rates less 70 per cent. This is surely a peculiar form of assistance! One need not share Shri Master's gloomy conclusions. In his speech, Shri Master did make out a case, however, in support of his view, that nationalisation may not be necessary because the private sector in shipping may disappear without any such drastic step being taken.

The Accent is on Arabic

THOUGH Freya Stark had been trying to build up the young Effendi, West Asia (Middle East and Near East to Western Europe) is still very much a land of Sheikhs and fellaheens to most of us. This is all very wrong and very much out of date, except in one respect, viz in the sharpness of the contrast between the posh hotels and grand boulevards and slums, the lack of all other forms of transport and the fast development of aviation. Nature has not favoured the region even in the matter of harbours but wide stretches of open, level desert land offer excellent scope for air-fields, and long distances that separate the principal cities and favourable flying conditions has put West Asia on the flying map of the world.

On the other hand, only a meagre part of the total area is cultivable. Agriculture is largely subsistence farming with little patches of tobacco or cotton. There is little of specialisation in the cultivation of crops. The disharmony between urban and rural areas is even greater than it is here. The villages are very poor in comparison with the cities and no return flow of goods from cities to villages originates against the significant part of the farm produce that is sold to meet the dues of the absentee landlord and the moneylender.

Above all, barring some parts of it, West Asia is sparsely populated and by far the greater part of it receives less than 8" of rainfall in a year and more than half of it gets less than 4". In consequence, only 5 to 10 per cent. of the total area is cultivable; the area actually cultivated, of course, is even less. All this means, that economic development is as difficult as it is urgent and hope rests largely on the development of dams, irrigation works and multi-purpose projects. A recent UN study takes the optimistic view that almost all the countries of the region are now in a process of rapid economic development and while some have large resources of their own, almost all are receiving aid, technical and financial, from outside, which will help them overcome the difficulties that nature and their present poverty impose.

To salvage the Bagdad Pact, which ended up in a fiasco, an Economic Commission has been proposed for the Middle East for concerted and co-ordinated aid programme. It is to be hoped that the proposed Economic Commission will not turn out to be a pale shadow of the International Islamic Economic Conference which was sponsored by Pakistan in 1949. The headquarters of this long deceased body are still in Karachi and the Pakistan Government continues to maintain an office for it though none of the Middle East countries pay their membership fees. The programme of economic aid proposed for the Middle East is quite an ambitious one, including the proposal for setting up a centre for atomic energy but its main planks are multipurpose projects. Of these, a few notable ones have already been taken on hand and have been making good progress. There is the much publicised Aswan High Dam Project in Egypt. Another is the large Tigris Dam near Samarra in Iraq. There is the Jordon Valley Project, but then Israel is different from the Arab countries and Iraq is favoured in many ways. Curiously enough, the problem of all these countries is as much that of getting water for irrigation as of protection from inundation. The Samarra project, for example, is for diverting Tigris floods and for protecting the land between the rivers from spring inundations.

West Germany has now come on the scene to take a more active part than before in the transformation of these arid lands by major irrigation and drainage projects. German hydraulic engineers have of course had been at it for long, but now West German engineering firms are taking a big hand in the development. Lufthansa German Airlines are going to inaugurate their service in September, connecting Istambul, Beirut, Baghdad and Teheran to their Western link up. **Handelsblatt** has brought out a Near and Middle East supplement in order to bring home to the Arab countries Germany's contribution in the fields of development in which they are specially interested. The accent on the readership is prominent, as the issue has been brought out half in English and half in Arabic.

Indian Aluminium New Issue

IN his address as Chairman to the annual general meeting of Indian Aluminium Company, Ltd., Mr K C Mahindra reveals that the Company has plans to issue new capital for financing the expansion programme at Hirakud. Because of technical and organisational complications, the smelter at Hirakud will be erected first, and the bauxite-alumina expansion plan will be undertaken after the completion of the smelter project. The Hirakud smelter will be in operation by the end of 1958, and the entire integrated plan by the end of 1961.

Because of the heavy investment involved, smelter projects are financed almost everywhere by the issue of fixed-interest debt to cover the greater portion of the total capital cost. Accordingly, the Company proposes to invite from the shareholders and the public only a portion of the capital, the rest being covered by medium-term loans and funds generated within the company. Though the financing plans have not yet been finalised, it has been decided that the new capital issue will be in the form of convertible loan stock. Under statutory obligations, the stock will be offered, in the first instance, to ordinary shareholders of the Company. Aluminium Limited, the Canadian majority shareholder of the Company, has agreed to take up half of the new issue, and to relinquish the remainder of its pre-emptive rights in order to increase participation by Indian capital. Preference shareholders also will, thus, have an opportunity to subscribe to the proposed new issue.

The proposed convertible loan stock will carry a fixed rate of interest, and will confer upon the holders the right to convert it into ordinary shares of the company. "Since this type of stock combines the attraction of a secure rate of interest over a number of years with the option of conversion for possible greater return or capital appreciation which is expected from the equity of a growing and expanding enterprise", Mr Mahindra expresses the hope that the proposed convertible loan stock "will prove to be an attractive form of investment".

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AFPFL Continues in Power

THERE was never any doubt about the election verdict in Burma. U Nu is a revered leader of the people. His Anti-Fascist People's Freedom League has massive popular support. Communist parties are the rivals of AFPFL. But they have lost popular support by their violent tactics. And the changed world strategy of the Soviet Union has caused as much embarassment to the Burmese Communists as to CPI. During the elections, they assured the people that they would pursue constitutional methods. But their failure in the elections prove that either the people have no faith in their assurances, or that the people resist communism.

Burma is as much rural as Ceylon and Indonesia, though not as urban as India. But the Burmese elections reveal a political pattern which has certain distinguishing characteristics. In India, Congress is sure of election victories in rural areas, but not in urban constituencies. This is because the urban people are more intelligent and they lean to Left in politics. In Burma, however, AFPFL has swept the polls in the cities, though the Workers' and Peasants' Party is expected to win some seats in rural areas. This is in seeming contrast to election experiences in Ceylon, Indonesia and India. There are reasons which explain the Burmese political patern. Burma Communists established their strongholds in rural areas. Besides, AFPFL's leftist policies are becoming popular.

From the election results, it is clear that in Burma, as in Ceylon, Indonesia and India, the people reject Communism, but have a preference for Socialism. In Burma, the Communist challenge to the party in power after independence was more formidable than in India, Ceylon and Indonesia. All the newly independent south-east Asian countries have fought the Communist challenge by going further left. This explains Shri Bandarnaike's election success in Ceylon, or Dr. Sastroamidojojo's election victory in Indonesia. This also explains the shift to Socialism in Congress in India. Even as Burma is further to Left in politics than her neighbours, AFPFL alone has a Marxist bias. This is an accident of recent Burmese history. Immediate developments after independence explain the Marxist bias of AFPFL. Premier Nu has succeeded in winning Burma away from Communism. Burma has a lesson for the neighbouring countries.

Off the Record

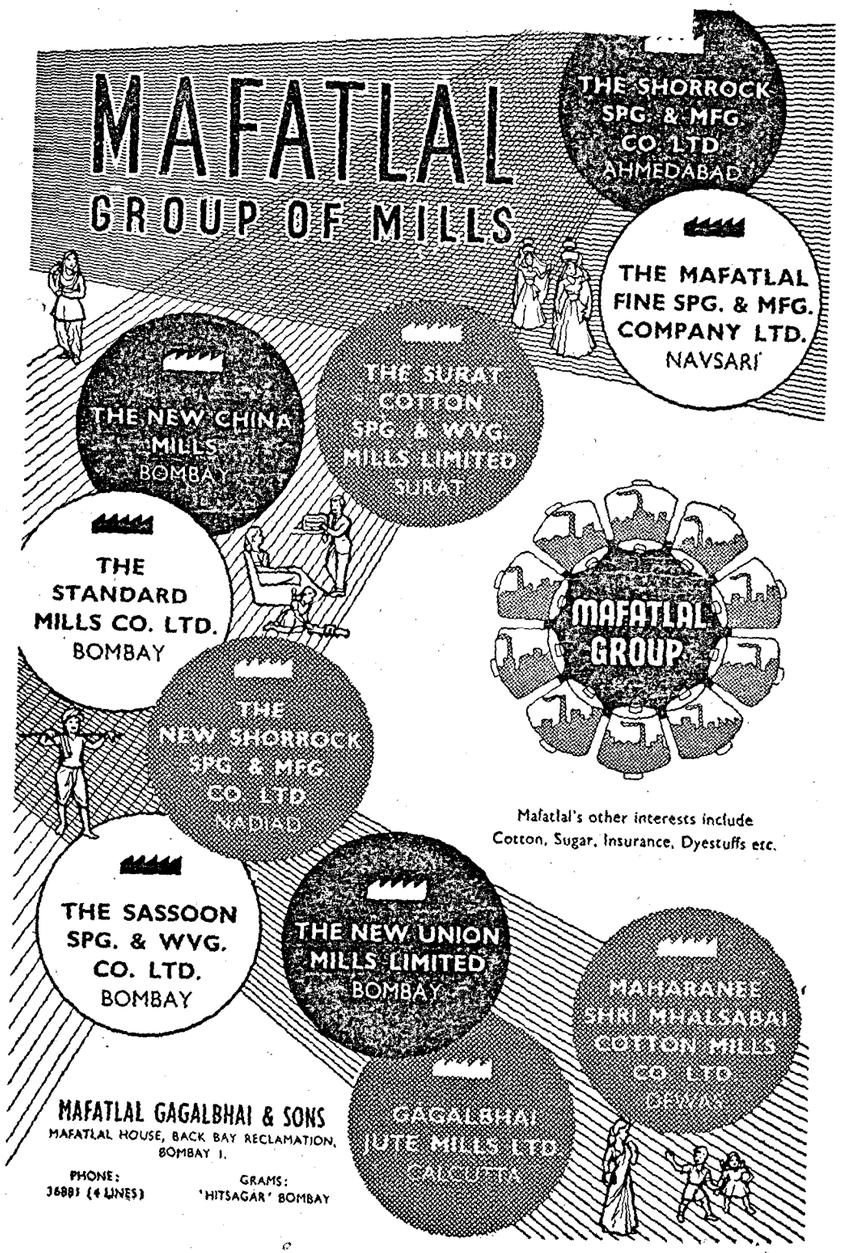
What About Kaldor's Working Papers?

IN Delhi everything except the budget is secret and "for official use only". The more enterprising newsmen have therefore so much wider scope for scoops and the trained seals get so much more fish. It was amusing, nevertheless, that a financial paper should care to publish Kaldor's top secret working paper on "An Annual Tax of Net Wealth". Kaldor was invited as a visiting Professor to the Indian Statistical Institute. The Finance Ministry has taken no direct responsibility in the matter, lest it be accused of conspiring with a foreign expert to milch the rich of their wealth. So, the papers that he prepared during his visit should rightfully be the property of the Indian Statistical Institute which paid for his passage and for his stay in India. Why should not the Institute turn this investment into some advantage by publishing Kaldor's papers, instead of allowing unauthorised and piecemeal publication to misrepresent his findings and to distort his tax proposals?. When an economist of the calibre of Kaldor goes with his accustomed doggedness into the problems of the Indian Taxation system, it is not to be expected that he would suggest only ad hoc measures. On the contrary, instead of piecemeal proposals, he must have worked out a complete system of taxation, of which taxation on wealth must be only a part. The limelight of publicity is the only effective prevention of tendentious propaganda or disturbing speculation.

The master-key of the Kaldor system, it is common knowledge now, is a personal balance sheet which everyone who has income or property of a sizable amount has to submit. Being a balance sheet, it will be a statement of both capital transactions as well as profit and loss account which, Kaldor believes, will automatically provide a counter-check against evasion and concealment. In theory, therefore, no forestalling action should be possible, if tax payers come to know in advance what Kaldor has in store for them. So, there is no reason to suppose that the publication of the Kaldor papers would precipitate a crisis in the market or create difficulties for the Government which could be avoided by this ridiculous attempt at secrecy, a secrecy which so often means in effect advance information to those who pay or pull the right strings.

There is another reason why Kaldor's tax proposals should be fully publicised before they are accepted or acted upon. This is because unlike in the case of a proposal for a specific tax, or a change in the rate of an existing tax, a complete system of taxation must have the sanction of the people. Wholesale changes in a tax system, it may not be possible to bring about in a day. But people's consent to the principle of the change is a *sine qua non* of the successful operation of any tax system. True, what is currently fashionable may easily pass for what is desirable and productive of real benefit for the people. This applies generally to the deceptive high marginal rates of direct tax on income which win popularity but neither benefit the treasury nor help enterprise, except enterprise of the wrong sort. Calcutta's Rent Act which seeks to persuade critics that the Government is really hard on houseowners is deception of another sort which may win applause but helps nobody, except the rent courts and the Ways and Means balances of the West Bengal Government. Instances can be multiplied, but it is hardly necessary to do so.

In the face of all this, it is an embarassing compliment for the Indian economists to be told that India was the first country in the world to evolve a system of taxation. "Like the sun sucking up water, the king drains away the wealth of the people, only to return it a thousand fold . . ." Now come the experts from the West to remind us that taxation is the beginning of civilisation and Kaldor adds a special note of urgency to it by holding out that a proper system of taxation is the only solution for India, if she wants to follow the middle path between Western capitalism and Eastern socialism. Why not let others have a look at the blueprint that Kaldor had drawn up for the bridge between East and West? After all, it is for the people to decide whether they want such a bridge or not.



Letters to the Editor

Small Scale Industries

Problem of Technological Change

A Reply by K N Raj

IN your last issue, two contributors have commented on my article which appeared earlier in the month. One has done so by explicitly referring to it in a letter addressed to you, and the other by some references in an article which, I have a suspicion, has been provoked by mine. Since both have chosen to remain anonymous, I am compelled for the sake of convenience to refer to them as X and Y respectively, and I hope this will not be regarded by them as another clumsy attempt to make simple things appear complex.

According to X, the simple and obvious conclusion emerging from the article is that "that technique should be chosen which maximises surplus and hence profits", and says in support that Technique II in my example is "the most profitable and would be chosen by any firm which wants to maximise its profits" (emphasis mine). But the point of a good part of the "long-winded argument" was precisely this, that the rate of surplus (or profit) per unit of capital should not be looked at from the point of view of individual firms or even of individual industries. If families are displaced from the handloom industry and are compelled to live on their third cousins who are peasants, the reduction in the surpluses of the latter is a reduction as far as the economy is concerned though not for the textile industry.

The question whether this reduction should "much affect the choice regarding techniques" depends on the orders of magnitude involved, and is not answered one way or the other by taking the case of Technique I and Technique II in my example. Even in this particular case, if the amount initially available for investment is Rs. 160,000, 3200 workers can be provided employment in Technique I as compared to 800 in Technique II; though, by a change-over in techniques, the total value of output will go up from Rs. 9.6 lakhs to Rs. 12.0 lakhs. the wage per worker will also be higher, which would leave in consequence a surplus in the industry of only Rs. 4.8 lakhs; if the workers displaced are already at the subsistence level, and they can cut into the consumption of others only to the extent of one-third of their requirements, the dole of Rs. 200 per worker required to maintain alive the 2400 workers displacd will absorb the whole of this surplus. Aggregate output will of course still be higher than before, but the inequalities of income among the workers is increased and some system of doles made necessary without any increase in the surplus thrown up. So the point that X makes here is not so "evident" from the figures as he assumes.

As for the "implicit" assumption which X has had to search out, and which I am accused of surreptitiously and illegitimately making—that "either the industry or the State (by taxing the surplus) is responsible for providing for the displaced workers"—I am surprised to be told that this assumption is only implicit. If he has the patience to read the article over again, he will find a very forthright statement on this which says that "if labour is displaced on any significant scale through technological change, it will either become necessary for the State to provide relief of some kind for the unemployed or the households still in productive activity, which could otherwise have some surplus (e.g., in agriculture), will be compelled to divert part of it for maintaining the additional dependants". I am afraid that X's tendency to consider in isolation the fortunes of the industry directly affected leads him to believe that, if only politicians could be persuaded not to worry about those displaced from all means of livelihood, nothing will happen to reduce the surplus thrown up by the particular industry.

In any case, if it is true, as X says, that in our institutional set-up this assumption does not hold good, what he is really saying is that, objectively, there is scope for reducing the consumption standards of those thrown out by technological change, as well as of those on whom they may park themselves, thanks to the excellent system of insurance provided by our social structure and values. But presumably, to get rid of this surplus, it would be more politic to make these people believe that they are the victims of some malignant forces they cannot either understand or do anything about, rather than give away (as would be necessary if other means were adopted) that it has something to do with the decisions of their elected representatives. X may well be right, but this is what I meant when I said that it is not an 'economic' consideration but essentially a political and administrative judgment. In any case, from the point of view of our intellectual understanding, nothing is lost perhaps by bringing into the open an assumption, such as the one that X makes, that neither the industry affected nor the State is responsible in our institutional set-up for the displaced workers. It may be of some interest to those who have taken more seriously the 'welfare' objectives of our planning.

I am afraid my statement, that the aggregate surpluses may be reduced if the capital-output ratios are higher, has been torn out of its context. The point made, in the paragraph from which it has been taken, is that improvements in technology "imply certainly more capital per unit of labour employed", that "a larger surplus may be generated per unit of labour employed through improved technology", but that there are various leakages from this surplus to be considered, and that what is left over will be smaller, the higher the capital-output ratio in the new technology. It will be obvious, from the context, that what is said is that, given the capital-labour ratio in the new technique, the surplus will tend to be smaller the higher the capital-output ratio. I am surprised that X is constrained to point out the difference between aggregate surpluses and the ratio of these surpluses to capital costs, because this is precisely the basis of the case made for small-scale industries, in the article, from the point of view of maximising the rate of growth of output.

Lastly, as regards the distinction between the Keynesian and the Marxian categories, which X says he is unable to make any sense of, the point is that there is a difference between saving in the Keynesian sense, which accrues instantaneously and for short periods at every round of income generation, and saving in the Marxian sense (or more correctly, the classical sense) which is the surplus of a less transient character thrown up by the consumption goods sector and available for maintaining a constant rate of investment over a period. If I go on to explain the difference between saving in the instantaneous sense of Keynes (which makes saving always equal to investment, and is the head-ache of all the under-graduates who have to say why) and the propensity to save as Keynes himself uses it, I am afraid X will accuse me of giving him a class-room lecture. But the practical implications of this difference are perhaps still worth underlining, since the issue has been raised.

Suppose the marginal propensity to save is **nil**, there are two rounds of income generation every year due to the time lags in transactions, and we are seeking to raise investment by 100 and to keep it at that level. Output will then have to go up as follows in order to prevent a rise in prices:

Additional Investment.	Additional Output Required. Year			
	1st	2nd	3rd	4th
100 ..	200	200	200	200
100 ..	..	200	200	200
100 ..	..	..	200	200
100 ..	..	..	..	200
	200	400	500	800

In other words, if there are time-lags in transactions (such as one might expect in an agricultural economy in which incomes are received once or twice a year instead of on a weekly basis), and if output is elastic on account of low capital-output ratios, investment can be raised by 100 and maintained at that level even when the marginal propensity to save is **nil**. But it means that a constantly rising level of output per annum is required to maintain this higher level of investment, and this is what is not necessary if the propensity to consume is less than unity. This is not an argument against relying on small-scale industries but one of the points which must be conceded if it is true that they are incapable of throwing up any surpluses in the Marxian sense.*

The reference which Y has made to the "economic pundits" awakening from their slumber, and to the confused erudition of the shastris, are so vague and mysterious (for all their humour) that I am not sure whether I should really stick my neck out and offer him any explanation. But the outline he has given of the subtle reasoning of these pundits and shastris has sufficient (though somewhat ironic) resemblance to what I had said in my article that I have decided to take the risk.

It seems to me that the differences which he sees between my position and his own are due to a misunderstanding of the reasoning put forward in the article. I did not say anywhere that maximisation of output in the short run was a less legitimate 'economic' objective than maximisation of the rate of growth of output. All I was trying to point out was that the two have different implications, and that even if one was inclined to place more emphasis on the rate of growth of output, there was a good case for small-scale industries. Further, the conclusion of the article was that this was so even if, to begin with, some of these industries seemed to need subsidisation and other measures of protection.

If, in the light of this explanation, Y will go over the article again, I have no expectation that he will not be still disgusted with the subtleties of the economic pundits and shastris. But he will at least find that it really represents an attempt to give a systemmatic frame of reasoning to the approach suggested by Professor Mahalanobis (and supported generally by the Panel of Economists), that it is not *inconsistent with anything* Mrs. Robinson has said, and above all that the conclusions are not substantially different, in spirit or in substance, from those Y himself arrives at *from the calculations* which "for the sake of simplicity" he has taken so much trouble to work out.*

Even if my explanations to X and Y are satisfactory to them, it is clear that one implicit criticism of theirs remains. The argument could perhaps have been presented more clearly so that there was no occasion for so many gross misunderstandings to arise. But after being enlightened by the Sanskrit adage quoted by Y, 'How can a mirror help a blind person?', I wonder whether even those who are not blind (like Y) should use mirrors if their purpose is really to see someone else and not their own images. What is more disappointing is that when they do so in privacy even others cannot see their faces.

32, Mall Road,
Delhi-8.
May 1, 1956.

*At one point in my article I had inadvertantly implied that the surpluses in the Marxism sense are the same as the marketed surpluses of particular industries. This, is obviously not correct and is likely to have misled some. As X has inferred, what I had in mind was the surplus of the consumer goods sector as a whole.

Rejoinder by X

I WAS pleased at the frank admission by Dr. K N. Raj regarding the lack of clarity in his exposition, *which according to him led me* to make my comments on his articles rather than faulty reasoning.

I am glad that I have been able to draw him out and make him state his position more explicitly. However he has betrayed his weakness again. I shall therefore state his thesis simply. If a country wants to maximise its rate of growth and at the same time assure the workers likely to be adversely affected by its *policies at least a minimum standard* of living, it would choose such techniques in its industries which would maximise this ratio: Surplus per worker—(amount of dole per head × no. of workers he displaces) ÷ capital cost per worker. Amount of dole will depend upon what standard

*I may add that, whatever criticism I have made of the formulation in Professor Mahalanobis's draft proposals is equally, if not more, applicable to the paper I had submitted at that time as a member of the Panel of Economists. Since then various lines of reasoning relating to this question have been put forward, and I have only taken these into account and considered whether, and how far, the original formulation needs to be modified. May I say that this was done merely as part of what I considered the mundane functions of an economist, without aoy hope or desire to be 'recognised as great as Gandhiji himself'?

of living a country considers as the minimum. In Dr. Raj's example, on this criterion, Technique II would be chosen in preference to Technique I, if the amount of dole is equal to, say, one-third of the Technique I wage rate. (Instead of the frightening examples he gives in his reply, he could have explained it much more simply by showing that one person in Technique II displaces four persons). He did not care to state or work out the amount of dole or the number of workers displaced. That left me free to say that Technique II would be the obvious choice. His attempt to explain all this is quite unnecessary because it would be clear from my statement that I did not misunderstand his thesis, despite his faulty exposition.

Now about Dr. Raj's handling of Marxian and Keynesian tools, I will invite him to consider carefully the following statements.

(1) A certain rate of investment could be maintained if the elasticity of supply of consumption goods were such as to meet adequately the demand for consumption goods.

(2) A certain rate of investment could be maintained if the surplus of consumption goods in the consumption goods sector were enough to meet the requirements of the investment goods sector.

Is there any difference between these two? The first is a statement in terms of Keynesian analysis and the second is in Marxian terms. Now let him examine a third statement:

(3) A certain rate of investment could not be maintained if the elasticity of supply of consumption goods, in spite of, say, a possibility of an infinite increase in their output, were not such as to meet adequately the demand for consumption goods.

What Dr. Raj really wants to say, it seems, is not that (1) and (2) have different meanings but what is conveyed by statement (3). Is it necessary for me to remind him that correct conclusions could be arrived at in this matter by either of the two sets of tools—Marxian or Keynesian—as well as by any type of tools suited for the purpose?

I do not know whether it is his lack of clarity or his faulty reasoning that prevents one from understanding the relationship that he posits between time-lags and marginal propensity to save. If he defines marginal propensity to save as a relationship between income of one period with savings of the same period, and if there is a time-lag between income and expenditure, then, clearly, marginal propensity to save is not nil. However, if he defines marginal propensity to save as a relationship between income in one period with savings in the next period, marginal propensity to save could be nil, **but only because of this lagged relationship.** With either of these two definitions, it is possible to arrive at correct conclusions. But the definitions any way should be explicitly stated.

Let me assure Dr. Raj that I am no less concerned about the welfare of the displaced persons than he is. But I thought and still think that in a logical argument, moral fervour cannot be a substitute for making the assumptions behind one's arguments explicit.

I accept his explanation about aggregate surplus and the capital output ratio. I just misunderstood him.

Finally, a word about Dr. Raj's style of polemics. In a scientific discussion is a person's face more important than his arguments?

Rejoinder by Y

IT is a handsome compliment from Dr. K N Raj that he accepts and understands my simple argument. I am also happy to know from him that the economic experts of the Planning Commission and the Panel of Economists have based their support to cottage and small-scale industries exactly on the same arguments which I have advanced.

Though coming from a member of the Panel of Economists it is difficult, however, to accept Dr Raj's claim to speak on behalf of his colleagues. All those who know the views of some of the Panel Members and of the economic experts of the Planning Commission will experience the same difficulty.

Did not Shri Chintaman Deshmukh couple cottage industries with deficit financing as the two issues on which advice of the economists has been so conflicting that he does not know which way to turn?

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From the London End

The Reality in Anglo-Russian Relations

THE French philosopher Fenelon, in his advice to the grandson of Louis XIV, gave an account of the different systems of power relations between countries. He bestowed the highest praise on what he called his "fourth system"—a system in which "a power is about equal with another and which holds the latter in balance for the sake of public security." This is an apt classical definition of what we now term "peaceful co-existence." But such a definition of the current approaches to international relations can by no means be appropriate to the state of Anglo-Soviet relations today. Britain by herself is in no position to act as a political counterweight to Soviet might and power. Thus, if for purposes of analysis a description of the governing considerations determining the British attitude is necessary, then possibly the "fourth system" of Fenelon must be coupled with the famous dictum of Bismark that "we want to be, like everybody else, in a party of three in a world of Five Powers." These two concepts combined appear to cover the British stand in the discussions with Marshal Bulganin and Mr Kruschev remarkably well. Conceiving the Atlantic Alliance as being the counterweight to Soviet Russia, and being sure that she remains a party of that alliance, Britain supports "peaceful co-existence."

This approach to the Russians appears to have been well understood long before the Russians reached Britain. Lest the British public should show undue enthusiasm in their welcome to the visitors, the authorities thoughtfully called upon the press to voice, and the press did it remarkably well, the suggestion that nothing new could be expected from the Russians, in spite of the visible easing of conditions in Russia itself. The British welcome was, therefore, tempered—at times cold—and on other occasions lacking in etiquette and courtesy. For their part, the Russian leaders combined a realism and a flexibility which made the Times describe the Russian leaders as "men of the toughest mental calibre, overworked perhaps, but tenacious in argument and retentive of a mass of facts." The grace of Marshal Bulganin and even more his formidable mastery of the situation has suggested some parallel to Queen Victoria's description of an earlier Nicholas, a Czar of that name. As the Times recounts it:

> "He is certainly very striking; still very handsome. . extremely civil—quite alarmingly so. But the expression of his eyes is formidable, and unlike anything I ever saw before."

This recognition transformed what was at first a cold critical welcome into something perceptibly warmer by the time the Soviet leaders were to leave. The utterly discourteous and what the New Statesman called "deplorable" behaviour of the Labour front-bench in flying in the face of protocol when questioning the Russian leaders was smoothed over by the end of the 10-day visit. More remarkable was the British Prime Minister's statement after the visit: "our relations have improved by the visit." Thus the British public attitude was gradually transformed as the Russian visit reached its final stages and this must be considered significant and important.

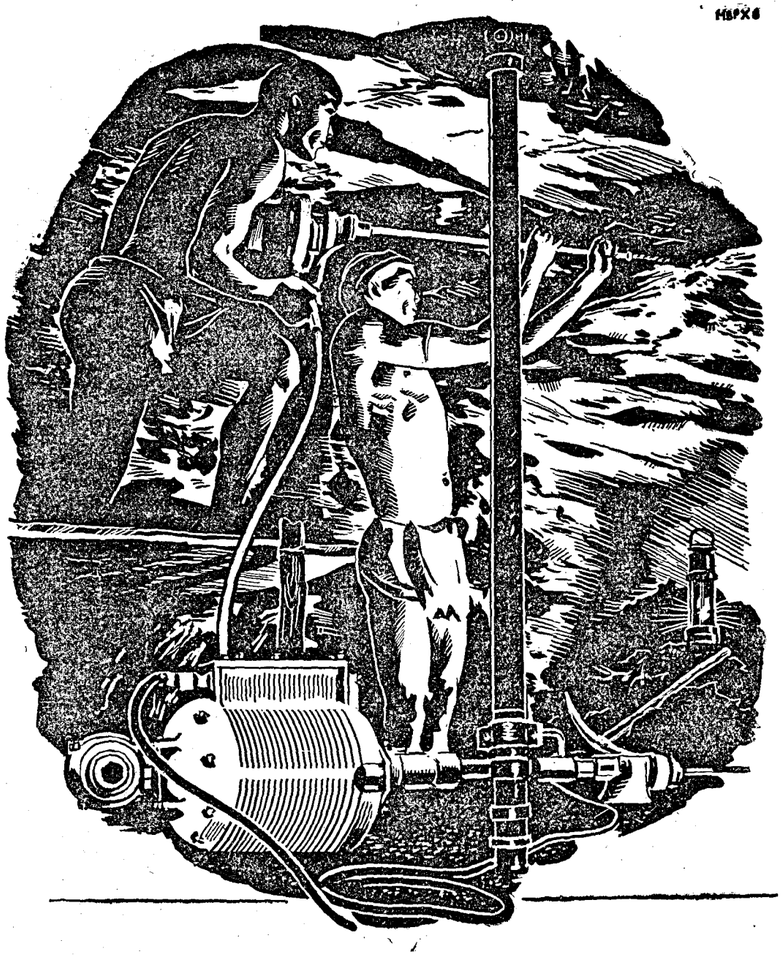
The changing temperature—from cold to lukewarm and at times, to warm—is, however, not fully reflected in the communique issued after the series of discussions which were the most important of the visit. The combination of concepts, that of Fenelon and Bismark, appears to have dominated the British view and may have thus been responsible for the recognition that "under-water rocks" were encountered in the attempts to find solutions to the problem of European security. This failure has been welcomed by Dr. Adenauer and the New York Times, but to categorise the discussions as a "failure" would amount to wanton deception. As Sir Anthony Eden put it, "war has receded . . . our relations have improved ...we can do more trade." These developments are the result of the talks and as both Marshal Bulganin and Sir Anthony have claimed, it is the "beginning of the beginning".

The reality of Anglo-Soviet relations was for the the first time given recognition. The different positions of the two States in the Middle East were realistically examined and though no solution of the conflict could be found, it was possible for both to agree on a peaceful settlement of the Arab-Israel dispute through the United Nations. So, too, on trade: while the British admitted their difficulty in unilaterally abandoning their controls on East-West trade and the Russians were adamant that discrimination should be ended, both countries were able to exchange trade lists for study which, according to Sir Anthony, "can be executed at least by 75 per cent."

The problems of disarmament were also fully recognized. The reality of the problems were faced, no matter how unpalatable they might be to the Western public. The hypocrisy of the Western proposals—proposals which, when agreed to by the Soviet Union, the "Western Powers at once renounced"—was exposed. These developments have made Marshal Bulganin describe the Disarmament Sub-Committee of the U. N. as the "sub-committee on concealing the Arms Race". The Western attitude was a "riddle to him". And yet the two Governments were able to agree that persistent efforts towards agreement were of "fundamental importance" for the "saving of humanity from the threat of nuclear warfare."

Any estimate of the Russian visit must ultimately be made to depend on its contribution to the pacification of conflicts potential or otherwise in the world. Before the Anglo-Russian talks, the danger of a major conflagration in the Middle East was real. This danger has now receded. While no progress over Germany was recorded, nobody can now conceive of a solution in terms of war. So too in the Far East, peaceful methods appear to have become the approach to the problems in that region. The success of the talks is great if measured in these terms—the talks are no less significant for the several new lines of enquiry opened up by the frank and hard discussion.

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Labour and Economic Development

Subratesh Ghosh

IN his excellent study on the problems of economic development Prof. W. A. Lewis has pointed out three proximate causes of economic growth: economic activity, increasing knowledge and increasing capital. (The Theory of Economic Growth p. 23).

This is something refreshing as it emphasises the human element in economic growth, which, despite its great importance, has not always received its proper appreciation from economists and planners who are often more enthusiastic to emphasise the role of capital.

Economic activity, according to Prof. Lewis, means "effort directed towards increasing the yield of a given effort or resource or towards reducing the cost of a given yield". (ibid p 23). Now the possibility of increasing yield or output naturally depends upon the ability as well as willingness to work and the effort directed towards reducing the cost of a given effort. The latter, in its turn, is to a very great extent dependent upon certain attitudes,—for example, whether the people who work find any interest in their jobs or are at all keen to find out means to reduce costs or not. So all these point to the need of seriously considering the ways and means of creating a favourable psychology towards work i.e. to create the willingness of people to make the effort required for economic growth. But what is the clue to make the people do their best? Prof. Lewis himself gives a nice reply to that:

"Men will not make effort unless the fruit of that effort is assured to themselves or to those whose claims they recognise." (ibid p 57). In other words, confidence should be created in the minds of the people to make them believe that the effort they will be making is worthwhile that either they themselves will be benefited by it, or, it would advance the cause of something for which they consider sacrifices would be justified. Thus hope and confidence are as much essential for economic development as addition to the stock of the country's real capital assets. Similarly the creation of a favourable psychological attitude in the minds of the working people is important also for the other two determinants of economic growth.

A developing country requires expanding supply of knowledge and skill of all types—technical, administrative as well as general. To keep pace with rapid development, it becomes necessary to train up people at work to do better jobs and to learn new techniques as well as for performance of new jobs. For underdeveloped countries where owing to lack of adequate educational facilities and poverty, a large majority of the population cannot have the opportunities of even elementary education, fundamental education for the adults also is no less important. W. E. Moore has described at length the role played by ignorance of the actual and potential workers as a barrier to industrialization in the under-developed countries. (Industrialization and labour; Social Aspects of Economic Development). Ignorance not only keeps people blind about the potential alternatives and hence affects the mobility of labour which is so essential for industrial development, but it affects also productive efficiency. A report by the International Labour Office clarifies this point further:

"Industrialization in Asiatic countries . . is hampered by a shortage of the kind of labour required for modern industry. The capacities required differ greatly from those commonly found among workers in agriculture and household industries in these countries. The industrial worker has to be literate; often he has to be able to read blueprints; he has to understand the need of industrial discipline. The countries in question are all short of workers with these qualifications".

Removing the Barriers

Now educational programmes may be undertaken to overcome the barriers of illiteracy, ignorance and low skill. But nothing substantial could be achieved unless the workers are made interested in education. The adult educationists and social service workers know very well how difficult it is to create this interest and to remove their apathy. One of them has related his tale of difficulties in the following words:

"I have been connected with 5 big centres of adult education in the Calcutta industrial belt for the last 10 years, but the progress made is disappointing and the attendance of adult workers at these schools has been very poor. There are many obvious reasons why workers do not come to night classes, fatigue after working hours being one of the main, but that alone cannot account for this dismal failure." (R. M. Sengupta in **Indian Journal of Social Work**, March 1952.)

Absence of Hope

And these other reasons, as any one who has had ever to deal with the Indian workers knows include the absence of hope in the mind of the worker, his poor standard of living and low income which dry up all his interests and enthusiasm, his unfamiliarity with the urban way of life, his failure to adjust himself to the new industrial set-up as well as his preoccupations with his family problems like diseases, indebtedness etc. which increase with poverty. So the barrier of ignorance is connected with the whole socio-economic set-up in which the worker has to live and it cannot be fully removed unless definite steps are taken to better the conditions of the worker, including his standard of living. However, it is also not true that nothing can be done at the present moment in regard to this problem. Some better response can be definitely obtained, provided the workers are made to believe that they have several prospects to gain and to go upward in rank as well as in income if they acquire more knowledge and that the increase in their productive efficiency will benefit not only industry but also themselves as well as the country. So here, also, the problem of creating a favourable attitude comes in.

Similarly capital-formation itself is also no less dependent on the creation of a favourable psychological attitude among the masses. The role of small savings in capital formation is readily appreciated to-day. In fact, the small savers have contributed a good deal for industrial development in India. The large percentage of the middle class among shareholders of joint stock companies shows the role which has been played by the ordinary people and also points to the possibility of getting better response from them if they are enabled to save more and are given better incentives to save.

The Rural Banking Enquiry Committee pointed out that savings may be available from small landholders, tenants and agricultural labourers as well. But proper banking and other institutional facilities must be extended to the rural areas to mobilise such savings and attempts should be made to promote thrift and small savings through adoption of suitable devices. Although workers' savings until now have not been substantial, from the experience of the more advanced countries it may be concluded that here also they would be able to save more and to make their savings available for national development, if they are given opportunities through a better standard of living, better social security, proper organisational assistance and incentives for saving. In fact, apart from the importance of mobilising funds for investments, savings by them as well as by the agriculturists and rural workers are essential for keeping inflation under control. This is particularly important at the moment, since any programme of development worth the name must involve a certain measure of inflation.

Compulsion and Legislative Measures

Development can be continuous and a self-reinforcing process only when an appreciable part of the increment of income resulting from it is put back into it. This can also be done by taking away a part of the new income from the workers by means of indirect taxes. But taxation of the workers is undesirable as it deprives them of the chance of directly enjoying the benefits of work even in the future. So saving by the workers themselves is better. If they may be persuaded to lend these savings to the government, that would directly help capital-formation in the public sector at the same time assuring the workers the enjoyment of their present income in future. In this connection, some may suggest the necessity of compulsory savings schemes. But compulsion is repugnant and compulsory savings may create much discontent among the low paid workers. It is therefore, desirable to rely more on voluntary savings. This again brings us to the necessity of developing a proper attitude; in other words, an understanding of the need of economic development, the role of small savings and the creation of willingness to forgo present consumption for future prosperity.

Thus we see that economic development requires the creation of a favourable psychology, particularly among the toiling millions. But how can such a psychology be created? There are two ways which are by no means contradictory but are in fact complementary. Some measures may be taken at the legislative and administrative levels which would pave the way for more equitable distribution of the national product and improve the standard of living of the masses. Such steps would convince them of the necessity of fully cooperating for the economic development of the country by assuring them that they will also have a due share in the improvements made, according to their contributions and the fruits of their efforts will not be enjoyed only by others who have power and wealth. Secondly, this would also require the active co-operation of the voluntary associations representing the interests and aspirations of the toilers e.g., trade unions and peasants associations.

Role of Trade Unions

Of these two ways, much has been discussed about the necessity and the nature of the first way. Protective labour legislation, minimum wages, social security schemes, land reform measures, etc. have great contributions to make for the creation of the necessary confidence and enthusiasm. To the second, however, comparatively little attention has been given. It is therefore essential that a serious study should be made of the role of trade unions and other associations in economic development. Here we shall try to discuss the role of trade unions in particular but we hope that the discussion will throw some light on the role of other associations as well.

The contributions which the trade unions can make to economic development are substantial. First and foremost, existence of a strong trade union movement capable of defending and promoting the workers' interests through collective bargaining and other methods itself will create confidence among the workers and will remove from their mind the sense of being exploited. Better wages and better standard of living which they may enjoy through the existence of an effective trade union movement will also increase their efficiency. Regarding skill formation and attempts to make the workers better educated also, trade unions can contribute much. For the spread of fundamental education and in the fight against illiteracy, the workers' education programmes, organised and conducted by trade unions, may receive more co-operation and better response from the workers than programmes sponsored by others. As regards vocational training, it may be very difficult for the trade unions in the under-developed countries to organise it from their poor resources. But if their co-operation is sought by the government or industry who may be undertaking such projects, trade unions can do a good deal by encouraging workers to join such training programmes and to attend them regularly.

Workers' Education and Training

Trade Unions may play a very important part in another respect, i.e. to improve the productive efficiency of industry. If workers take interest in their work, they may suggest from their own experience many practical ways of minimising waste of raw materials etc. and of improving efficiency by means of better distribution of work load and minor technical readjustments. The Stakhanov movement which contributed so much to the success of the Soviet Planning in the mid-thirties was to a very great extent nothing but workers' participation in finding out ways and means of increasing productivity and reducing cost through better division of work and minor technical innovations suggested by themselves. But workers must be encouraged to offer such suggestions and be assured that these would be given proper consideration. Joint Production Committees, Works Councils etc. have been developed in different countries to associate the workers with the process of improvement in productive efficiency through their co-operation. Trade Unions, as the natural leader of workers, may make these instruments of workers' participation in improving productive efficiency really effective. They may encourage the workers to think seriously about these improvements, and help them place their views in an effective manner.

As regards capital-formation also, trade unions can be of great help to the government by promoting and assisting small savings schemes, by organising voluntary labour squads for road building and other similar projects, and if indispensible, by persuading workers to accept some less onerous scheme of compulsory savings, like the payment of a part of the bonus or wage increments in government bonds instead of cash.

The trade union can be a very effective instrument for helping workers to adjust themselves to the new industrial environment. As is well known, a very large percentage of the Indian working class are still rural in their origin, background and attitudes. They bring with them the attitudes and work-habits of their village-life, which moves at a far slower pace and where the nature of work and work-habits are completely different. Discipline, punctuality, relation with the superiors and with fellow workers and in fact, the whole environment, are completely new to the uprooted villagers who find themselves transplanted in an alien soil. Outside the work place also, he is always reminded of his alien environment. The appalling conditions of living and housing as well as the insecurity of industrial life with inadequate social security repel him and he longs for a return to his accustomed village-life.

And last but not the least, being deprived of the rich and varied means of folk entertainment and education which the Indian rural communities have ben providing to their sons and daughters for canturies, he very strongly feels the need for some substitute forms of recreation. But in the sophisticated urban life, recreation is also a commodity to be purchased at a price which is often too high for the poor unskilled worker. So not only his body starves, but also his mind. This lack of adjustment to the new set-up on the part of the industrial worker is reflected in its turn in the very high rate of absenteeism, migration to villages whenever possible, high labour turn-over and lack of interest in mastering the techniques of modern industrial production. Apart from its socio-psychological aspects, this lack of adjustment is itself a bar to economic development, as the latter presupposes a more or less stable and disciplined working force, with minimum of absenteeism. If the trade unions can do anything to help the process of adjustment and integration of the workers into the industrial way of life, that itself will be a great contribution.

The trade union movement is not only in a position to maee that contribution, but it is perhaps the most suitable agency for it. The Director General of the I. L. O. Conference has aptly pointed out.

"The Trade Union may be one of the most powerful instruments for creating a new industrial society and for helping the new recruit from the rural community to adjust to the conditions of the industrial life."

Towards this adjustment, the trade union's contribution may take



several forms. The educational-cum-recreation centre may not only make the mind of the uprooted villager informed of the values and requisites of the new way of life, but it may provide substitutes for the rich media of entertainments which the village communities used to provide, without involving him in any extra expenses over and above what he pays to the union by way of his contributions. Moreover, cinema, theatre, musical programmes or watching competitive out-door games which are a few of the recreations open to ordinary urban workers (provided they can pay for them), all keep the spectators or the audience completely passive, there being no way for them to actively participate in them. These recreations not only give workers no scope to make their creative faculties articulate, but actually they make the workers more and more passive. If the union can organise recreational programmes for the workers in which they can actively participate not only would they be refreshed in mind, but their habits, which are so important for a democratic way of life, would be more active.

Besides the provision of recreations, trade unions can also help the process of adjustment by establishing co-operative housing societies with the help of the government and industry which may undertake to build healthy and decent houses for the workers. These houses may be let to the workers at moderate rent with the provision of making them owners of their own houses or flats after a number of years through the payment of some monthly instalments within their means. Thus the workers would find a greater stake in urban society and the process of adjustment will be facilitated. Similar other forms of welfare work may also effectively help towards this end.

Thus trade unions can play a very important part in the process of economic development. But the mere desire to play that role on the part of the unions would not suffice, they must also be enabled to perform their tasks. The community and the government should help the trade unions to develop their strength and effectiveness. This would naturally require a reconsideration of the basis of industrial relations and the place given to trade unions in the life of the community, particularly in thee planning for economic development. Trade unions must be properly represented and associated at all stages of the formulation of the plan as well as its implementation.

At the same time, attempts on the part of the government and the community must be made to build up the pattern of industrial relations in a way which would be consistent with the great role assigned to the movement for economic development. One very important element in the existing set-up of industrial relations in India as well as in some other South and South East Asian countries is the provision for compulsory arbitration for a very wide area which may be extended by the government of the country at its will. Compulsory arbitration, according to its supporters, has the merit that it removes the chance of work stoppage and hence facilitates the fulfilment of production-targets under the development plan. But on the other hand, it tends to suck out the very vital force which strengthens the roots of trade unionism. When workers find that by litigation they can get much without relying on their unions, they become apathetic to the need of strengthening the union. Reliance on courts of law decreases the necessity to rely upon collective solidarity and this naturally weakens the union which becomes less effective to influence or lead the workers towards the desired goal.

Moreover, the sophistication and knowledge about the laws and many other subjects which are essential for putting a good case before an industrial court, cannot be supplied at this stage by the unskilled and the semi-skilled workers in India. Thus they have to rely more upon lawyers or outside leaders in the trade union mbvement who can supply these. Last but not the least, compulsory arbitration hinders the growth of proper employer-employee relationship which alone in the long run can ensure a stable rate of progress. Even if the workers may gain something by way of a favourable verdict from the industrial court, the employers will feel bitter and would try to violate this whenever they find some legal loophole. They may even try to retaliate through some other ways. But instead of this, if the gain is obtained by means of collective bargaining, i.e., through a spirit of give and take, the good employer would feel morally bound to observe the clauses of the agreement and would act according to its spirit and not merely in accordance with its letter.

This, however, does not mean that compulsory arbitration should go in all cases. But what is meant here is the necessity of giving collective bargaining the foremost place and the fullest scope for settling differences. If collective bargaining, after having been given a fair trial, cannot amicably settle the dispute, some provision for compulsory conciliation through mutually agreed third parties or the government may be provided. If this also fails, only then the question of arbitration may be considered. But compulsory arbitration, even at this stage, may not be essential for all industries. In the case of certain basic industries and the public utilities, upon uninterrupted production in which depends much of the success of the development plans, strikes may be substituted by compulsory arbitration in the interest of the community for a temporary period. But in other cases, there is no reason why the matter should not be left to the parties themselves. If both the parties voluntarily agree to submit the dispute to official or non-official arbitration, it is welcome. But if, on the other hand, the workers feel that nothing short of a strike would be able to protect their interests, they should be given the right to strike. For a short period this may create in a few cases some instability, but in the long run it will definitely pay better dividends.

But some facilities should be provided by the state to help the growth of collective bargaining. As the reluctance on the part of the employers to recognise unions and to bargain collectively is to a very great extent responsible for the work-stoppages in many cases, compulsory recognition of unions and obligation to bargain collectively with the representative union may considerably help the cause of industrial peace and the healthy growth of the trade unions. Legal sanction behind the collective agreements also may be of much help, as it would prevent unscrupulous employers from wriggling out of their commitments at an opportune moment. Legal prevention of some types of unfair labour practices by the employer may also be helpful for the growth of trade unionism.

In recent years we have become plan-conscious. But if that leads us only to a realisation of the necessity of increased supply of material capital and not of the human aspects of capital-formation and economic development, our progress will be retarded. It is high time that we became aware of this essential truth as well.

Mahindra and Mahindra Limited

Notice

The 10th Annual General Meeting of the Shareholders of Mahindra & Mahindra Ltd. will be held at the Registered Office of the Company, Gateway Building, Apollo Bunder, Bombay—1 on Monday the 14th May 1956 at 4.30 p.m. to transact the following business.

1. To receive and adopt the Directors' Report, the audited balance sheet and profit and loss account for the year ended 31st October 1955.

2. To declare dividend on Preference and Ordinary Shares.

3. To appoint a Director in place of Mr. C. Mahindra who retires by rotation under Article 110 of the Articles of Association but is eligible for re-election.

4. To appoint a Director in place of Mr. H. C. Mahindra who retires by rotation under Article 110 of the Articles of Association but is eligible for re-election.

5. To appoint a Director in place of Mr. Jal H. Mehta who ceases to hold office by virtue of Article 116 of the Articles of Association but is eligible for re-election.

6. To appoint a Director in place of Raja Maharaj Singh who ceases to hold office under Article 116 of the Articles of Association of the Company, but is eligible for reappointment.

And to consider and if thought fit to pass the following resolution of which special notice as required by Section 281 of the Companies Act 1956, has been received by the Company and the relative explanatory statement concerning which as required by Section 173 of the said act is annexed hereto.

Ordinary Resolution —

"Resolved that the age limit prescribed under Section 280 of the Companies Act 1956 shall not apply to Raja Maharaj Singh who has attained the age of 77 years and who retires under Article 116 of the Articles of Association of the Company and that he be reappointed a Director of the Company".

7. To appoint a Director in place of Sir D. N. Mitra who ceases to hold office under Article 116 of the Articles of Association of the Company, but is eligible for reappointment.

And to consider and if thought fit to pass the following resolution of which special notice as required by Section 281 of the Companies Act 1956, has been received by the Company and the relative explanatory statement concerning which as required by Section 173 of the said Act is annexed hereto.

Ordinary Resolution—

"Resolved that the age limit prescribed under Section 280 of the Companies Act 1956 shall not apply to Sir D. N. Mitra who has attained the age of 65 years and who retires under Article 116 of the Articles of Association of the Company and that he be reappointed a Director of the Company".

8. To appoint a Director in place of Rai Bahadur Isher Das Sawhney who ceases to hold office under Article 116 of the Articles of Association of the Company, but is eligible for reappointment.

And to consider and if thought fit to pass the following resolution of which special notice as required by Section 281 of the Companies Act 1956, has been received by the Company and the relative explanatory statement concerning which as required by Section 173 of the said Act is annexed hereto.

Ordinary Resolution —

"Resolved that the age limit prescribed under Section 280 of the Companies Act 1956 shall not apply to Rai Bahadur Isher Das Sawhney who has attained the age of 73 years and who retires under Article 116 of the Articles of Association of the Company and that he be reappointed a Director of the Company".

9. To appoint Auditors for the Current year and to fix their remuneration.

10. Section 293, sub-section (1) (d) restricts the total borrowing powers of the Board of Directors to the paid-up capital of the Company and its free reserves which amount to Rs. 80 lacs. The Company's borrowings from the various banks amounted to Rs. 9,26,49,989 on 31-3-1956. It is therefore necessary to approach the shareholders for approval of these borrowings by the Company.

And to consider and if thought fit to pass the following resolution as required by Section 293 (1) of the Companies Act, 1956 and the relative explanatory note as required by Section 173 of the said Act is annexed hereto.

"Resolved that the consent of this Company be and it is hereby accorded to the Board of Directors borrowing monies in excess of the aggregate of the paid-up capital of the Company and its free reserves, that is to say, reserves not set apart for any specific purpose and that such borrowing shall be exclusive of the temporary loans obtained or to be obtained by the Company from the Company's Bankers in the ordinary course of business. Resolved further that the Company doth hereby ratify and confirm, all borrowings by the Directors after 2nd April, 1956 which are in excess of the aggregate of the paid-up capital and free rserves of the Company".

A member entitled to attend and vote at a Meeting is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member.

By Order of the Board,
KESHUB MAHINDRA
Director

28th March, 1956

The transfer books of the Company will close from 30th of April 1956 to 14th of May 1956 both days inclusive.

The dividend when sanctioned will be made payable to those shareholders whose names stand on the Register of the Company on 14th May 1956 and the dividend warrants will be duly posted to them on or after the 25th May 1956.

The shareholders are requested to immediately notify any change of address.

EXPLANATORY STATEMENTS AS REQUIRED BY SECTION 173 OF THE COMPANIES ACT, 1956

In respect of Item No. 6 of the above notice of the 10th Annual General Meeting of the Company it is noti-

fied that Raja Maharaj Singh who retires under Article 116 of the Company's Articles of Association but is eligible for re-election is 77 years of age and accordingly the ordinary resolution set out in the said Item is necessary under Sections 280 and 281 of the Companies Act, 1956 to be passed, for his re-appointment as a Director and special notice under the Provision of Section 281 has been received by the Company from a member of his intention to move the said resolution at the said Annual General Meeting.

In respect of Item No. 7 of the accompanying notice of the 10th Annual General Meeting of the Company it is notified that Sir D. N. Mitra who retires under Article 116 of the Company's Articles of Association but is eligible for re-election is 65 years of age and accordingly the ordinary resolution set out in the said Item is necessary under Sections 280 and 281 of the Companies Act, 1956, to be passed, for his reappointment as a Director and special notice under the Provision of Section 281 has been received by the Company from a member of his intention to move the said resolution at the said Annual General Meeting.

In respect of Item No. 8 of the accompanying notice of the 10th Annual General Meeting of the Company it is notified that Rai Bahadur Isher Das Sawhney who retires under Article 116 of the Company's Articles of Association but is eligible for re-election is 73 years of age and accordingly the ordinary resolution set out in the said Item is necessary under Sections 280 and 281 of the Companies Act, 1956 to be passed, for his reappointment as a Director and special notice under the Provision of Section 281 has been received by the Company from a member of his intention to move the said resolution at the said Annual General Meeting.

In respect of Item No. 10 of the accompanying notice of the 10th Annual General Meeting of the Company it is notified that the major portion of the borrowings from the Banks is on account of the financing of import of Steel which the Company has been doing on behalf of the Iron and Steel Controller as well as on its own account as a recognised stockist. In the calendar year 1955 out of the total imports of 520,000 tons of Steel in India by the Iron & Steel Controller the Company imported over 187,000 tons which represents about 36% of the total imports. Each ton of Steel costs on the average between Rs. 500 and Rs. 700. Financing of such large imports needs strong banking credits. The Company has been fortunate in securing such assistance from the following Banks: Lloyds Bank Ltd., Bank of India Ltd., Bank of Tokyo Ltd., Mitsui Bank Ltd., National Bank of India Ltd., Bank of China.

The Government of India has entered into several contracts with Governments of Russia, Belgium, Germany and China for the import of Steel and the Iron and Steel Controller has allotted to the various importers of Steel the commercial handling of such business and the Company is receiving its share of such allotments.

With the advance planning to import three million tons of Steel in the next 3 years, the tempo of purchase will continue to increase and consequently the share of your Company in such imports will also increase. This will require provision of additional credit facilities.

The anticipated increased turnover in Jeeps, Spare Parts, and in manufacturing operations will also require additional finance provisions. Trading for the first five months of the current year is well above the average of the past year in all the divisions. In order therefore to maintain and develop its business it is necessary for the Company to have recourse to large credit facilities from Banks and other institutions.

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Economic Thinking: The Basic Malady

Savya Saachi

THE country has of late been flooded with foreign economists. By itself, this is not a bad sign, as there is nothing wrong in consulting experts of proved knowledge and wisdom. Such consultations would be helpful in clarifying our own minds about the means of attaining our declared objective. But as it has happened, it seems that the Government is getting more confused than enlightened, the Finance Minister said at the Planning Forum in Delhi. He frankly confessed that opinions and the advice of different economic experts were so conflicting that he did not know what course to adopt.

It is true that the opinions tendered by foreign economists have often been very conflicting. Dr. Rosenstein Rodan, for example, argued that transport requirements were underestimated in the second Plan, while Prof Galbraith was convinced that there was substantial scope for economy in our expenditure on transport. Mrs. Robinson is of the opinion that so-called 'deficit financing' need not frighten us as long as our plan is properly formulated, while Prof Friedman has argued that deficit financing would be inflationary during the second Plan period, and so on. One could go on multiplying instances.

But the question is: why should these opinions confuse us? If we are sure of the objective and are thinking hard about the best possible means of attaining the objective, we should be conscious of our difficulties. In that case, expert opinion, should be sought for solving a specific difficulty. If those conditions are fulfilled, the right kind of expert should be able to help us to solve our difficulty and show us where we made an error in our analysis. If it does not, it is irrelevant; if it does, it is enlightening. Any expert advice, similarly, on our general approach to planning would be either enlightening or irrelevant.

If, however, as has happened in our case, expert opinion is only creating confusion instead of giving us enlightenment, some of the above mentioned conditions obviously must not have been fulfilled. The fault, then, lies with us. Where have we gone wrong? Are our objectives clear to us? Are we thinking hard on the best means of realising our objectives under our existing conditions? Are we trying to solve the difficulty ourselves, so as to benefit from the advice of foreign experts? Even God cannot help those who do not help themselves. Has not Buddha said, 'nobody can purify somebody else'?

From the controversies that are going on over the second Plan, it appears that the Indian experts are also arguing sometimes at cross purposes. Some argue on the basis of improving the standard of living; others on the basis of attaining full employment; some take maximisation of the rate of growth as our objective, and others speak in terms of a socialistic pattern of society based on equitable distribution of wealth and income. Analysis in terms of only one of these different and conflicting objectives could not possibly give us the right result and discussions at cross purposes would go on endlessly without yielding any fruit. Why then not be clear about the set of objectives we want to realise? If they are conflicting, why is no attempt made to see how they conflict and find out what could be an acceptable compromise? Unless we are clear on these basic issues, no foreign expert can help us, because he also does not know what we are up to. He would merely confuse the already confused minds.

What about the means? How can we think clearly about the means as long as our objectives are not clear? Different sets of objectives inevitably would mean different ways of attaining them. Here also the discussion seems to be carried on on different assumptions, which nobody bothers to mention explicitly.

All this means that we are not trying to help ourselves, not seriously. We are not clear about what we want and how we propose to get it under existing circumstances. We cannot even have honest doubts and difficulties, for, we are not making sufficient effort to clarify our own minds.

What then are our economists, whether in the Government or outside, doing? Are they thinking seriously on the problems that face us? There is no evidence of serious thinking of our problems in our own set-up. Indian economists have forgotten what Keynes said about Economics, that it is a technique of analysis, an apparatus of thought. They seem to be looking for ready made answers to their questions in one authority or the other. Some swear by Keynes and others by Marx and so on. But no one for once tries to forget one's authorities and so apply one's intellect and experience to the solution of the problems that face us. They forget that no two situations can be alike, that each economy has its own unique problems which have to be analysed and solved by the persons concerned themselves. Others can only give a helping hand; one would not know even what sort of help is necessary, if one did not struggle oneself to find the way.

This lack of any serious economic thinking in the country arises in large measure from the unsatisfactory set up of our Universities and Government Research Institutions. Is it not a pity that one hardly finds two or three University Institutions in the whole country carrying on research and that, too, not of a high order? The University staff are depleted and facilities for research inadequate. Even the heads of prominent University Institutions behave like politicians, speak like laymen and write like dilettantes. The Government Research Institutions are better staffed in that they can pay well and attract the most promising material. But research is a delicate plant which hardly thrives in the official atmosphere, whether in the Planning Commission or in the Reserve Bank. Once in the official hierarchy, would be economists soon transform themselves into officials.

People at the top of the official hierarchy cease to have any idea of what research is. Perhaps their metamorphosis has to be complete before they can climb high in the official ladder and it is not surprising that the men at the top should be successful officials rather than inspiring guides in research. One has but to talk to them for a few minutes to find out what spirit of inquiry animates them, what depth of analysis they are capable of and what soundness of judgment they can lay a claim to. The general impression which one forms about these highly placed government economists is no different from that of go ahead, successful civil servants who have neither the will nor the

ability of tackling the country's real problems. One does not even find in them intellectual honesty. Visiting Professors are intrigued that highly placed Government Economists who are members of commissions should make no secret of it that their private views differed from those of the commission or committee in which they serve. But out of regard for good form, or with an eye to future advancement, they keep their own views to themselves and conform to the general opinion. Why don't they write a minute of dissent? Such instances are too well known to merit repetition. All these go to show that whatever else may animate most of these Government Economists, it is not the spirit of enquiry. The Economic Division of the Planning Commission as well as the Research Department of the Reserve Bank of India seem to be functioning more like bureaucratic administrative departments rather than true research departments. What can one expect from those institutions? It is high time that these institutions functioned like true research institutions and changed their set up as well as the staff needed for the purpose.

Prof Galbraith has rightly commented that Indian Economists lack self confidence and are prone to look up to foreign authority. He put the state of affairs mildly and politely when he further commented that it is because of this lack of self-confidence that they have not been able to develop so far what could be termed an Indian economic philosophy. To do this, fresh blood would be necessary. In the atmosphere of intellectual stagnation in which they live, economists in India cease to grow in intellect and wisdom with age. This being the characteristic climate of this country, what should probably be done is to demote rather than to promote men with advancing age. If in all research institutions, the younger element were put above the older one, probably the results would be better today in different walks of life. It is the older elements which are holding back progress and corrupting in turn the younger ones.

But while holding the brief for youth, a qualification is particularly necessary where economists are concerned. This is because economics being a wholly imported science in this country, the latest shipment landed is apt to be regarded as the best and given precedence over the earlier one which may not be any better, but is not necessarily any worse. Time the leveller may help to bring out the more promising material by dulling the meretritious gloss of the brand new.

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Education and Unemployment

THE extension of education may not offer a remedy for the problem of unemployment or even for alleviating the acuteness of the existing problem, but at any rate it will help in achieving a very desirable objective while taking care of the problem posed by large additions to the labour force that takes place annually. The extension of education tackles this problem by raising the age of entry into the labour market.

The impact on the labour market of an extension of the period of school attendance is two-fold. First, there is the immediate or temporary effect of reducing the number of new entrants to the labour market in the transitional year or years. If a large number of boys have one more year of school all over the country, the decline in that year in the inflow of young people to the labour market, though small in relation to the total labour force, may yet form quite a considerable proportion of the normal annual additions to the labour force. Estimates that have recently been made in Belgium, the Netherlands and Denmark suggest that the number of new entrants might fall to about half its normal size, if compulsory education were extended by one year, taking into account the fact that many continue in school in any case after completion of the compulsory stage.

Second, there is also the permanent effect of increasing somewhat the size of the inactive population in relation to the active, which would also be useful from the employment point of view. The improvement in productivity that would result from a longer period of schooling would be enough to offset any disadvantages that might follow.

Here, education is compulsory only in a limited number of towns and districts, and then again only between a small range of ages, despite a clear constitutional directive for making education compulsory all over the country and extending the upper age limit to 14. That such extension of education may have its influence on unemployment should be considered an additional ground for implementing this neglected Directive.

Every encouragement must also be given to the extension of voluntary education. In this connection, the scheme for an increase in the number of years of school required for the passing of the SSC examination by one year, which has been proposed by the Ministry of Education, should be looked upon favourably. As the proposal stands, it is combined with the suggestion for the reduction in the graduate course to three years without any separate intermediate examination. The total number of years required for graduation will therefore remain unchanged. Whatever the other merits of these proposals—they have many points in their favour on purely educational grounds—the increase of the number of years of school required to pass the SSC examination is to be welcomed from the above point of view.

In addition to extension of compulsory education, both regionally and to cover a higher age group, and the increase of the number of years spent in school by pushing forward the SSC examination, another step could also be taken. Special three-year technical diploma courses open only to those who have already passed the SSC should be started making full use of all available resources in technical education, as was stressed in these columns last week. This would have the advantage of pushing forward the entry of the students of these technical institutes into the labour market by three years, while ensuring at the same time a supply of technically trained labour to meet the rising neds of industry. To meet more urgent needs, there would also be one year courses. The same could be done in the commercial field by developing three year post-SSC diploma courses in commercial education which would at the same time reduce the number of new entrants into this field and ensure a supply of trained commercial staff in the future.

European Experience

In this connection, it might be interesting to study how the problem of the "war generations" faced by certain countries of Europe was solved by them. This problem arises from the demographic anomalies produced by the last war which are expected to have profound effects on labour markets in a number of countries. As the **Economic Survey of Europe in 1955** shows, four characteristic patterns can be distinguished. In the United Kingdom, Sweden and Denmark, the period of high birth rates was limited to the war years and the first few years immediately thereafter. In Norway, Finland, Switzerland and the Netherlands, the high birth rates of the war years was almost fully maintained during the post-war years. In fact in the Netherlands, the increase in birth-rate in the war years was relatively modest, but was followed by a sharp jump in the post-war period. France, Belgium and Italy actually showed a small decline during the war but like the Netherlands, there was a sharp jump after the war. The fourth group includes West Germany and Austria which also showed violent shifts in birth rates. In Austria, this resulted in the arrival of the war generations at the age of entrance into the labour market from 1953 onwards.

In several countries an increase of 50 per cent. or more in the annual number of entrants into the labour market are anticipated. Since a large number of jobs would be available for persons possessing a high degree of technical training, the problem was even more complex than this figure suggests, for unless these training facilities were provided, jobs would remain unfilled while large masses of unskilled labour remained unemployed. This is in fact something like the situation that is likely to prevail in this country during the next few years, though it is not suggested that the problem is one of the 'war generations".

As has been already mentioned, Austria had to face this problem from 1953 onwards and the way she solved this problem is of special interest, particularly because Austria had to meet this problem when there was already rather heavy unemployment. A ninth year of compulsory elementary school and the introduction of three-year special technical courses are the main features of the programme. The impact of "war generations" on the labour market was planned to be delayed and damped down by these two measures. It is interesting to note that attendance at vocational training schools could be doubled in Austria between 1952 and 1954 through the introduction of parallel classes and special courses as suggested above for India.

The Double Dose of Deception

(From A Special Correspondent at Delhi)

IT is difficult to assess at the moment the impact of Shri K. C. Neogy's "bolt from the brain". His 1200 words, appended "with regret" to the monumental 600-page draft of the Second Five Year Plan, are highly provocative. But whether his criticism that the Plan is "over-ambitious" and "indefinite" will stimulate constructive or facile thinking and generate heroic effort or brave words is yet anyone's guess.

It is true that Shri V. T. Krishnamachari has, in answer to Shri Neogy's complaint about the inadequacy of resources, conjured up the rabbit of higher agricultural output from the magic hat of administrative efficiency. The Chief Ministers gathered in the Council might have wished to swallow the bait, but they could not.

Shri Neogy says:

"The calculation of the financial resources for the public sector of the Plan at Rs. 4,800 crores seems to be characterised by wishful thinking rather than reasonable expectations. Even then there is an uncovered gap; and large as the gap is, it may well prove to be an under-estimate. There are indications that the revenue surplus may prove disappointing. The assumed foreign aid is a measure of our need but that does not make it easily attainable. It will perhaps be idle to expect State Governments as a whole to fulfil their targets of additional taxation. Tax effort even at the Centre will have to recognise its limitations at some point. If the Plan is seriously attempted to be maintained at its present size and the visible domestic resources cannot be stretched to provide more than half the outlay in the public sector, deficit financing of the order of Rs 1,200 crores may no longer be the upper limit as urged by the experts but the inevitable minimum. Once inflationary conditions supervene as a concomitant of this order of deficit financing, all monetary calculations of the Plan expenditure will be upset, cost of projects will be increased—and plan fulfilment reduced in real terms. And in that process, those to be hardest hit would be people in the fixed income groups who number over 5 million and include Government servants at all levels, teachers and other non-Government employees. Thus these classes would be called upon to bear the brunt of capital formation through deficit financing after they have patiently borne the war-time and post-war decline in their standards of life."

To this V T K's answer is:

"I do not think it is possible to reduce the size of the Plan at this stage. The Plan for Rs. 4,800 crores has been before the country for a long time with the approval of the Cabinet and the National Development Council and, as the Plan seeks to initiate large-scale industrial development with emphasis on heavy industry, the country should be prepared to find investment of at least 10 to 12 per cent. of the national income. With the issues placed before the country clearly, the necessary national effort should be forthcoming.

"In implementing the Plan we have to take all steps needed to see that there is no inflation.

"The most important thing from this point of view is agricultural production. . . In the Second Plan some effort is being made to diversify agricultural production. But on the whole agricultural targets stated in the Plan are conservative, even insufficient. With the resources provided in the Plan, it should be possible to achieve higher targets. Increased agricultural production is an important 'resource' for development. If an all out effort is made in national extension and community project areas and elsewhere—and the agricultural programmes are organised efficiently—at the village level, it should be possible to step up production in the third year of the plan to a level at which our agricultural exports can be increased. What I have in mind is an increase of about 40 per cent. in agricultural production by the end of the Plan and a price level of say Rs. 10 to Rs. 11 a maund of wheat. The agriculturist stands to gain if production increases—by 40 per cent. and the prices decline by 20 per cent. His terms of trade should of course be safeguarded so that his net return is not allowed to diminish. For this adequate amounts of short-term finance should be assured. Short-term loans are over and above the allocations in the Plan."

Shri Neogy's thesis is that the provisions in the Plan have been artificially compressed. Rs. 60 crores would be required to raise 12 million tons of coal in the public sector and provide housing worth Rs. 12 crores to the workers. An allocation of only Rs. 40 crores is made "for the present". Oil exploration programme would admittedly need Rs. 30 crores. Only Rs. 11.5 crores have been allotted. Steel townships may cost Rs. 10 to Rs 15 crores. No provision has been made for them The provision of Rs. 35 crores for the 25 different projects to be sponsored by the National Industrial Development Corporation is admittedly inadequate. The Railways will require at least another Rs. 160 crores, despite planning and strict enforcement of priorities, to carry an additional 72 million tons of traffic that is likely to be generated by the Plan against the 60 million anticipated in the Draft Outline.

Further, Shri Neogy points out, that though atomic energy, defence, raising of the salaries of primary school teachers and the like fall outside the scope of the Plan, they would nevertheless require large funds.

Shri Neogy's case, therefore, is that the Rs. 4,800 crore outlay in the public sector will neither suffice for all the development that is envisaged during the Plan period, nor even for the limited number of projects it is supposed to finance. If so, the Planning Commission is administering a double dose of deception to the nation.

Some of the Chief Ministers present at the meeting of the National Development Council agreed with Shri Krishnamachari that raising of agricultural targets was the answer to Shri Neogy. Others stood on the fence. Still others frankly confessed that to raise production without a substantial increase in funds was impossible. The Council inevitably agreed that there should be further consultations on the subject. The Planning Commission and the Ministry of Food and Agriculture would get in touch with the State Governments. What happens next is in the lap of the Gods, presumably the weather Gods. But nothing at Governmental level will happen too soon.

Around Calcutta Markets

Second Thoughts on Industrial Policy

Wednesday, Evening.

INITIAL impact of the new industrial policy was favourable. On second thoughts, investors are less optimistic. Immediately after the declaration of the new industrial policy, equities moved up. At the time of this writing, equities have lost the ground gained earlier in the week. To some extent, Wednesday's fall in equities was due to settlement factors. "Budla" charges continue to be wide. Even so, end-account transactions do not explain fully the reaction in equities after the initial spurt.

In market parlance, the explanation of the initial spurt would be that the new industrial policy was already discounted in the prices for equities. Evidently, the market expected the new industrial policy to be more adverse to the private sector. Any such explanation is rather surprising. Did industry apprehend wholesale nationalisation of industries? There was no reason behind any such apprehension. Why, then, was the impact favourable?

Impact

Initial spurt in equities was due to a feeling of satisfaction that existing private industries would be allowed to function. There was also relief at the assurance that, in cases where both sectors would be active, there would be no discrimination against the existing private industries. That private industries would receive financial aid and other help from the Government, was also a contributory factor to the rise in equities immediately after the announcement of the new industrial policy.

On second thoughts, industry and investors have discovered that some of their optimistic assumptions are not valid. In the industries listed in which future development will be only within the public sector, private industries will be alowed to function, but only for the present. New Delhi has not given any firm assurance that such private industries will never be nationalised. It was on the assumption that private industries even within schedule A would be allowed to develop freely that equities moved up initially.

This raises an interesting issue relating to mixed economy. From an examination of the new industrial policy, it is clear that, despite the extension of State activity, New Delhi adheres to mixed economy. In a mixed economy, some industries are Stateowned while some others are privately owned. There is no objection in principle to both sectors functioning in the same industry or groups of industries. There is a school of thought which is in favour of such a system of mixed economy which operates as a system of checks and balances on both sectors.

There are growing indications that Congress is in favour of such a system of mixed economy. This means that industry may not be wrong in assuming that existing private industries will be allowed to function and to expand. In the iron and steel industry, for instance, this assumption is likely to remain valid for years to come. For one thing, the State has not enough resources to start as many iron and steel industries as will be necessary to create a solid foundation for economic progress. For ten years at least, the existing iron and steel industries will be allowed to function and to expand. What would be the Government's policy after a decade?

The Conflict

Consider, now, the conflict between the organised private sector and village and small-scale industries. It is not news that the latter will be encouraged to expand. Nor is it news that the development of small-scale industries will be at the cost of the organised private sector. But the new industrial policy is emphatic that small-scale industries will be given financial and other forms of protection against the organised private sector. This may be a logical sequel to the policy of developing small-scale industries. But such a discriminatory industrial policy must affect the organised private sector adversely.

Consider, next, the assurance relating to financial assistance to existing private industries. New Delhi is committed to such a policy There are organisations for providing financial aid to private industries. But the recent shift in the means of providing financial aid is not without significance. Some of its sinister implications have been evident since nationalisation of life insurance. In the last two months, custodians of life insurers have, according to reliable reports, bought large blocks of shares of ACC and Tata Steel. There are apprehensions that such purchases have already made the Government the single largest shareholder in these two major companies.

Indirect State Control

This focuses attention on the reoriented policy of State financial aid to the private sector. So far, such aid has been in the form of loans. There are growing indications that the Government prefers financial aid to industry in the form of subscriptions to equities. Such form of financial aid has both advantages nad demerits. It involves indirect State control over management of private industries. This is perhaps resented more than the fact that, through holdings of equities, the Government automatically becomes a partner of the industries concerned and a co-sharer in profits.

Neither the new industrial policy nor the trend towards progressive increases in the taxation of industrial profits is favourable to equities. Rising taxation of industrial profits assumes growing industrial profits. This assumption may not be contrary to the implications of the second Plan. Nor is the new industrial policy necessarily averse to industrial expansion, though the future of the organised private sector now seems less optimistic. Developing events indicate strongly that equity yields will have to rise appreciably to induce investment in industries.

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Company Notes

Bharat Line

INSPITE of various difficulties the Bharat Line has maintained steady progress during the year ending December 31, 1955. It is taking a broad view of the future and during the period of the Second Five Year Plan it proposes to acquire nine new ships to be added to its present fleet of fourteen vessels.

The slight decline of gross profits which occurred last year has however, continued this year, the profit being Rs. 30.87 lakhs in 1955 against Rs. 35.25 lakhs in 1954. This was caused evidently not only by the continued delays in loading and unloading of ships etc., but also by a fall in the revenue from freight and charter hire of ships. The revenue which had risen from Rs. 220 lakhs in 1953 to Rs. 261.8 lakhs in 1954 fell to Rs. 233.7 lakhs in 1955.

This fall, according to the Directors' Report, is "attributable to the fact that no chartered tonnage was permitted on the coast during the report year, also to the sale of one of our ships, namely the 'Bharatmata' at the opening of the year, both of which reduced the volume of tonnage employed in the trade. ." The report also refers to the fall in India/Burma trade because imports of Burma rice into India have ceased. If imports of rice are resumed during the year the company will presumably gain in this field.

The second oldest ship of the *Bharat Line fleet, s.s. Bharatmata* was sold for scrap value as it had become uneconomic to run. A loss of a little over Rs. 1.29 lakhs resulted and this amount was adjusted against the Fleet Reserve Account. After adjusting also a small amount on account of payment of income-tax, this account stood at Rs. 15.38 lakhs as against Rs. 16.68 lakhs at the beginning of the year.

The Company's Persian Gulf-India-Burma trade was maintained with the three cargo vessels obtained for the purpose, but it has not been found possible to obtain a cargo-cum-passenger vessel for the purpose of starting a passenger service on this route.

The acquisition of nine more ships during the period of the Second Plan, referred to above involves further borrowing from Government to the tune of Rs. 650 lakhs, of which about Rs. 200 lakhs are likely to be drawn during the first year of the Plan. The total loan from Government outstanding at present amounts to Rs. 136.7 lakhs, while other unsecured loans amount to nearly Rs. 9.5 lakhs. As the total paid-up capital of the company amounts to only Rs. 100 lakhs with no free reserves, a special resolution approving and authorising these borrowings is necessary under the new Company's Act and this will be considered at the annual general meeting.

The ship repairing subsidiary of Bharat Line at Bombay suffered a loss of Rs. 1.1 lakhs during the year which increased its total loss so far to a little over Rs. 4 lakhs. To meet the contingency of a fall in the value of the company's investment in the shares of its subsidiaries, the directors of the company have recommended the creation of an Investment Depreciation Reserve beginning with a sum of one lakh of rupees for the year under review. The other subsidiary at Calcutta is making progress and workshop is expected to be ready soon.

After providing Rs. 24.2 lakhs for depreciation, the amount available for disposal including the balance brought forward comes to Rs. 7.55 lakhs. The directors have recommended the maintenance of the dividend at Rs. 5 per share.

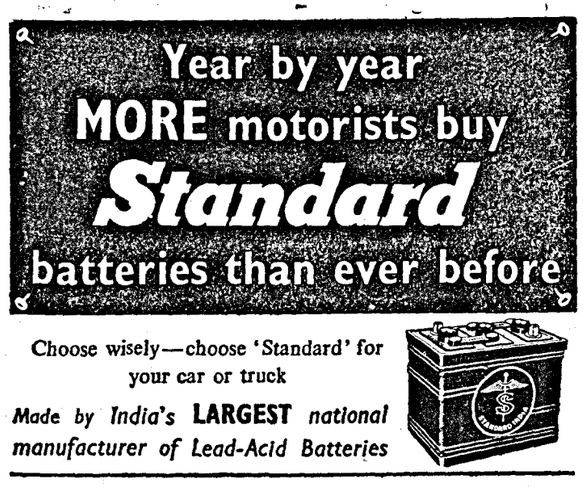
Electric Construction

IN recent weeks, Electric shares, listed on the Calcutta Stock Exchange, have been moving up. Spurt in these shares has been due partly to the continued firmness in Electric Construction. In the year to October last, the Company redeemed its preference shares. Its satisfactory working results are encouraging both investors and speculators to take interest in the Company's shares.

In 1945, the Electric Construction and Equipment Company, Ltd., was formed to take over the lease of the workshop of the famous German firm of Siemens (India) Ltd. from the Custodian of Enemy Property. In 1948, this well-equipped workshop was sold to this Company. In 1947, the Company was appointed as the sole selling agents of Schindler & Company, Ltd., one of the world's foremost suppliers of all types of electrical equipment.

Some years ago, the Company started a small factory in Bombay for manufacturing some of the lift components and parts under license from Schindler. It has complete plans for the manufacture of Schindler Lifts in India. Since its start, the Company has organised maintenance and servicing departments throughout the country to render after-sales service to its customers. The original machine shop of Siemens (India) Ltd. has been extended considerably to cope with the increased range of manufacture by this Company.

New expansion programme of the Company includes manufacture of transformers. Orders have recently been placed by the Company for additional equipment, machinery and testing plant for installation at its Cossipore factory. It has also secured some technical assistance by agreement with Tokyo Shibaura Company Ltd. of Tokyo.



Around Bombay Markets

New Industrial Policy Welcomed

Thursday, Morning

WHILE the process of a technical re-adjustment has been under way, the market had been swinging in opposite directions, responding to conflicting versions of the new industrial policy. The actual revision of the policy statement of 1948 has served to restore sobriety in the market. Operators no longer have to contend with financial whims. It has now been made clear how far the Government will go in regard to taking over certain industries to be directly managed by the State. Actually the statement contains no element of surprise. For, the market has been more or less attuned to what was in store for it by a series of measures that the Government had taken in recent months, the most spectacular of which was the nationalising of life insurance. But some of the loose ends have now been neatly fixed up and the released statement not only sums up what the Government has been doing but also makes it clear what the Government may be expected to do in future.

The immediate reaction of the market to the reorientation of the industrial policy has been a handsome rise in equity values. The main factor that seems to have tipped the scales is the absence of any time limit in respect of the currency of the new policy. The first list which comprises what is now the exclusive field of the public sector for future development has been enlarged to include 17 industries. From the point of view of the stock markets, the main industries in this sector are iron and steel, coal, manganese ore, mining and processing of copper, lead, zinc, tin etc. not to mention the generation and distribution of electricity. The market has naturally welcomed the policy whereby in the key industries the private sector is to be allowed to develop side by side with the public sector.

In the early part of the week there were evidences of a shake following the report that the Finance Minister would quit office on the Bombay-Maharashtra issue. The nervousness, however, proved to be short-lived and the industrial policy statement gave a much needed fillip to the markets. Whatever the strength of the bearish factors which momentarily upset the market, there are no two opinions about the outlook for equities. Thanks to the Second Five year Plan and the markedly upward trend of production already evident in so many industries, the economic future of the country is assured and the stock market, as a barometer of a country's economic climate, is bound to reflect this underlying strength, no matter what intermittent weak spots develop.

A notable event of the week was the sudden reversal in Bombay Dyeings. Receding prospects of a bonus was the main cause for this mild setback. Towards the close of the week, however, along with other scrips, Bombay Dyeings also improved on replacement buying which more than served to offset the profit-taking. The other textile shares, and, sugar mill shares ruled very firm.

Cotton

Firm Trend in Spot Market

FOLLOWING the resignation of Shri Purshotamdas Thakurdas, last week, it was feared that even the spot market at Sewri might perforce be closed as a protest against the increasing powers of control assumed by the Forward Market Commission. However, this did not come about and trading in the spot market went on uninterrupted.

The East India Cotton Association Board requested both Shri Purshotamdas and Shri Parikh, the President and the Vice-President of the Association respectively, to reconsider their decision and to withdraw their resignations. Considering the circumstances of their resignation however, it would be futile to entertain any hopes of the EICA being able to persuade them. In this trial of strength with the Forward Markets Commission, the EICA has been so badly worsted that one might well ask why the Association should at all continue to perform a make-believe function.

In the spot market, a generally firm trend prevailed during the week. Thanks to sustained investment buying, most of the styles were around the ceiling. Demand was particularly keen in Khandesh, and Berar Jarillas, Surti, Vijay, Laxmi, Jaydhar, Wagad, Morvi and Kala.

In the foreign section, there was a big spurt in American cotton towards the end of the week. Prominent local mills were keen buyers of Californian Good Middling 1-5 32" as this quality appeared more than a hundred rupees cheaper than comparable East African varieties like Burkhedi or Buega.

California Acala Good Middling 1-5|32" was quoting at around Rs 1415 per candy while East African, Busega and Bukhedi could be had at around Rs 1550 and Rs 1525 per candy respectively. Because of the cheapness of Californian cotton, Indian mills have been reported to have purchased during the last four days about 30,000 bales.

A consequence of heavy purchase of American cotton by Indian Mills was a fall of nearly Rs 20 per candy in African varieties.

Oilseeds

Exemption of Duty Issue

ONE of the grievances of the oil seeds merchants' unsuccessful mission to New Delhi last week was in regard to the outstanding commitments in oils. Their move to have these outstanding commitments exempted from the payment of the newly imposed export levies failed. In the case of linseed oil alone, it would now seem, the outstanding commitments are of the order of about 15,000 tons. If exporters are to honour their commitments, they have to ship this quantity within two months. It is now reported that a British mission is due to meet the authorities in Delhi to persuade them to exempt linseed oil (in the case of outstanding commitment) from export levies. One might ask, why should a British mission take up this subject which is, after all, a responsibility of the exporter here. Contracts are made on the basis of export duty on sellers' account. One cannot help concluding therefore that the shippers here have persuaded British interests to take up this question from their end. On its part, the Government of India is not likely to waive its earlier decision, as it is still of the view that the exporters here should have themselves taken the precaution of ensuring adequate coverage before entering into commitments.

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CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1505.01	1509.65	1466.64	1277.09
2. Rupee Coin	107.20	106.16	103.16	102.20
3. Deposits				
a) Central Government's	58.60	55.86	67.34	59.45
b) Banks'	50.84	53.33	53.24	47.72
c) Other Governments'	27.01	25.53	62.03	60.27
d) Others'	17.18	17.03	16.68	21.53
4. Foreign Securities	681.45	681.45	656.42	646.85
5. Balances held abroad	44.20	52.71	89.72	83.15
6. Rupee Securities	698.69	698.69	678.82	503.95
7. Investments	44.19	44.64	47.19	49.38
8. Loans and advances to Governments	1.79	1.00	1.20	0.45
Scheduled Banks				
1. Demand liabilities (net)	641.30	643.55	621.35	581.93
2. Time Liabilities	427.77	423.56	412.92	382.14
3. Cash on hand	37.89	37.20	34.63	34.55
4. Borrowings from Reserve Bank	50.80	49.42	66.93	26.48
of which against Usance Bills	32.82	28.95	32.46	24.76
5. Advances and Bills discounted	705.00	707.82	703.20	585.40
of which State Bank's	134.57	135.49	141.15	125.05
6. Invst. in Govt. Sec.	355.58	356.37	362.13	342.69
of which State Bank's	94.89	94.98	97.37	92.45
Cheque Clearance	143.15	139.97	120.43	128.35

†For Reserve Bank week ended 27-4-56 Scheduled Banks and Cheque Clearance week ended 20-4-56

Bombay Money Rates	27-4-56	20-4-56	30-3-56	29-4-55
Inter-Bank Call Rate	3 1/8	3 1/8	3 15/16	2 7/8
3 months deposits	3 3/8	3 3/8	3 3/8	3 1/16
6 months deposits	3 3/8	3 3/8	3 3/8	3 1/16

Bombay Bullion In Rupees and Annas

	3-5-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	106-9½	106-0	104-13	96-4
Forward	105-11½	105-10	105-2	95-8
Silver (per 100 tolas)				
Spot	183-5	180-13	180-10	168-12
Forward	182-5	180-9	180-15	168-4

JUTE STATISTICS

Production ('000 tons)

	Feb. 1956	Jan. 1956	Dec. 1955	July'55 to Feb. '56
Hessian	32.0	30.3	34.0	264.5
Sacking	54.7	52.6	56.6	393.2
Others	6.1	6.0	6.7	43.5
TOTAL	92.8	88.9	97.3	701.2
Total Production in the corresponding months of:				
1954-55	81.8	83.9	94.0	661.3
1953-54	68.3	67.3	77.8	569.2
Stocks at the end of the month ('000 tons)				
Hessian	28.2	25.6	23.5	—
Sacking	52.5	45.3	35.1	—
Others	9.0	7.5	5.6	—
TOTAL	89.7	78.4	64.2	—
Stocks at the end of the corresponding months of:				
1954-55	82.9	76.4	69.6	—
1953-54	95.4	95.7	98.6	—
Despatches:† ('000 tons)				
Hessian	29.1	82.3	38.5	274.6
Sacking	47.3	41.5	52.9	378.3
Rope, twine, etc.	3.6	3.1	3.9	30.5
TOTAL	80.0	72.9	95.3	683.4
Total despatches in the corresponding months of:				
1954-55	74.8	76.7	92.0	662.0
Raw Jute Consumption: (lakh bales of 400 lbs each)				
1955-56	5.23	5.18	5.64	31.60
1954-55	4.47	4.84	5.46	28.67
1953-54	3.43	4.03	4.53	32.57
IJMA Mills' purchases of raw jute (lakh bales)				
Pakistani	9	1.63	1.13	10.96
In corresponding periods of:				
1954-55	0.90	0.86	0.36	6.86
1953-54	0.49	0.45	1.12	5.65
Indian	3.46	5.97	3.91	34.26
In corresponding periods of:				
1954-55	3.21	5.42	4.11	34.57
1953-54	2.22	3.31	4.30	26.53

† Despatches include exports and sales for internal consumption

Source : Indian Jute Mills Association

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The INTUC Formula

THAT the acceptance of the goal of a socialist pattern of society for India necessitates a change of attitude on the part of all groups in the community is obvious. What is not so obvious is often the direction and extent of such change. This is particularly so in respect of labour organisations, the **raison d'etre** for which is the need for collective bargaining in an essentially capitalistic society. What position they should take on matters affecting the labourers in a regime of free enterprise is clear enough. Equally, in a set-up such as exists in the Soviet Union, their station may be more or less defined. But when society is moving from one pattern to another and when, moreover, socialism is defined in a loose sense, labour organisations are apt to find themselves in a most embarassing position. This is all too evident from the deliberations of the Indian National Trade Union Congress at Surat this week. Like its spiritual parent, the Indian National Congress, the I N T U C creates the impression of trying to ride several horses at one and the same time. This would not be so bad if all the horses were facing the same way; but as it happens, they do not face the same way.

The primary concern of the INTUC is or ought to be, to better the conditions of labourers coming within its purview. And this means under present conditions not only the obtaining of an increasing share of the national dividend for labour, but also the enhancement of labour participation in working out economic policy in general. The latter is, indeed, a desideratum for a socialist society. But progress in this direction involves the risk of having to relinquish some of the rights or powers to which labour organisations have always attached importance. The most important of these rights is, of course, the right to strike; and when labour organisations are closely linked to the party governing the country it is in regard to the exercise of this right that serious difficulties arise.

For, resort to strikes could be construed as action not only against the specific employers but against government as well. Under the programmes of planned development that we have adopted, the State becomes increasingly a direct employer of labour; it also takes on the moral responsibility for creating proper conditions in the labour market as in others for employers in the private sector, since these have to fulfil specified targets and accept additional obligations. More basically, Government has to ensure that as national output increases, more and more of it is available for capital formation. Should labour go on strike, it will jeopardise the position of Government as much as, if not more than, that of private employers.

But then the INTUC cannot stay put when national output is increasing and when the objective of its spiritual parent is to raise the returns to those who, by the sweat of their brow, add to the flow of goods and services. Its members need concrete evidence that their position is improving; and the evidence that matters to them is the increase in their wages. In other words, the task of the INTUC is to procure for the labourers a higher wage and to prevent them from going on strike to obtain their demands.

This double objective cannot be achieved unless the INTUC is in a position to fix the wages actually paid in the community. Indeed, even if it had such absolute power, it could not always have ensured a rise in wages equal to the increase in the productivity of labourers. Labour will have to create a surplus for the capitalist or the State to invest. How much of its increased product it can claim is, in the absence of bargaining on the market, dependent on the quantum required for investment in a fast developing economy. The INTUC believes that the answer to all this is establishment of Wage Boards regionwise and industrywise. This would mean, in principle, that the proper level of wages would be fixed not by the relative strength of the contending parties to strike or lock-out, but by a body of wise men weighing the needs and claims of every section of the community. But Wage Boards are in practice cumbersome; and such effort will be worthwhile only if it is clearly understood that their awards will be implemented. In the final analysis these awards will have to be taken as binding not only legally but morally. Otherwise, strikes and lockouts will not disappear, but only become illegal. And experience in the U. K. has shown that the so-called illegal strikes may not be rare or ineffective.

Fortunately, the last few years in India have been free from widespread or prolonged strikes save for the Bank Employees' dispute. In this period, there has also been extensive labour legislation and perhaps some improvement in working conditions as well as earnings. But it is in regard to the future prospects that the INTUC has tried to lay down the line. In the next few years, there ought to be a big increase in national income; there also ought to be a substantial increase in employment. The question is whether the labour class should, by and large, be content with the increase in its share of the national product that will result from larger employment. Leadership in the INTUC is itself divided on this issue. Shri Tripathi considers a 25 per cent increase in wages as essential for maintenance of industrial truce. Such an increase in wages clear across the board, together with additional employment, could well mean an increase in the relative share of the national income going to labour, since in the five year period the national income is expected to go up by 25 per cent. Shri Nanda, on the other hand, pleads for moderation in the price demanded by labour immediately, in the interests of future progress. Which of these views will prevail depends ultimately on the influence these men and their views have on the rank and file of labour.

Organised labour will have a propensity to go on strike if it feels that it is being exploited and that it is strong enough to join issue openly. To obviate strikes therefore the INTUC has to generate the feeling that labour is, if anything, getting a little more than its due all along the line. This is not going to be easy, not only because the INTUC is not the sole labour body in the country, but also because the process of equalisation affects at certain stages the wage differentials that are existing. This could well undermine the effectiveness with which the INTUC can muster support for its programme. Labour groups can be ferocious in their defence of existing differentials; and an increase in wage levels of one group might set-off a round of increases, so that the stratifications within labour may be kept intact.

This much is therefore clear. The INTUC cannot, until the nature of the State and Society in India changes more than hitherto, bring about a 25 per cent increase in wages, without fierce opposition from the employers. And, if it abstains from resorting to strikes in pursuance of this objective, it may not obtain a general raise in wages. If the situation is such that conditions are favourable for a strike, other organisations will step in and take the lead. And should this happen, the INTUC will also be drawn into the struggle, willy-nilly.

All this is not to say that the INTUC should have staked its claims for a wage-rise and backed it up by a threat to call a general strike. The point here is merely that the INTUC in its deliberations, has shown the ambivalence which plagues many institutions in this country. This emanates from lack of appreciation of a basic fact, viz. that the right to strike is a weapon appropriate to a particular set of institutions. In order that this right might be considered superfluous there has to be a substitution of this set of institutions by another, in which exploitation of labour is prevented by other means. Unhappily, the tokens of change are considered as the real thing, and instead of definiteness, confusion is being created about the future policy of labour organisations in this country.

NATO's "New Look"

DEEPER influences lie behind the attempt to give NATO a "new look". NATO is a creature of fear. It was born of, and has lived on, fear. As the threat of Russian aggression has receded, this defensive alliance has lost the will to live. To rejuvenate NATO, two doctors have prescribed two remedies. European members of NATO, besides Britain, have welcomed Mr Dulles's unexpected conversion to the concept of "advancing NATO from its initial phase into the totality of its meaning". One of the decisions of the Paris meeting of the NATO Council is the appointment of a committee of "three wise men" to "advise the Council on ways and means to improve and extend NATO co-operation in non-military fields". President Eisenhower, a distinguished strategist, has prescribed a military remedy to revive NATO. These two prescriptions are not necessarily contradictory. But for reasons which are different, both the proposed remedies have been subjected to hostile criticism.

NATO has been in existence for many years. But the NATO Army has yet to be created. France needed prolonged persuasion to ratify the Bonn and Paris Agreements. But the French forces in NATO are now in North Africa, and are not available for the defence of Western Europe. Bonn was enthusiastic about military integration between NATO and Western Germany. But the promised German divisions have yet to be incorporated in NATO. Western Germany is enjoying a business boom. Industrialists are not interested in diverting resources away from industry to military preparations. Bonn is reluctant to pass the conscription law. Because it has not been possible to establish an adequate NATO Army, President Eisenhower has proposed supplies of tactical nuclear weapons to NATO partners. This American offer will enable France, Western Germany and other European members of NATO to discharge their military commitments cheaply and with fewer men.

This strategic aspect of the Eisenhower proposal cannot obscure its sinister implications. Despite the understanding reached between the Heads of State at the Geneva "summit Conference", America has made it clear that she will use tactical atomic weapons to avert threats to aggression. Indeed, Mr Dulles threatened to use tactical atomic weapons on China's military and industrial targets if Peking committed acts of aggression in Indo-China. This is the theory of Gradual Deterrence.

The danger is that, in practice, there is no clear distinction between tactical and strategic uses of nuclear weapons. Either by accident or through concealed design, a tactical use of such weapons may turn out to be a strategic use, and a minor military action may lead to a major war. Because NATO has not even the armed strength needed to maintain mobile units for prompt deployment to strategic points at the periphery, President Eisenhower proposes supplies of atomic weapons to maintain the military effectiveness of inadequately equipped NATO.

But the consequences of such a policy may be explosive. Since the creation of NATO, there have been suspicions that some of the European NATO Powers who still have colonies may try to maintain their hold on their dependencies through supplies of arms through NATO. To be fair to America, it must be admitted that Washington has always taken a hostile attitude to use of American supplies of weapons to NATO partners for the purpose of perpetuating colonialism by some of the colonial NATO Powers.

There is another, and more sinister, angle to the Eisenhower proposal for supplying tactical atomic weapons to NATO Powers. SEATO and the Baghdad Pact are inspired by NATO. Even if the defensive purpose and function of these regional military alliances be conceded, there is an ominous possibility that some SEATO and Baghdad Pact members may urge America to extend her new offer to NATO to them. Like NATO, SEATO and the Baghdad Pact lack adequate and equipped armed forces. Reasons which have influenced President Eisenhower to propose supplies of tactical atomic weapons to NATO Powers can, with equal logic, be advanced by SEATO and Baghdad Pact members for requests for such military aid from America. This is a sinister possible sequel to President Eisenhower's proposal to NATO Powers, and cannot be ignored by peace-loving Asian nations.

If President Eisenhower's proposal to supply tactical atomic weapons to NATO Powers has sinister implications, the efforts, inspired by France and Canada, to extend NATO's activities to political and economic spheres are both redundant and incapable of achieving any positive results. As most NATO members are jealous of their sovereign national rights, there is little scope for political activities of NATO. Nor is there any scope for economic activities of NATO. So far as Europe is concerned, the OEEC performs the function which is now being proposed for NATO. Both Mr. Dulles and Mr. Pearson are opposed to any "NATO aid" plan for backward areas. Poor Asian nations will prefer aid through the agencies of the United Nations to help through NATO, or SEATO or the Baghdad Pact.

There have been suggestions that, even as regional military alliances should be abolished, aid by individual countries and regional plans for assistance should be replaced by world economic co-operation under the auspices of the United Nations France and Russia are in favour of such plans for aiding undeveloped countries. Mr Dulles seems to be in favour of economic aid under the auspices of the United Nations, though President Eisenhower seems to be opposed to such proposals. Instead of trying to revive NATO by extending its activities, or to foster the idea of an "Atlantic Community", France and Canada could further the cause of world peace by demanding the demise of NATO. With the elimination of NATO, the solution of the disarmament problem, the essential condition of peace, would be much nearer.

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Weekly Notes

Significant Omission

A SIGNIFICANT feature of the new Industrial Policy statement which has failed to attract much attention is the absence in it of any reference to the form of management of enterprises in the public sector, although with an increasing number of enterprises being run by the State, this question is of no little importance. The need for efficiency and flexibility in commercial activities even when these are carried on by the State, together with the need for general responsibility to Parliament, has marked out the public corporation as probably the most suitable form in most cases, though many problems in connection with such corporations still remain to be solved. The 1948 Resolution had clearly stated that the "management of State enterprises will, as a rule, be through the medium of public corporations under the statutory control of the Central Government . . . ."

Why then does the new statement make no reference to the subject at all? Not that this should really occasion much surprise. It has been clear for some time that high officials in Delhi do not favour the public corporation with its independence from departmental organisation. They prefer the private limited liability company with one share being held by the Secretary of the department concerned and the rest by the President of India. The fact that no less an authority than the first Comptroller and Auditor-General of India had described such companies as a fraud on the Companies Act and on the Constitution carries little weight with them, for while giving the impression of being independent, these private companies offer full scope for departmental interference.

By omitting any reference to the form of management of public enterprises, the issue has perhaps been only postponed. It is time that this question was settled, keeping all the aspects of this very important problem in mind.

Importing Wheat

WHILE India was among the countries to sign the International Wheat Agreement in 1953 when Britain kept out, it has subsequently turned increasingly towards bilateral arrangements for its import of wheat. Under that agreement, its annual import quota was fixed at 10 lakh tons, but in fact in 1954 it imported only 1.97 lakh tons. In 1955, it is true, it imported a somewhat larger quantity, 4.35 lakh tons. Already this year, however, of the total imports, 1.29 lakhs were obtained from USA under that Government's Development Assistance Programme which is outside the international agreement.

Again this year it is reported that 5 lakh tons of wheat are to be imported in order to build up a buffer stock of about a million tons of wheat. Of this amount orders for over 4 lakh tons have already been placed mainly with the US authorities and negotiations for an additional lakh tons are now said to be proceeding. Besides about forty thousand tons of wheat have already arrived from USSR.

It appears, therefore, that the new International Wheat Agreement which was signed recently will not affect this country directly. The position of wheat in world market has in fact changed considerably since the last agreement when it was difficult to obtain wheat bilaterally. The United States which as an exporter is an important party to the agreement has been moving away from the multi-lateral arrangement which is the basis of the agreement. Each year the US Government has been selling increasing quantities of wheat outside the agreement, regarding these sales as abnormal marketings. This means that the International Wheat Agreement now covers less than a third of the total international trade in wheat.

More light needs to be thrown, however, on prices. The new agreement provides for a maximum of 200 cents and a minimum price of 150 cents against 205 and 155 cents respectively under the previous agreement. The prices at which India is obtaining wheat by bilateral arrangements are presumably much lower. It would be interesting, however, to know what price difference exists, for the quantities involved are quite large.

If the position in this country becomes at all more difficult in future, however, and it is no longer possible to obtain large quantities of wheat from USA or other countries which have surplus stocks, keeping out of the Agreement at the moment may not prove to be in her long-term interests. That depends both upon the internal food position and the international supply position in the future.

Damaging Criticisms

IF the principal aim of the community development projects is kept in mind, some of the criticisms made by the Programme Evaluation Organisation must be considered highly damaging. "Efforts at creating a more progressive outlook and educating the people into new ways of doing things," says the third report of the Organisation, "are being given a secondary place in the anxiety to get things done and moneys spent." The report also points out that "even among physical accomplishments, preference in many areas is distinctly for the spectacular as against less noticeable though more lasting and fundamental improvements."

These criticisms raise important questions about the working of the community projects and national extension service blocks and the principles that can be used in their evaluation. It is clear that here if anywhere the criteria of money spent or of physical targets achieved are simply not applicable. Not only are they likely to give misleading ideas of the progress achieved in different areas, but they are actually likely to misdirect the energies of officials concerned into the wrong channels and thus to endanger the future of probably the most promising experiments in social change.

Only a more detailed analysis of the problems posed by the report can show what are the criteria that should be used for judging the progress of this experiment, and can enable a judgment to be made about how it is actually progressing so far. Obviously, there are many good points to note about their progress to date. The Programme Evaluation Organisation stresses for instance that "the people have demonstrated convincingly their desire for progress and their willingness not only to adopt but also to contribute towards any measure about the utility of which they are convinced." The hope with which the community development projects were first started has been vindicated. It is now for the authorities by reassessing the programme in the light of experience obtained so far to decide in what way it can be made more effective.

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Hindu Exodus

MANY Indo-Pakistani conferences have been held on the exodus of Hindus from East Bengal. Pakistan has frequently given assurances that steps will be taken to stop the exodus. Despite these repeated assurances, the exodus continues. Few are hopeful that the migration will end as a result of last week's Dacca talks. Until recently, Pakistan has admitted that the migration continues because of the feeling of insecurity among the Hindu population in Eastern Pakistan. In the joint communique, issued after the Dacca Conference, Pakistan re-affirmed the Hindu minority's right to live in East Bengal as respectable and honourable citizens of Pakistan.

But the proceedings of the latest Dacca Conference are revealing in so far as they disclose a new attitude of Pakistan to the problem of migration. Pakistan now seems to argue that the migration is mainly due to "liberal rehabilitation facilities in West Bengal". Based on this assumption, the Pakistani delegation suggested that the border should be sealed so that Pakistan could solve the problem of minorities in her own way. Sealing the border would stop the migration, but will not solve the problem of the minorities.

Though the Indian delegation has been wise in rejecting this suggestion, it has agreed to the other Pakistani suggestion that the issue of migration certificates should be restricted. India has not agreed to the creation of a joint committee, with representatives of both Governments, to scrutinise applications for migration certificates. But the Indian delegation has accepted the Pakistani demand for greater restrictions on the issue of migration certificates. It would be idle to pretend that such clumsy devices can stop the exodus. Many would resent any such compliance by India with Pakistan's insistent demand for stricter scrutiny of migration certificates. East Bengal's Hindus have the right to come to India. Over and over again, New Delhi has given such assurances to the minorities in Eastern Pakistan. Such assurances were repeated only a few days ago in Parliament. And East Bengal's Hindus would like to be assured that the Indian acceptance of the Pakistani demand for closer scrutiny of issue of migration certificates does not involve any disavowal of New Delhi's avowed obligations to them.

Mission to West Asia

PEACE has not returned to west Asia, but Mr Hammarskjoeld, the UN Secretary-General, has been successful in easing the tension on the Arab-Israeli border. In his interim report to the United Nations, he claims that "positive results" have been achieved in his negotiations with Israel and four Arab States to observe a cease-fire. Armed border clashes have stopped. Both sides have reaffirmed their duty to observe the Armistice Agreement. Immediate threats to peace in west Asia have been averted.

Diplomatic developments since the start of Mr Hammarskjoeld's peace mission have helped him in his efforts. By refusing to take any hasty action during the United Nations' peace mission to west Asia, President Eisenhower had lent moral support to the UN Secretary-General. Russia's willingness to co-operate with peace efforts sponsored by the UN had, similarly, helped the Secretary-General in his negotiations with Israel and Arab States. It is a welcome sign that America is now in a mood to concede Russia's right to be consulted on west Asian issues. Recent developments would seem to suggest that Western Powers are now willing to solve the Arab-Israeli dispute under the auspices of the United Nations. This is a distinct achievement. But it would be hasty to conclude that the tension in west Asia has been eased. Only the proper approach to the problem has been defined. Proper remedies have yet to be formulated to ensure peace in that troubled region.

Protection of Publication

THE benefit of the usual privilege enjoyed by legislators in respect of civil or criminal liability for their speeches was confined so far strictly to the legislative sphere. As newspapers or other media of public information did not enjoy the same immunity, statements involving certain legal implications, even though of considerable importance to the public, could not be broadcast. To that extent the very purpose of the privilege of unrestricted utterance extended to legislators was liable to be defeated. Shri Feroze Gandhi therefore deserves to be complimented on his endeavour to find a remedy through the Proceedings of Legislature (Protction of Publication) Bill, which has been passed by the Lok Sabha.

The Bill has no doubt lost some of its original features in the course of its passage through the Select Committee. The measure, as it stands now, limits its protection only to the publication of the proceedings of the two Houses of Parliament, excluding from its purview State Legislatures and Parliamentary Committees. What is more, the protection sought to be extended is qualified by certain reservations. The publication must be without evidence of malice and it must be for public good. Though the intention behind these reservations may be unexceptionable, they are liable to prove restrictive in practice. Again, as the function of newspapers or other media of publicity is only to report what has already been spoken by others, it would not be fair to bring against them charges which would not lie against those who have made the statements in question.

Meanwhile, there does not seem to be much point in limiting the operation of the Bill only to the proceedings of the two Houses of Parliament. The distinction that has been made between proceedings of Parliament and those of State Legislatures lacks justification. It cannot possibly be argued that if the proceedings of Parliament can be allowed to be fully reported, there would be any harm in extending the same rule to speeches and statements in State Legislatures. It is to be hoped that this anomaly will be removed at an early date.

Nepal's Future

WITH the coronation of the King of Nepal, interest has again revived in the political evolution of that State. Thanks to rivalry among political leaders and groups, disunity and several other upsetting factors, there has been stagnation so far. Elections have come to be put off again and again; and this has robbed the political scene of that touch of reality and sense of urgency which could normally have been expected to evolve some unity of thought and action out of the state of discord and dissension prevailing there. In these circumstances, it is but natural that the reactionary forces of the past, smarting under defeat, should again raise their head. A reference to this has been made both by the present Prime Minister, Shri Tanka Prasad, and his predecessor in office, Shri M P Koirala in recent statements. The former, however, was confident that there was no danger of the Rana clan rising

to power again. He said that most of the Ranas had by now realised that their days were over.

Nevertheless, there can be no complacency in the fluid state in which affairs are in the Himalayan kingdom. The dangers facing it are not only internal, but also external; and it is only a sound order of democracy functioning vigorously there that can meet both. Meanwhile, there is cause for hope in the fact that the long-postponed general elections are at last scheduled for next year. This has already set politicians of all camps thinking seriously of the future and revising their old attitudes. The most promising development in this context has been the decision of Shri M P Koirala, leader of the National Democratic Party, to rejoin the Nepali Congress from which he had broken away over the issue of cabinet formation some years ago. This split had in no small way been responsible for the political retrogression of Nepal in recent years. The example of Shri M P Koirala might well be followed by the leaders of other political groups too. If the bewildering multiplicity of parties there, revolving more around personalities than clear-cut political programmes, has done no good to the State in the past, it bodes less for the future. Should the present pattern of political disunity reflect itself in the legislature of the future, there could hardly be any stability.

Shri Tanka Prasad, looking ahead at a press conference recently, said that after the elections, Nepal would have a new constitution with 'a limited monarchy'. But the possibility of such a constitution being drafted and the chances of its working successfully would both depend on the result of the general elections and the strength or weakness of the political alignment that it reveals. Should there be too many small groups pulling in different directions, then the drafting of the constitution cannot but be a prolonged process, and the document that emerges in the end can hardly be of the type that is visualised by the present Prime Minister. And even should it be so in the draft, it may well take a different course in actual operation. If there is not a single strong party or a well-knit coalition of parties to run the administration, then the monarch, though limited in authority in theory, would necessarily have to come more and more into the picture. To that extent the free functioning of democracy would suffer in practice.

Inter-State Sales Tax

THE vexed question of sales tax on inter-State trade which has plagued the country since the inauguration of the Constitution will be settled at last by the Constitution (Tenth Amendment) Bill which has now been referred to a Joint Select Committee by the Lok Sabha. Under this bill, it is proposed to amend the Constitution to place inter-State sales tax within the exclusive legislative and executive power of the Union. The recommendation of the Taxation Enquiry Commission that the spheres of power and responsibilities of the States should end and that of the Union should begin when the sales tax of one State impinged administratively on the traders and fiscally on the consumers of another State, will now be implemented.

The path for this bill was, however, really cleared only by the decision of the Supreme Court in the Bengal Immunity Company case by which the States were debarred from levying a sales tax on goods moving in inter-State trade. Until then such an amendment would have had to face strong opposition from the States which had made it quite clear that they did not intend to give up one iota of the power vested in them by the Constitution. As the position stands at present, the States have nothing to lose from this Bill and have in fact everything to gain, for the entire revenue from the inter-State sales tax levied by the Central Government is to be distributed amongst them. Since in any case the States do not derive any revenue from this trade at present, they will naturally welcome the provision under which without losing any of their powers they will make a gain in revenue.

The present bill will only make the necessary amendment to the Constitution which will of course require the assent of the States. When the necessary change has been made in the Constitution, two further bills are likely to follow. One of these will lay down which items are essential for the community and the other will lay down what constitutes an inter-State transaction. Presumably the latter Bill will also provide for the actual levy and collection of sales tax on inter-State trade.

It has been stated by Shri M. C. Shah, Minister for Revenue and Civil Expenditure, who introduced the Bill, that as a result of the centralisation of the inter-State sales tax, it will be possible for Government to collect about Rs. 112 crores from this source while the present total collections of all the State Governments put together amount to only about half as much. The present Bill will, therefore, make it possible for the Centre to tap an important source of revenue for financing the Second Five Year Plan. Incidentally, the fact that it should be possible to obtain such a large amount of revenue from this source is itself an indication of the great loss that has been suffered by the States as a result of their obstinacy so far in resisting any effort to centralise the inter-State sales tax. The fortuitous circumstance of the Supreme Court reversing its own decision must, therefore, be credited with overcoming an obstacle which has stood in the path of rationalising an important sector of the tax structure in this country.

There is no doubt that a new administrative authority for inter-State sales tax will be added to the already large number of sales tax authorities in this country, but this is a difficulty that has to be balanced against the advantages of the new Bill which can hardly be denied. While welcoming this Bill, therefore, it must be regretted that the opportunity could not be taken to centralise the entire sales tax. It was pointed out in Parliament that the country would gain from the uniformity in sales tax legislation in all the States. Some of the more obvious changes for making the sales tax laws of different States more uniform have no doubt already been taken, but obviously a complete uniformity, which would facilitate trade and improve administration, can only result through complete centralisation. It is unlikely, however, that this will be resorted to in view of the opposition of State Governments.

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The Englishman's Reaction

A CORRESPONDENT from London writes:

I recently heard B & K over the radio at their final press conference. The diplomatic correspondent of the BBC was almost lyrical about this conference after the questions. I thought I had tuned in to Radio Moscow by mistake. It is extremely interesting to compare their visit to India with that to Britain. In the former the whole thing was treated as a game, at least openly. Because Nehru had received the kisses of countless young Komsomols therefore the Russians must also receive the embraces of (probably equally grubby) children of high Indian civil servants. Indian crowds also reciprocated. If the USSR can produce so many thousand people to order, then Indians ought to be able to produce twice the number to order. In Britain, however, there is not and never has been the idea of diplomacy as a game at least among the common people. Crowds standing almost dead silent; a few enthusiasts either for or against the Russians performing their customary antics but completely unrepresentative of people at large. One would almost say that the people were uninterested by their lack of movement. But this would be quite wrong. The British crowds are a peculiar lot because in my mind they will never let themselves go unless they feel that the people they are cheering are sincere. And there is no doubt that everyone was thinking: Stalin yesterday, B & K to-day, but the system is the same.

I think that is perhaps why the diplomatic correspondent became so lyrical at the end of the BBC broadcast because he began to feel that perhaps B & K were showing their sincerity instead of being stuffed dummies at the top of a system completely alien to the British system. Similarly with the Labour Party dinner. The feeling against Mr Brown has nothing to do with the release of the Russian imprisoned social democrats but entirely with the issue that Mr Brown by his un-English rudeness had betrayed the traditions he ought to have protected.

These moral rules of behaviour are really pretty strict. I was in England soon after the war and remember very well the spontaneous anti-Russian feeling which suddenly arose when Stalin refused to allow certain Russian wives of British subjects to come to England on the ground that the State had priority over the family's rights. The "Daily Worker" was frightened to print this announcement for several days and in one place the foreign born wife of a member of the Communist Central Committee who was giving a speech was stoned by the crowd.

I think that this is the attitude that one should take towards the visit of B & K to this country, one of detachment and watchfulness to see whether the Russians are now prepared to act like civilised (i.e. British) people. If they do, then world peace is assured and Britain will certainly assist the USSR to intervene with the USA or anyone else. But if not, then no amount of concessions by the Russians will make any difference. Public opinion in Britain is a funny thing, very difficult to estimate or mobilise, but once organised it is like a steam hammer. British politics is littered with the trails of Prime Ministers and others, who failed to take this into consideration.

Off the Record

Reflections on Reflections

THE reflections of so eminent a banker as Shri B T Thakur should be meat to anyone interested in commercial banking in India. The fact that he is retired makes no difference; even the best of them have to lay down their responsibilities some time. Indeed, having retired, he can speak with greater freedom and without any fear of embarrassing the institution he so ably built up. But like all freedoms, this one is double-edged too. To merit serious consideration, it should be indulged in with a sense of responsibility and fairness. There is, after all, a difference between reflections and outpourings of personal annoyances. When somebody does a thing which is not to one's advantage or liking, it is all too easy to call the other man incompetent or power-drunk or ignorant. But to do so is not cricket except in clearly demonstrable cases. Even worse, it invites others to impute motives of a none-too-decent character, especially when the accusations are directed against those who, whatever other advantages they might have, are unable to defend themselves in the columns of a journal.

If one were to be as facetious as Shri Thakur, one could say that the sum and substance of his reflections is this. Banking policy can be framed and implemented only by a special body of people, hereinafter called 'bankers'. Since the Reserve Bank of India is staffed by officials and not bankers, they cannot be expected to do good to anybody, least of all to commercial banking. And yet more and more power is being given to that institution. The only way to remedy this situation is to have a panel of bankers advise the Reserve Bank, especially on what it ought not to do. Because no such check exists on the Reserve Bank, the commercial bank, the money market, indeed all the big and good things so selflessly built up by the bankers in this country, are in danger of disintegration.

India is mercifully a free country and is accustomed to the Hyde Park variety of free expression. And as a retired banker, Shri Thakur does not have to bother too much about what he says. For him, the good days are the old days, when for reasons well-known, a central bank was little more than an issuer of currency and a banker to Government. And Government itself was concerned less with economic affairs than with law and order. It needed, under these conditions, no special knowledge of banking, such as Shri Thakur has, to manage the Government's bank account. Little wonder that with such an attitude Shri Thakur sees nothing but evil in the Reserve Bank as it is today. What matters if we are a country developing according to plan? Why should that be an excuse to vest the central bank with all manner of powers? Surely the Bank of England stayed an old maid while Britain advanced rapidly. Why then should we turn our central bank into a drill-master?

For those of a later generation than Shri Thakur's, it is not difficult to see why institutions and their functions should change with the times, and from country to country. He of all men should know what distinguishes the British commercial banks from their Indian counterparts. And that, on commonsense grounds, ought to be a good reason for the differences in the controlling powers vested in central banks in the two countries.

In the present climate, it is the fashion—and perhaps it pays in some cases—to label things one does not approve of as grave curtailments of freedom. Shri Thakur rages at the controlling power exercised by the Reserve Bank. Curiously enough, Shri Thakur is frightened of deficit-financing leading to the misery of the middle classes and implicitly recognises the need for monetary and credit control. But how does one in fact control credit if one has no authority to check the credit-creating institutions, viz. banks? It should be possible, believes Shri Thakur, if the bankers are taken into confidence and given discretion. This works in the U K, doubtless with some 'persuasion' by the Treasury and the Bank of England. So, must it be in India, according to Shri Thakur. Doubtless, the Reserve Bank has potent reasons to believe why things here cannot be the same as in the City of London; and possibly the Reserve Bank could also point out that resort is often had to 'persuasion' rather than order. But Shri Thakur does not believe the Reserve Bank, and bemoans the curtailment of economic freedom by that institution. Karl Mannheim has it that 'the Plutocratic concept of freedom and discipline upholds basically the investor's right to invest and speculate freely and the owner's right to use his property without restraint.' If this is the meaning of economic freedom, the loss of which Shri Thakur deplores, he is like the soldier who, being out of step with the rest of the company, thought the company to be on the wrong foot.

It is true that the rise in bank-deposits has been less than the rise in the notes in circulation. From this, Shri Thakur has jumped to the conclusion that the reason for bank deposits falling behind is the unjustified peeping into the bank-customer relationship by the Reserve Bank and consequent loss of confidence in banks. According to him cash transactions have risen recently because the customer does not feel sure that his transactions will any more be kept secret. The implications of this could be as damaging to the banks and their clients as to the Reserve Bank or anybody else. What are these large-scale secret transactions that ought not to come to the notice of a Governmental or semi-Governmental agency? If they do take place, what moral justification would there be for banks to assist them? After all, he who has nothing to hide has nothing to lose from somebody probing into his affairs. If banks lost business from those who do not care to work in the open, some might think it business well lost. And in any event, the reasons for lack of confidence in banks is not just the Reserve Bank's doing. It might indeed be otherwise, as the Shroff Committee of which Shri Thakur himself was a member pointed out barely two years back.

Shri Thakur's tirade against the Reserve Bank for having made unjustified advances to banks facing crisis cannot be discussed in the absence of full particulars of the cases. Moreover, is he quite sure that all the advances of commercial banks are based on correct judgment? Fortunately for Shri Thakur advances made by his brothers-in-faith are often shrouded in secrecy and cannot be called to question.

It is strange to see Shri Thakur, the champion of 'Economic Freedom', accusing the Reserve Bank of not preventing the mad scramble for funds among the banks. Will not such interference be construed as restriction of freedom? But, Shri Thakur prefers to eat the cake and have it too.

Shri Thakur's plea for investing the Indian Banks Association with the status of an adviser to the Reserve Bank does that Association little good. Compared to the Reserve Bank's well-equipped Research Department, about which Shri Thakur has something good to say, the Indian Banks Association's resources are limited except perhaps in respect of practical experience. Further the Association has done not much more than create a platform for the Indion Banks to voice their grievances from. It has not done much by way of rationalising banking practices and procedures so far. If the last annual speech of the Chairman is any evidence of the work done by the Association, it must be admitted that this Association with its limited influence on banks themselves cannot hope to influence the Reserve Bank on matters of banking and finance.

It is perhaps wrong to probe into the logic of each of Shri Thakur's contentions. They are, after all, his reflections and one can take them or leave them alone. One cannot, however, help feeling that Shri Thakur's retirement has perhaps not come too soon.



Our Delhi Letter

Ceiling on Holdings

THE Government and the Planning Commission have done fresh thinking on the problem of fixing ceilings on land holdings and, in consequence, the observations of the draft Second Five Year Plan on the subject are likely to be substantially modified.

The Panel on Land Reforms, appointed by the Planning Commission, had recommended that the upper limit of land to be held by a family should be fixed at three "family holdings" for an average family in which the number of members does not exceed five. One additional "family holding" should be allowed for each additional member subject to a maximum of six "family holdings." A "family holding" was defined as the area of land which yields a gross average income of Rs. 1,000 or a net income—including remuneration for family labour —of Rs. 1,200 and is not less than a plough unit or its multiple in area.

The draft Second Five Year Plan generally adopted this recommendation but permitted greater flexibility. It said: "Since different classes of land have to be dealt with, it will be necessary to translate the concept in each region into a given area of land which may be expressed in standard acres or in terms of the principal classes of land. What is proposed is not the determination of the actual income of each individual holding or the working capacity of a particular family but a broad judgment regarding the average value of the produce on different classes of land in a certain region and average expenses of cultivation. The determination of farm incomes and the application of the concept of family holdings is not without its difficulties and it may be of value to States if a small group of experts with practical experience of settlement work or agricultural statistics could assist them in working out the concept in detail".

Since then, the figure of Rs. 1,200 has been attacked in many quarters. Several chief ministers made the point at the National Development Council's meeting recently that to fix such a ceiling would be to condemn the peasant to permanent poverty. Why should his income be limited, it was argued, if no ceilings were proposed for people in business, industry and trade? The members of the Rajya Sabha criticised the concept on much the same grounds but with greater vehemence last week.

The Minister for Food and Agriculture, Shri Ajit Prasad Jain, is believed to hold the view that the suggestion of translating the farmer's income into monetary terms is basically wrong. The quality of land, as the Planning Commission itself seems to realise, varies enormously from place to place. A small acreage may give a better income in one area than a much bigger acreage in another. Besides the crop patterns are changing. To what crop is the ceiling to be related? Cotton is four times as paying as wheat. In many areas the farmers have the choice between sugarcane and cereals. How will you work out the maximum area to be held by a family in terms of its income? Shri Jain also points out that the ceiling on land holdings has also to be related to the density of population. If the pressure on land is great in a given State, its ceiling will be lower than that of another State which is sparsely-populated in comparison.

It is Shri Jain's view that an absolute norm for ceilings on land holdings should not be defined. A ceiling should be imposed but each State should do so according to its own circumstances. The States may form committees to tackle the problem. Their recommendations could be studied and incorporated in legislation to be enacted separately by each state.

The Government is understood to have accepted the Food Minister's thesis and the chapter on land reform in the draft Second Five Year Plan is likely to be modified accordingly.

Food Targets of the Plan

Is Shri V. T. Krishnamachari changing his views? He pleasantly surprised the Government and the Planning Commission by his thesis that food production could be raised by forty per cent, as against the 15 per cent envisaged in the Second Five Year Plan, without a corresponding increase in outlay. He argued that this would take care of the inflation to be generated by deficit financing and called for a series of meetings between the State Governments, the Central Government and members of the Planning Commission for an upward revision of the targets. He also wanted mobilisation of public effort to make their attainment possible. Shri Krishnamachari's glib and attractive reasoning deceived many Governmental bigwigs who were looking for arguments to demolish Shri K. C. Neogy's sound, if pessimistic, criticism of the Plan.

There have been second thoughts since and the Food and Agriculture Ministry as well as the officials of the Planning Commission have cautioned against the flamboyance implicit in V T K's thesis. Rationalisation, people's support and weather, it is conceded, can make a difference but the first two factors by themselves will not ensure more than 5 per cent increase in output over the volume expected with the present allotments. The target of ten million tons of food output, it is stated, is merely an arithmetical total. It consists of the targets set by different States in the light of central allocations. These allotments and targets were individually vetted by the Planning Commission, the officials of the State Government and the Central Ministry of Food and Agriculture. How could V T K turn round suddenly now and say that all that was a miscalculation? Report has it that V T K himself finds the logic of this stand unassailable and is prepared to concede that he has been "misunderstood"!

Another point made by the Ministry of Food and Agriculture is that short-term loans envisaged by V T K by themselves will not make any difference to crop output if the peasant cannot buy better seeds, better agricultural implements and more fertilisers. The capacity for the production of these requirements of improved agriculture in the country is limited and has been fully accounted for in working out the targets set in the Draft Plan.

The upward revision of targets contemplated in the plan is therefore not likely to be more than "marginal" unless emphasis is suddenly shifted from industry to agriculture which is unlikely. The Food and Agriculture Ministry however welcomes the controversy generated by V T K's note inasmuch as it highlights the problems of a sector that was being virtually treated as the Cindrella of the Second Five Year Plan.

Future of Life Insurance Employees

(From a Correspondent)

PUBLIC discussion on the nationalisation of life insurance companies has been confined largely to the effects of the measure on policyholders and shareholders; the reactions of insurance employees, their problems and hopes and fears have attracted little or no attention. The total strength of life insurance employees (not including insurance agents), is estimated at about fifty thousand. They are spread all over India, with some degree of concentration in the cities of Bombay and Calcutta; the majority of them are young and university-educated. They thus form a sizable and important group of white-collar workers. They will naturally judge the Nationalisation Act brought forward by our Welfare State by its impact on their own welfare.

Certain Misgivings

The assurances given by the Finance Minister in his broadcast speech on the night of January 19, as also later on the floor of the Lok Sabha during the debate on the Life Insurance Corporation Bill, have been heartening. On the other hand, a careful reading of Section 10 of the Bill raises misgivings in the minds of employees regarding the security and terms of their service in the future set-up. The Section says:

> "Every whole-time employee of an insurer . . . shall become an employee of the Corporation, and shall hold his office therein by the same tenure, at the same remuneration and upon the same terms and conditions and with the same rights and privileges as to pension and gratuity and other matters as he would have held the same if this Act had not been passed, and shall continue to do so unless and until his employment in the Corporation is terminated or until his remuneration, terms and conditions are duly altered by the Corporation".

The sting, it is obvious, is in the tail. While it cannot be denied that the Corporation must have these powers since there are some sinecures to be found in the industry, it is equally essential to have an early and authoritative definition of the principles on which decisions to terminate the services of employees or revise the terms of their employment would be based, so that workers who may be drawing high salaries by reason of merit may feel assured of their position and may continue to give of their best.

This question assumes importance because the 150-odd companies taken over by Government have among them a great variety of service conditions and scales of pay. Now clearly, the Life Insurance Corporation must evolve a uniform pattern of service conditions and emoluments in place of the heterogenous variety obtaining at present. Service conditions, by which is meant here working hours, leave privileges etc., should present no great problem; any reasonable set of rules framed by the Corporation in this regard is likely to benefit the employees of small or badly-managed companies, without curtailing the amenities and privileges of those working in large and better-managed companies.

But what about scales of pay? At one end, there are many small Companies which were paying low salaries to their men with no defined grades or scales of pay; at the other end, there are one or two Companies which, in order to attract the best available talent from universities and elsewhere, were paying much higher salaries to their staff as well as officers, than are normally offered by more conservative concerns. How does the Corporation propose to do justice to the employees and hold the scales even between them? This is the root of the problem of integration of staff.

Striking a Mean

It is being suggested that in evolving a uniform pattern of salary scales, the Corporation should strike some kind of mean between the highest and lowest salary scales now obtaining for different categories of work. Such a course would mean financial loss to the employees of large and better-managed companies. This is neither fair, nor desirable, nor even necessary. It is not fair because it would be tantamount to penalising, for no fault of their own, those who accepted service in these companies. It would be undesirable because it would leave dissatisfied some of the best trained and most experienced of the personnel in the industry. Finally it is not necessary because the Corporation will certainly be able to achieve substantial economy in other directions like office rent, stationery etc to bring down the overall expense ratio.

Sinecures should be put an end to, but these will be found as often in the smaller companies as in the larger ones. There is, therefore, no self-evident case for lowering the salary scales of the better-managed companies. The lesson of progressive and prosperous business enterprises all over the world is that there is economy in high wages. Is it too much to expect that a Government Corporation run on 'business principles' would be sufficiently free from conventional Governmental practices to undertake the bold and beneficial experiment of actually raising wages further to take advantage of this economy?

Service Commission

Once the salary scales are laid down and jobs blue-printed with clear lines of responsibility and authority, there is next the question of fitting the employees into these jobs and salary scales. It is reported that data have already been collected by the Finance Ministry of the educational and service qualifications of all the present employees of life companies. This is a good beginning, but there are further steps to be taken. Government must appoint an Insurance Service Commission to sift all this mass of data impartially and imaginatively, and where necessary, call the personnel concerned for interview before a final assignment of duties, especially in the officers' cadres. It may be pointed out that wherever there is a sinecure there is also usually a first class person occupying a lower position who has been deliberately kept down and who in fact carries the holder of the sinecure on his back. It is therefore not enough to weed out the sinecures; under the new dispensation their more deserving underlings must be given the opportunity which is their due. This twofold task can only be properly fulfilled by a Service Commission appointed specifically for this purpose.

After the Service Commission has completed its task of placing the right man (and woman) in the right

job, it would still be necessary to have a permanent department whose function would be to attend to all the problems of the staff. Every successful business corporation, large or small, in western countries has such a Personnel Department. A Personnel Department does for the men engaged in an institution what a Maintenance Department does for the machinery and equipment installed in a mill or factory: it keeps the men in good spirits, and by maintaining their morale, makes for better industrial relations.

It is good to find that the Joint Select Committee of Parliament has recommended the creation of an Employees' and Agents' Relations Committee to look into staff problems. Scanty newspaper reports do not indicate what the composition and functions of this Committee will be; but if they have in view something similar to a Personnel Department, it should be most welcome. It is to be hoped that Parliament will accept and enlarge upon this recommendation during the third reading of the Life Insurance Corporation Bill.

It is significant that insurance employees at all levels have unreservedly welcomed nationalisation. The Insurance Companies' Staff Unions passed resolutions, soon after the promulgation of the Nationalisation Ordinance, in which they publicly declared themselves to be in favour of nationalisation. Again, the men selected by Government to be Custodians of Life Companies are all hand-picked from trade—men who until the other day were the trusted lieutenants of the men in control of private insurance companies. The fact that all these men, without exception, agreed to serve Government as Custodians shows that they cast their vote in favour of nationalisation. It therefore behoves Government (and the Corporation when it takes over) to show as much anxiety for their interests as for the interests of policyholders. It should be the aim of Government policy to see that insurance employees are at least as well off as their brethren in commercial banking—a comparable industry which is likely to remain in the private sector, according to the latest ministerial pronouncements on the subject.

In particular, it is to be hoped that the Corporation will not readily consider any proposal to deprive its employees of their right to a share in the profits of the industry, which is a well-established one in insurance. This bonus privilege acts as a potent incentive to efficient work, especially in the present economic circumstances. If, however, there is any insuperable objection to the payment of bonus by the Corporation to its employees, then their basic salaries must be upgraded to compensate for this loss, since in the past bonus was always being kept in view, while fixing salaries.

One final consideration. In an era of steadily rising prices, it pays to be a debtor if you can channelise the borrowed funds into capital-appreciating investments. Since the Life Insurance Corporation is in such a happy position, it is but right that it should strive to give a fair deal to its employees, especially since it is in a monopolistic position.

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Choice of Technique

M N Ghosh

DR RAJ has made an interesting study of the problem of technical change and the place of small scale industries in a recent issue of the **Economic Weekly.** Some of his ideas may be traced to Soviet economic literature, specially to the writings of Strumilin, Mstislavsky etc on the choice of techniques; but there are also new and many useful suggestions regarding the working of the capitalist system, which are possibly nearer the real state of affairs than text book theories.

Thus, his conjecture that capitalists are often more concerned with reducing the labour force in their establishments by adopting capital-intensive techniques (which also enables them to pay relatively higher wages to their workers) to avoid conflicts with labour, even though this does not lead to maximisation of profits, sounds realistic enough especially for the foreign investor in India. However, his analysis and conclusions are faulty in some respects as we shall see.

Secondary Criterion

The problems of economic development are in essence those of increase in productive capacity and accumulation of capital; and employment is only a secondary criterion. In an advanced economy maximum economic growth even under capitalist management may coincide with full employment of labour and capital. In an underdeveloped economy such a happy situation may not be realised without central management of the economy; but even under State management, as in the Soviet Union during the post-Revolutionary period, unemployment in the working class remained a big problem and actually increased for some years before it could be tackled seriously. The reason possibly is that owing to an overall shortage of means of production, the marginal productivity of labour is less than the wage level in organised industry at present, if employment is pushed up sufficiently. Of course, the political effect of large-scale unemployment may be serious and Tomsky, the Soviet trade union chief, paid dearly for it. But it is proper to disentangle economic questions from political ones, so that the implications of policy decisions are well understood.

The central problem of economic development, which is the accumulation of capital over a period of time, has two different aspects. One is to realise a surplus from existing industries, which forms the investible fund and the other is to fix the pattern of investment that would make the best use of this fund. The second aspect is taken into account in the capital-output ratio while the first is traditionally the concern of capitalists and business managers out to secure maximum profits and of nationalised industries. In a purely capitalist economy, with a well-organised capital market, the two are linked together by the interest rate which is a charge on the use of capital. This is not to suggest that the interest rate, as it is determined by many institutional factors, does serve the purpose in the best possible way; but when the state undertakes forced savings, the capital market is distorted and the interest rate ceases to have its economic significance; and patterns of investment should logically be guided by the State in the light of its expansion programme.

More Appropriate

In a planned economy, in the calculation of the surplus, it would be more appropriate to consider the surplus per unit of output or surplus for the industry than surplus per employed person as the volume of output is planned. In the criterion for choice of technique suggested by Dr Raj, if the surplus per worker is replaced by the surplus for unit of output, we get the criterion of the rate of economy suggested by Bettelheim as a modified version of the one used by Emelyanov in the Soviet Union (see Bettelheim: **Principes des Planifications**). This is only one of the criteria used by Soviet economists, and it has not been universally commended as a criterion for choice of investment techniques. Considering the hypothetical example of the textile industry, given by Dr Raj, we find the 'rate of economy' given below for the techniques II and III, when the net value added per yard is four annas.

Thus according to the criterion, technique II would be superior to technique III. However, to secure the maximum growth of the economy as a whole, the total surplus realised should be maximised as this is the amount available for investment in the next period. It is customary to consider the surplus realised in relation to the volume of capital to be invested. But the total surplus realisable from a given volume of output in an industry by using different techniques has nothing to do with the return of capital, for a given level of output. Thus for a given level of incomes and productivity of industry, the demand for a commodity is determined and therefore the amount of capital that may be invested corresponding to a given technique is determined, when the price and therefore the volume of output are fixed.

Thus if 2,000 million additional yards of textile are to be produced during the second Five-Year Plan and if the net value added per yard is four annas, considering prices, wages etc to be stable, then the

Rates of Economy

	Technique II	Technique III
Capital cost per loom	Rs 200	Rs 10,000
Output per loom per day	20 yards	80 yards
Capital cost for production of 10,000 yds per day	Rs 1,00,000	Rs 12,50,000
(Number of looms)	500	125
Net value added	Rs 7,50,000	Rs 7,50,000
Wage per worker	Rs 900	Rs 1,500
Number of workers	500	7.8
Total wages	Rs 4,50,000	Rs 11,700
Surplus	Rs 3,00,000	Rs 7,38,300
Rate of economy	300%	59%

volume of capital that would be necessary for technique II is about one-tenth of what is needed for technique III; and the surplus for this additional volume of production if technique III is used would be greater than if technique II were used. However, the surplus per unit of output is higher for technique III than for technique II, so much so that in about three years the extra capital needed for technique III over technique II is realised from the surplus. Thus if the calculation is made for the Five-Year Plan as a whole, the surplus realised by technique III will be much higher than by technique II. This surplus which is realised by the displacement of workers would not be a moral burden if it is not frittered away on imports and high-level living of the owners of the plant, but is reinvested simultaneously to absorb a part of the displaced workers. (All the displaced workers cannot be employed as wages in the new plants may be higher than before).

Again if textile machinery should be produced 100 per cent within the country, a large capital investment would only mean more employment in this industry. However, if capital is scarce in the initial period or has better alternative uses, e.g., in developing steel plants or railways, then technique III has to be abandoned; but this would at the same time reduce the total surplus investible funds available during the whole Five-Year Plan period (Mr Krushchev in his recent report to the 20th Congress of the CPSUB observed that the electrification of railways was justifiable because the revenue surplus realised during the sixth Five-Year Plan from this project would much more than cover the capital costs, and so it should be undertaken).

Price Situation

So far we have not considered the price situation at all. Let us now consider what happens if the net value realised by manufacture per yard is only two annas instead of four. We then have

	Technique II	Technique III
Net value added for manufacture of 10,000 yds	Rs 3,75,000	Rs 3,75,000
Total wages	Rs 4,50,000	Rs 11,700
Surplus	—75,000	Rs 3,64,300

Thus when the price drops, the advantage of technique III becomes apparent. Here is the reason why competitive capitalism takes to higher techniques. Historically in the USA every depression has been a harbinger of new labour saving techniques to face lower prices; and the weaker competitors who realise this too late or cannot secure the necessary capital have to close down. The reason for adopting an apparently costlier technique is not in the main imperfect competition or insufficient private enterprise or reluctance to maximise profits on the part of the capitalists, as alleged by Dr Raj. Of course, if the capitalists could be persuaded to believe that the market would be expanding and the price of manufactured goods would not fall in relation to wages and prices of raw materials, then the impetus for costly investment would recede also. However, this is not to suggest that the interests of the capitalist-investor and society as a whole coincide entirely. In a planned economy, the transition to a new capital-intensive technique would be more smooth so that the capital consumption due to obsolescence would be smaller, while in the capitalist economy of the USA this has assumed tremendous proportions in times of depression.

Again in the case of the individual capitalist, capital is reckoned only in terms of interest rates as an item of cost. In the above example, if the net value added per yard is four annas, a monopolist with indefinite borrowing power would surely prefer technique III as long as the interest rate plus depreciation remains less than roughly 40 per cent, which is a very high figure. The same would hold under oligopoly too. Under perfect competition, those who are able to borrow easily, but for whom the volume of sales and the size of the unit are limitations, would prefer technique III (the situation considered by Dr Raj) while those whose capital is limited would prefer technique II. There are many examples of small producers catering for the market with inferior techniques in the phase of expansion during the last war and some of them survive even now because large-scale industry is not yet able to cater for the whole market. It would be uneconomic, however, to keep them going through some kind of subsidy or protection for the only reason that they have performed a useful task at a moment of need.

As we have already noted, owing to institutional arrangements and mainly because of the forced savings policy of Government, the interest rate as a tool for regulating the intensity of investment has lost its force in our mixed economy and does not measure the scarcity of capital in relation to its reproductivity in a proper way. An interest rate of 5 or 6 per cent in a period of rapid increase in industrial production and national income (of the order of 10 per cent) probably underscores the reproductivity of capital and makes it too cheap. A check on investments may be instituted by calculating the surplus for each of the possible variants or techniques, taking into account a fictitious high rate of interest, say 10 per cent or 15 per cent even though the market rate of interest is much lower.

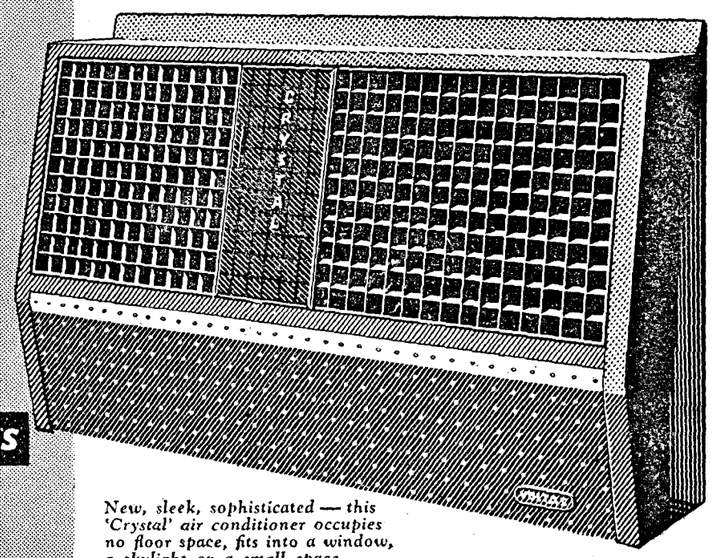
Rentability

This has been one of the methods used by Soviet economists and is called the criterion of rentability ('rentabilost'). Like the criterion of 'rate of economy', this has not been universally approved and adopted in the USSR. However, in the context of a mixed economy, where private investment decisions will also be important and the State cannot fully control these, the criterion of rentability may perhaps be useful as a check on unnecessary capital-intensive investment technique, though the administrative feasibility of such a scheme has to be investigated. It will be impossible to lay down such a general rate of interest from theoretical considerations only. A trial and error method will have to be followed. Thus, if for a given level of rentability, the volume of investment that may be undertaken falls short of the investible funds, which will depend on the possibilities of various kinds of profitable investments, then the rate should be lowered just enough to enable all such funds to be invested. Simultaneously, a vigorous effort should be made to remove imperfection of the capital market by extending credit facilities to a wider circle of business men.

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The Problem of Technological Choice

A Rudra

DR RAJ, examining the much-debated question of small scale industries in the context of the second Five-Year Plan, arrives at the conclusion that even if increase in employment be not made an objective in itself and maximisation of the rate of growth of the economy be made the guiding consideration, a case can be made out for small scale industries: that the optimum technique in the sense of one which, when adopted, makes the maximum contribution towards increasing the tempo of development can very well differ from the most advanced technique.

Very few people will differ from the view that the optimum technique, as defined above, is not necessarily the most advanced technique. We, however, differ from Dr. Raj on three things. We differ from him on the method of analysis that leads him to his conclusions; we differ from him on the formula he proposes for the choosing of the optimum technique in any industry; and we differ from him on the point that there is any inevitable contradiction between the choice of advanced techniques and a desire to enlarge employment opportunities.

New Orientation

To start with, we shall give a new orientation to the problem by calling it the problem of technological choice rather than the problem of technological change. Dr. Raj treats the problem in a way that permits him to discuss the introduction of such technical innovations as may further aggravate the employment situation by 'displacing' some workers. While the introduction of new techniques in existing units of production is by no means ruled out in planned development, the problem of 'change', when it may mean a further worsening of the employment situation, is not one which in our opinion is being debated in India in the context of the second Five-Year Plan. The problem relevant to the Plan, as we see it, is as follows. The Plan visualises increased production of different quantities in different industries. The existing units of production are by and large supposed to continue as before. As to the margin of additional production, the question that arises is: 'through what means to realise this?'. There are certain industries where the same production can be obtained through different technological variants promising largely different volumes of employment. It is here that the 'problem of technological choice' arises and expresses itself in the question: which technological variant to choose?

Before we set out on an examination of the problem, we deem it important to clarify two points which Dr. Raj unfortunately leaves a bit vague: firstly, how to measure the 'advancedness' of or want of it in a technique; secondly, what the scope of the problem is like.

A Definition

As to the first, we lay down as a definition that technique A be considered more advanced than technique B with regard to the production of commodity C, if the production of an equal quantity of commodity C (measured in physical units) requires a smaller number of man hours of labour, direct and indirect, if technique A is used than if technique B is used.* Thus, if the commodity C is textile, we have to compare the number of man hours of labour spent to produce a yard of textile through technique A and B, taking into consideration direct labour in weaving as well the indirect labour involved in such input items as yarn, coal or electricity, transport etc. as also in the depreciation of capital.

As to the scope of the problem, theoretically, the question of choice arises in all productive activities. There may be different degrees of automatisation in the manufacturing of steel or in the construction of steam locomotives. This, however, does not come within the range of the present problem, which concerns industries wherein the differences in employment resulting from the adoption of alternative techniques are significantly large and what is more, the employment-giving techniques are such that they allow of small scale production, possibly in tiny units scattered in villages. This, in practice, severely restricts the scope of the problem; as a matter of fact, hardly any other industry except spinning, weaving, food processing, pottery and some leather crafts satisfies the specifications.

It is as well to point out here that the 'scale' of production of a unit and the 'technique' used are not the same thing. Both Dr. Raj's problem and the problem discussed in the present article concern 'technique' and not 'scale'. There seems, however, to be considerable confusion in the proposals made by the protagonists of small scale industries as to 'scale' and 'technique'. It is evidenced by the multiplicity of terms used, viz., "small scale industries', 'cottage industries', 'household industries', 'village industries', 'hand industries' etc. Hand pounding of rice by peasant women in villages and engineering enterprises using power and machine tools, but employing less than ten people (and, therefore, not regarded as factories under the Factory Act) are both being considered as illustrations of what they desire.

Question of Analysis

We shall now come to our difference with Dr. Raj's analysis. According to him, if the objective be the maximisation of the rate of growth of the economy, variant A is to be regarded as superior to variant B if the proportion of the surplus per worker in A to that in B is larger than the proportion of capital per worker in A to that in B; and the optimum technology should be arrived at by subjecting all the competing variants to this comparison.

This criterion is not, however, applicable to our problem for the following reason. The criterion must obviously be applied to industries separately and individually, irrespective of the technological choices made and amounts of investible funds allocated to the other industries. It must therefore be supposed that there is a given **amount of investible fund** allotted to the **particular** industry in question **before the choice is made.** If it be so, the result of the application of Dr Raj's criterion will be to maximise the surplus obtained from the **particular industry in question.** One is, of course, not interested in the surplus accruing from any one industry, but that obtaining in the entire economy. Presumably, Dr. Raj would say that if the same criterion be applied in every field where there is scope for choice, the overall surplus will automatically be maximised.

*There can, however, be several other alternative definitions, all of them being more or less correlated. The capital-output ratio and the capital-labour ratio are two other measures often used as explicatum for the vague concept of the "advancedness" of a technique.

This is correct provided one starts by making an allocation of investible funds to different industries before the technological choices are made. This, however, is not possible. The impossibility can be demonstrated through Dr Raj's own illustrative example. He compares the surpluses to be obtained by investing an equal amount, viz., Rs. 160,000 through three different techniques in the cotton textile industry. He shows that in the case of variant II, there will be employment for 800 workers and a surplus of Rs. 480,000, while the more advanced variant III will give employment only to a single worker and produce a surplus of only Rs. 94,500. What Dr. Raj, however, overlooks is that his calculations imply that the production of cotton textile per day through variant II is 16,000 yds, while that through variant III, is only 1280 yds. Now surely these very different quantities of the same commodity cannot be absorbed by the same market **at the same price.**

Market not Altered

To be accurate, the market does get altered by a change-over from technique III to technique II. Thus, the production of 16,000 yds. through variant II instead of 1,280 yds through variant III means an additional income of Rs. 11,04,000 in the community. But this additional income of Rs. 11,04,000 will not surely be spent all on textile only; for the additional supply of textile in the market is worth precisely this amount, namely, Rs. 11,04,000. Only a part of it would be spent on textile and the rest would make a demand on sundry other consumer goods, including food. The supply of these other consumer goods cannot, however, be made to match this changed demand, as we have assumed that the allocation of investment fund to, and choice of technology for, the other industries are made independently of the textile industry. We have carried out the argument in terms of a closed economy; but generalisation for an open economy is not difficult, as we can similarly argue that the amount of a commodity that the foreign market will absorb cannot change with a change-over from one technology to another any more than the home market can.

The root of the trouble lies, in our opinion, in Dr. Raj's unexplained assumption that the rate of growth of the economy is maximised if one obtains the maximum amount of surplus from a **given industry** to which a given **investment** fund has already been allocated. Before we pass on to what we think is the correct approach to the problem, we give an example of another faulty criterion which also is meant to be applied to industries individually, and is, therefore, very convenient. We have seen that the difficulty in using Dr Raj's criterion is that it ignores the fact that a market can absorb only a given quantity of a commodity at a given price.

Supposing one keeps the production targets fixed and tries to choose technologies in such a way that the pooled surplus from all industries taken together is the maximum, then the criterion of optimality for any given industry will be to choose that technology which yields the maximum amount of surplus **per unit of output.** This criterion will very often lead to the adoption of the most 'advanced technique' in the sense of our definition. Thus, in Dr. Raj's example, if indirect labour per unit of output be assumed to be the same between variants II and III, the latter is more 'advanced' than the former. If we assume that the fixed production target of 1280 yds. per day has to be realised, it can be seen that variant II will yield a surplus of Rs. 38,400 whereas variant III will yield the same amount as before, namely, Rs. 94,500.

But if this criterion does not treat production targets as a function of the choice of technology, it treats the investible fund in the particular industry in question (and therefore the total investible fund) as being determined by the choice of technology. It has, therefore, to be rejected likewise; for the total investible fund is not really variable. It is usually given before the problem of choice of technology is faced.

The problem has, in our opinion, to be posed in the following manner. Given a volume of investible fund for the current year, it must be so distributed in the different industries and a **collective choice** of technologies so made in the different industries that

(i) the industries can grow in a balanced way and
(ii) the aggregate surplus of all the industries, taken together, can grow at the fastest rate.

If industrial surplus be considered the main source of investment, then the rapidest growth of the economy means the rapidest growth of surplus year after year. The investment fund for the current year, therefore, has to be so utilised as to conform to the rapidest possible growth of the surplus. But it cannot be used in any way whatsoever. It must be so distributed as to allow the different industries to produce in a balanced fashion.

Thus, the production of fuel, power and raw materials must equal their input requirements; producer goods must be so produced that they fit in with the allocation of investment funds to different industries as also the replacement requirements of different industries. Then, a given allocation of the investment fund and a given collective choice of technologies in the different industries determine the income generated amongst different classes of consumers; and that determines the amounts purchasers will wish to spend on different consumer commodities. The supply of different consumer goods in physical quantity must maintain certain **proportions** amongst themselves so as to be in harmony with the proportions between different consumer demands.

Optimum collective choice

It is therefore not possible to give any formula for individual choice of the optimum technique for individual industries. There will be an **optimum collective choice,** which will depend on such ratios as the surplus per worker, capital-labour ratio, capital output ratio, rate of amortisation etc. for all the industries and all the different techniques taken together.

It is not, however, our position that nothing can be said as to the particular problem of choice which is being debated in the context of the second Five-Year Plan. We have already seen that the range of industries covered by the problem (e.g. textiles, leather craft, pottery, food processing etc) is very small indeed; further, they are mostly consumer goods industries. As far as these industries are concerned, it can be safely suggested that the choice in these cases must be in favour of 'advanced' technologies. The reasoning is as follows.

In a closed economy where savings amongst wage earners are negligible, the surplus in the consumer goods industries must roughly equal the wages and salaries paid out to the

workers in the producer goods industries. While the share of the national surplus going into the producer goods industries can be and should be increased by reducing wastages of the surplus through unproductive activities of all types, capital export etc., it is fundamentally through the increase of surplus in the consumer goods industries that the number of workers employed in the producer goods industries has to be increased.

The techniques should therefore be so chosen for those consumer goods industries wherein scope for choice exists that the net surplus of the consumer goods industries increases. This will most probably mean choice of such techniques in these industries as will increase the net surplus per unit of output.* This is so because we have to assume that for these selected industries investment have to be so made that the fixed production targets are realised. We have already seen that the industries, where our problem of choice at all exists, are few in number and not very important, compared to the basic industries of the economy, which are agriculture and the heavy industries.

Investment in these two sectors has to be made year by year from considerations of long-term planning; the growth of these two sectors almost completely determines the rate as well as the pattern of growth of the entire economy. The growth of the other industries has to conform to this overall pattern. The investment maturity period in these basic industries being very much larger than in the subsidiary industries, it follows that investment in the latter industries has to keep in view more or less fixed levels of production in the industries in the next few years.

We shall now come to the question of employment. It is curious that only small scale consumer goods industries are discussed in the context of expanding employment opportunities. Yet, if there are economic activities where labour and capital can really substitute each other, they are more to be found in the producer goods industries than the consumer goods industries. Thus, earthenware pottery is not really a substitute for chinaware, and khadi cannot be deemed to satisfy the same consumer needs as mill cloth. But a well dug or a piece of land levelled by human labour is indistinguishable from one dug by a driller or one levelled by a bulldozer.

There is actually plenty of scope for employment in the building industries. Mass application of paid human labour to such activities as building of roads, houses, dams, etc. digging of wells and canals, clearance of forests, filling up of swamps etc. has not been considered seriously as an economic proposition until now.

Let us suppose that we have found out the optimum collective choice of technologies and that they are being applied. The economy is growing in a balanced way, and the overall surplus is growing at the maximum speed subject to conditions of balance. Now year by year the surplus can be utilised for capital formation in two ways: it can be converted into capital goods through the international market or it can be converted into capital goods through local production.

There is, however, a limit to the production of capital goods via the international market because of the objective situations obtaining there; there is also a limit to the local production of capital goods of the type of tools and machinery imposed by the amount of capital stock available in the producer goods sector. If the entire amount of surplus is not at all absorbed in these two ways, the rest can be utilised to give employment through labour intensive activities in the producer goods sector, i.e., constructional activities, and through the expansion of social services. The first will give employment to under-employed peasantry and other unskilled workers; the second to the unemployed middle class. As the fruits of their labour do not enter the market as competing commodities, difficulties of balance will not arise as in the case of consumer goods.

Thus, while the second Five-Year Plan protagonists of small scale industries want to solve the unemployment problem through the introduction of less advanced technologies in a certain number of consumer goods industries, our method of attacking unemployment consists in expanding the surplus in the consumer goods industries rapidly, which, as we have seen, means the very opposite, i.e., the introduction of advanced technologies in the same industries.

If an objection be raised that building activities offer scope to a very specialised type of labour or only to unskilled labour, and therefore cannot be considered seriously as an employment giver, the answer can be that industries like weaving and spinning, which are being currently considered as employment givers, do not offer any wider scope either.

*We have been cautious to use the qualification 'most probably' and not make the flat recommendation that the optimum technique for any one of these industries will be the most advanced available; for, such a definite opinion will contradict our own earlier standpoint that one can only have an optimum collective choice and no optimum individual choices. While, by investing in advanced techniques in the consumer goods industries, we ensure a larger surplus from the consumer goods industries in future years when investments have matured, it may (though not necessarily) mean allocating a larger share of the current investible fund to the consumer goods industries at the cost of the producer goods industries, and that may mean (though not necessarily) retarding the pace of growth of the economy.

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Paid-up Capital	3,14,54,250
Reserve Fund and other Reserves	4,01,00,837
Deposits as at 31-12-54	1,24,21,26,680

Directors:

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Cooverji Hormusji Bhabha, Esq. (*Vice Chairman*)
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Official Papers

High Investment in Africa

Review of Economic Activity in Africa 1950 to 1954. Department of Economic and Social Affairs, United Nations, New York. Pages 146. Price 11 shillings.

Available from Oxford Book & Stationery Co., Scindia House, New Delhi.

WHEREAS there are separate economic commissions for Europe, Latin America and Asia and the Far East, the United Nations does not have an independent commission of this type for Africa or for the Middle-East. The result is that the department of economic and social affairs of the United Nations is saddled with the responsibility of reviewing economic activities in these areas. The present report has been published as a supplement to "World Economic Report 1953-54" and covers developments for the period from 1950 to 1954. It is a staid document and contents itself with describing rather than analysing the economic developments in the region during that period. One misses in this document that vision and analytical depth which make the economic surveys of Europe and Latin America so delightful to read.

Nevertheless there are two features of the present report which make it particularly interesting. First, it throws light on the expanding volume of investment taking place in this continent and shows how the process of planning started during the war years in many colonial territories has continued during the post-war period with large inflows of capital from the metropolitan countries. Second, the report contains little to indicate an appreciation by the authors of the need to measure development in the region in terms of the welfare of the indigenous peoples. The entire study speaks in terms of agricultural and mineral productions, of fuel and power, and foreign trade and public finance. Of the fact that these are significant only in terms of their impact on the welfare of the people there is little awareness.

One further point might be made. It is well known that in most of the countries or territories that go to form this continent there is a small ruling group of whites and the rest of the population consists mainly the negro or other African peoples. In some of these countries also there are Indians who play a peculiar role in the economy. The report does not even attempt to show what part these different groups of people played in the economic development during this period or what portions of the programme were designed to assist particularly the people of the region itself rather than those who must after all be considered as outsiders.

The report brings out clearly the dominating position of the Union of South Africa in the continent in the sense that it is the most advanced country in the region. More than half of the total electrical power generated in Africa for instance —in spite of the fact that the first phase of the Oven Falls hydro-electric schemes in Uganda has been completed and new hydro-electric plants have commenced operation in Northern Africa—was generated in the Union of South Africa. Again, while there has been a significant expansion of manufacturing activity since 1950 throughout the continent a greater part of this expansion took place in South Africa with the Federation of Rhodesia and Nyasaland where also industrialisation was already well establishd coming a poor second.

The study ascribes the expansion of economic activity in Africa primarily to two factors, the generally well sustained demand for African exports, and the comparatively high level of investment, both public and private. The role played by the Korean hostilities in raising the prices of primary commodities all over the world is well known but the prices of commodities in Africa appeared to have been maintained even thereafter and the African territories have gained substantially from this. It is the high level of investment which, however, attracts attention from the point of view of economic development. The report devotes a separate chapter to an examination of the sources of funds for such investment and the patterns of investment that prevailed during this period.

The total volume of investment in Africa could not be estimated for lack of data but there are indications that there has been an appreciable increase since 1950. The upward trends became evident particularly from 1951 but the fact that private investment also showed an upward trend during this period makes it difficult to estimate its actual impact. Various foreign countries directly interested in African territories played a large part in supplying funds but some amount of capital was also available from the United States which has no direct stake in this continent. African territories also received loans totaling over 200 million dollars from the International Bank of Reconstruction and Development during this period.

The high level of public investment in most African territories was itself linked to the favourable trade position which these countries enjoyed. Some of these countries through their marketing boards absorbed a large part of the difference between high prices prevailing in the world and the low prices which were stabilized within the territories. Even otherwise since many of the tax sources of African Government are related to the state of foreign trade these governments were able to obtain large budget surpluses which were increasingly turned inwards towards internal development. The report notes, however, that in some cases the surplus of funds did not assist these countries to extend investments because of shortages of qualified personnel and other essential factors of production. This is a point to which the report refers more than once. As a result, these surpluses were held abroad, mainly in the respective metropolitan countries.

Since it is often argued that colonial territories are being exploited it is interesting to note to what extent metropolitan countries proved to be sources of funds for investment in their territories. France, it appears, accepts responsibility for all scientific research, two thirds of the social development expenditure and one half of the economic development expenditure. While the remainder is provided by the territories themselves, even this portion is frequently financed at low rates of interest from a special Fund for Overseas Finance which in turn is assisted by grants and advances

from the metropolitan budget. This fund, together with certain French banks, also makes loans to private and semi-public companies in French African areas. In 1952 and 1953, France provided 76 and 80 per cent respectively of the investment in its overseas territories. In British territories the greater part of current capital development is being financed from resources of the respective territories or from loans made from the Colonial Development and Welfare Funds, which accounted for one fifth of the total investment during this period. Only Belgium does not play any significant part in financing development investment in its territory in Africa, the Belgium Congo.

The development plans undertaken in African dependent territories since the war aim to develop existing production and to encourage new forms of wealth with the object of raising the living standards of the indigenous inhabitants. In the initial stages, emphasis was placed on the development of basic facilities such as energy resources, communications and port facilities. This was as it should be, for it has been repeatedly pointed out that inadequacies in this field have caused bottlenecks holding up other projects. This initial investment therefore has given these territories a certain elasticity which will enable them to respond quickly as demand increases under pressure of investment.

In the future, however, while further expansion in this field is undoubtdly required, it has been found necessary to shift the emphasis to other fields in which returns will be larger and quicker. The reason for this shift is to be found in the recurrent charges on the economy which arise from the already implemented plans and the programmes of social service which have already been started. It is essential obviously to balance these recurrent items of expenditure by new sources of revenue in order to ensure that the programme does not falter in the future.

While the approach of the report to these problems of investment seems to be on the right lines, there is, one must repeat, no attempt to relate the pattern of investment to the peculiar needs of the indigenous peoples themselves. There is no attempt to show in what way these programmes and projects will help the people of the region to lift themselvs to higher levels of living. No attempt is made, again, to indicate how these people can play a greater part in the process of social and economic change which this investment must stimulate if it is not to be ultimtely frustrated. Speaking in terms of the amount of money that is to be invested or has been invested or in terms of increase in the volume of exports or imports of mineral production or power supply, it does not throw light on the advantages that these people can derive from these changes or how this will help them to be a little better off than they are today.

Symptomatic of this lack of feeling for the humanity that is to undergo the process of economic development is the treatment of problems of labour in the separate chapter devoted to the subject. The report merely brings together what little data are available about trends in employment, wages and levels of living during this five year period. It points out for instance that in all territories the proportion of wage earners in the total population tends to increase as cash earning activities increase.

What significance, one may ask, should be attached to this fact? Should one consider it a desirable objective of economic policy to bring a larger proportion of the total population into the wage-earning class? Or for that matter, should one necessarily conclude that because a large proportion of activities in advanced countries are carried out through the money economy that it is desirable in itself to increase cash earning activities? And, if it is true as this report points out that one is linked to the other, in what way would it be possible to allow for an approach to the problem of economic development in which one could consider it desirable to increase the proportion of cash earning activities and yet not necessarily approve of an increase in the proportion of wage earners? The authors of this report do not appear to be troubled by any question of this kind.

The study of this report, therefore, leaves one to wonder what purpose is served by the publication of a report which describes but does not analyse. No doubt the facts are made available for others to analyse if they so desire. But surely that is not enough. One would like to hope that the economic problems of Africa would obtain the same kind of treatment that those of Europe have had so far under the masterful direction of Prof Gunnar Myrdal. In the meantime one has to make do with this purely factual survey.

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ASP-UC-2/55

Around Calcutta Markets

Erratic Movements

Wednesday, Evening

THREE factors have helped the stock market to steady up in the last few days. Industrialists are happy that existing private industries will not be nationalised. This has encouraged scrips. Speculative activity has been encouraged by the introduction of the Bill to amend the Reserve Bank Act. Technical factors have helped the spurt in equities in the current week.

A feature of recent trading on the stock market here has been the activity in mining shares. Since the assurance, contained in the new industrial policy, that existing industries will not be nationalised, mining shares have met with buying enquiries. There were fears that, in consonance with the Government's policy of nationalising mining and mineral resources, even existing mining companies may be nationalised. With the removal of such fears, mining shares are being bought.

By far the most important influence behind the recent spurt in equities has been the Bill to amend the Reserve Bank Act. Provisions of the amending Bill have been interpreted to mean that the monetary authorities are making active preparations to expand currency. Even as the proposal to revalue gold has had a psychologically bullish effect on the bullion market, the move to enable the Reserve Bank to expand currency according to the needs of the second Plan has had an inflationary impact on stock markets.

There is, however, the other side of the coin. Under the amending Bill, the Reserve Bank is empowered to change the reserve requirements of scheduled banks. Even now, certain percentages of demand and time liabilities of scheduled banks have to be kept as balances with the Reserve Bank. These reserve regulations will be tightened to immobilise excess banking resources as well as to enhance the Reserve Bank's direct control over bank audits.

Some weeks ago, the Reserve Bank issued a directive to scheduled banks to submit fortnightly details about their advances. This directive was meant to ensure qualitative control of bank credits. It might not be a mere coincidence that the fall in equities started immediately after the issue of this directive. But recent banking statistics confirm the need for quantitative control over bank credit also. This is the aim of some of the provisions of the amending Bill. So far stock markets are concerned, the Bill's clauses relating to banks' reserve requirements would seem to cancel out the implications of currency expansion.

Few will question the need for effective control over bank credits. In this context, a significant development may be discussed. Since the end of 1953, bank deposits have started to increase along with currency expansion as a sequel to deficit financing. In the last ten months, however, the rate of increase in bank deposits has lagged considerably behind the rate of currency expansion. There is the problem of leakage which has to be tackled. And the provisions of the amending Bill are not likely to stop this leakage.

In the main, the spurt in equities is confined to speculative scrips included in the forward list. It is natural that speculative shares will respond promptly to expectations of massive currency expansion. But there are other factors which are helping the rise in forward shares. In the last few months, "budla" charges have been heavy. This has discouraged bullish activity. After the end of the last settlement, "budla" charges disappeared suddenly. In consequence, bears were forced to cover their sales.

What has happened to Indian Iron, is an interesting technical factor in relation to stock markets. During the fall in Indian Iron in the last six months, a considerable bear position has been built up in this scrip. A bull syndicate recently decided to take delivery of their purchases. This has led to a bear squeeze. Bears are being forced to cover their sales in order to square up their books. Indian Iron are, therefore, moving up. But it is of interest to note that other forward shares are not moving up as much or as fast as Indian Iron.

Since the announcement of the new industrial policy, there have been some buying enquiries for jute shares. Jute is one of the few industries which is not included in the current or prospective nationalisation plans of the Government. This may have caused the revival of demand, after a long time, for Jute shares. But the demand is neither firm nor consistent. In recent months, stocks of jute goods are piling up. Increasing mill stocks are having a depressing effect on both goods and Jute shares.

In the last few days, there has been demand for Papers and Coal shares also. Opinion differs as to whether the scope allowed to private colliery-owners for expansion during the second Plan period is adequate. There may not be a further fall in Coal shares, but the prospect remains uncertain. More encouraging are the prospects for Paper shares. These shares have been moving up in the last few days. Investors are still cautious. But they seem to be in a mood to acquire Paper shares at all set-backs.



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Juvenal.

★

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Around Bombay Markets

Operators Reconciled to New Policy

Thursday, Morning.

THE performance of the market during the week under review demonstrated clearly that operators have reconciled themselves to the new Industrial Policy despite the admitted fact that it has thrown open a larger area to the public sector. The absence of any rigidity in implementing this policy within a given time limit and scope given to the private sector to contribute its quota to the development of the country seem to have tipped the scales in favour of investors.

The stock market also derived inspiration from the rising trend in prices at the Ahmedabad share market, as also from strong advices from Calcutta. The result was that industrials advanced on professional support and in almost all cases, particularly in textiles, they reached the highest levels previously established this year, which in most cases were recorded on the last day of March.

The new bullish fervour in the Ahmedabad share market has been mainly attributed to the appreciable reduction in the managing agency commission of companies. It is well known that textile mills have been doing well with most of them having sold their products upto August. Although the price of raw cotton has been rising, the performance of the textile mills is not expected to be adversely affected, at any rate not to a marked extent, thanks to the steadily rising prices of piecegoods.

The new account from Monday commenced on a strong note. Bulls were encouraged to tighten their holdings, thanks to sustained support from Ahmedabad and Calcutta. The fear that "budla" charges would be high did not materialise and fed speculative instincts in the market, with the result that gains were recorded on a wide front.

A notable event during the week has been the announcement by the Board of Directors of the Associated Cement Companies that they have decided to issue new shares of Rs 100|- each at a premium of Rs 20|- per share in the proportion of one such share for every two shares. This is in accordance with the conditions specified by the Controller of Capital Issues, but is subject to the approval of the shareholders. As a result, the shares of ACC went up from Rs 215, the ruling rate at one point during the week, to Rs 224 which is only one rupee below the highest reached on March 31, 1956.

Another feature of the market was the sudden spurt in Indian Irons on the last day when they closed at the highest level of Rs 37|1. Business to the extent of 100,000 shares is said to have been transacted during the week.

While all the leading scrips were uniformly strong, the exception was provided by Ahmedabad Electrics, which made history during the week by quoting below par at Rs 96|14. The utter indifference of investors to these shares was evidenced by the absence of any demand even at this low level. Sentiment seemed to have been dampered by the increasing control that the State has been exercising over the electricity industry. With such a low return as that provided by the standard rate of 5½ per cent, the industry cannot be expected to raise the required finance for its expansion programme which is estimated to cost Rs 50 crores. It is no wonder, therefore, that electric shares which were once regarded as equivalent to gilt-edged, have had now to succumb to the humiliating position of quoting below par.

Cotton

Controversy Unresolved

WITH the resignation of Shri Purshotamdas Thakurdas and Shri Chimanlal Parikh, the President and Vice-President respectively of the East India Cotton Association, it is now generally believed that it would be easy for the Forward Markets Commission to effect a resumption of forward trading in cotton, if it so chooses. From the now familiar, "eleven letters", which incidentally seem to hold the key to the solution of the cotton problem, it is clear, however, that the differences of opinion between the Forward Markets Commission and the East India Cotton Association are so strong and on such vital and fundamental issues that it is hardly likely that the two bodies would be able to arrive at a compromise.

The Forward Markets Commission has now issued to the press what is styled as a background note to the cotton controversy. The underlying object of this note is obviously to clear the Forward Markets Commission from ony responsibility for the cotton crisis and to put the blame for everything squarely on the East India Cotton Association.

Whatever the merits of the arguments advanced for and against the view expressed by the two parties to the controversy, it is clear that serious thought should be directed towards finding a lasting solution of the problem. If the Commission has really never taken a rigid stand on any proposal and has been prepared to modify it in the light of discussions, the trade would be justified in expecting it to come forward with constructive suggestions now for evolving a "pattern of organisation and trading which would be in the best interests of the trade and in the public interest."

Oilseeds

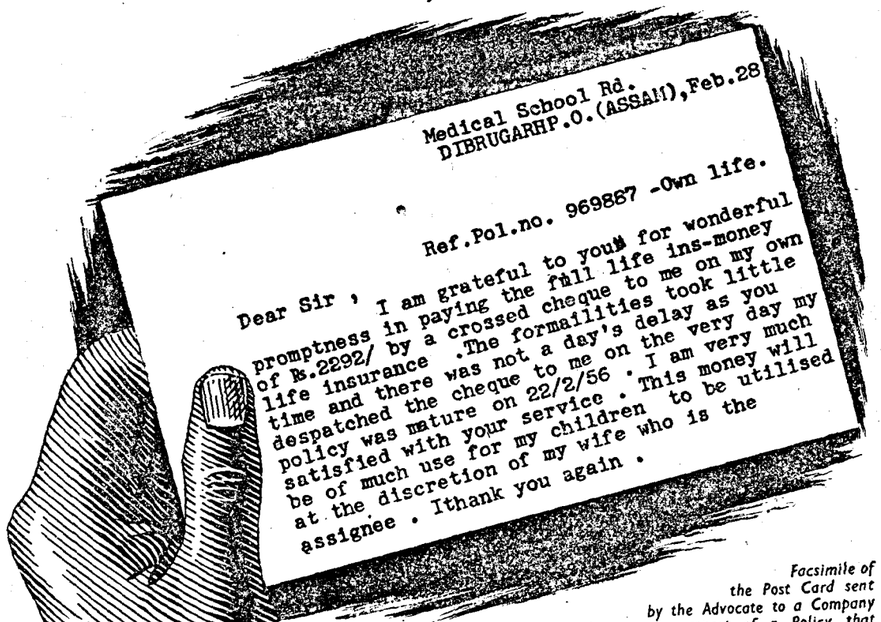
Firm Trend Again

IN sharp contrast to the position during the past two weeks, the oilseeds market presented a firm trend during the week. Thanks to strong speculative support, prices of groundnut, linseed and castor-seeds advanced steadily. Castorseeds in particular, worked up to new peaks on speculative support following keen demand from America for castor oil even at rising prices. Although export business cannot be expected to be of considerable size, thanks to the rise in export duty on castor oil, the mere fact that America is willing to go for Indian oil at rising levels was a factor bullish enough for prices to improve by leaps and bounds.

In the case of linseed oil, there were hopes, dismissed as wishful thinking by knowledgeable quarters, that the authorities would shortly reduce the export duty on linseed oil. This gave a fillip to linseed prices which moved up to make handsome gains. Towards the close of the week, some damper was applied when it was strongly rumoured that Government might altogether ban the export of castor oil. Consequently, there was a setback, but prices in general were well above the previous week's closing level.

'WONDERFUL PROMPTNESS'—

says an advocate from Dibrugarh



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CP/84

Company Notes

Brooke Bond

ONE of the possible consequences of the new Companies Act may be that Brooke Bond India Private Limited, while continuing in the office of managing agents of Brooke Bond Estates India, Ltd., or its associates, may not be entitled to buy teas for the Company either in the Calcutta auctions or elsewhere. If Brooke Bond India Private Limited, or companies of the Brooke Bond group do not function as buyers of the Company's teas, the prices realised may be adversely affected. That is why Brooke Bond India Private Limited have resigned from the office of managing agents from March 31, 1956.

Over fifty per cent of the Company's shares are still owned by the Brooke Bond group of companies. They will continue to own their holdings. It is proposed by the directors that the Company should enter into a selling agency agreement with Brooke Bond India Private Limited, so as to retain its valuable tea-tasting and marketing services, under which the latter would be the sole selling agents of the products of the Company.

Brooke Bond India Private Limited will be paid one per cent on the gross sale proceeds, less brokerage incurred, of all teas sold by the Company. This arrangement, it is assumed will be less costly to the Company in comparison with the remuneration previously payable by it to Brooke Bond India Private Limited as managing agents, or with that which would have to be paid under the provisions of the new Companies Act had the former managing agents continued to function as managing agents.

Bharatia Electric

IN the report of the Bharatia Electrical Steel Company, Ltd. for the year to December last, the directors observe that the steel foundry division of the Ballygunge works has made progress. Due to growing requirements of wagon builders, the demand for steel castings is expanding. During the year under report, there was further capital investment at the Khardah works. This plant is expected to manufacture 10,000 tons of finished goods per month.

Bharatia Electric's profits were higher. There was an increase in the dividend of four annas to Rs 1-4 per share. Depreciation allowances was higher. So was the carry-forward. But the allocation for taxation reserves was lower.

Air-Conditioning Corpn.

MESSRS. Gillanders Arbuthnot & Company Limited, have relinquished the Managing Agency of The Air Conditioning Corporation Private Limited, from the 1st of April, 1956. The Corporation has now become a wholly owned subsidiary of The Orient Paper Mills Limited (Managing Agents: M/s. Birla Brothers) and is being run as a director controlled company. Mr J C Kapur will continue as a Director of the Corporation.

The Corporation was founded in the year 1930 and has since played a pioneering role in the development of the refrigeration and air conditioning business in India. In view of its recent re-organisation, and large financial backing, the Corporation proposes to expand considerably its Engineering, Contracting and Manufacturing activities. The manufacturing programme includes room air conditioners, railway air conditioning equipment, industrial blower fans, and other items of heavier refrigeration and air conditioning equipment. To implement these plans, the Corporation is entering into manufacturing agreement with their principals, Messrs. The York Corporation, U.S.A.; Messrs. Buffalo Forge Company, U.S.A.; and Messrs. The Safety Car Heating & Lighting Company, U.S.A.

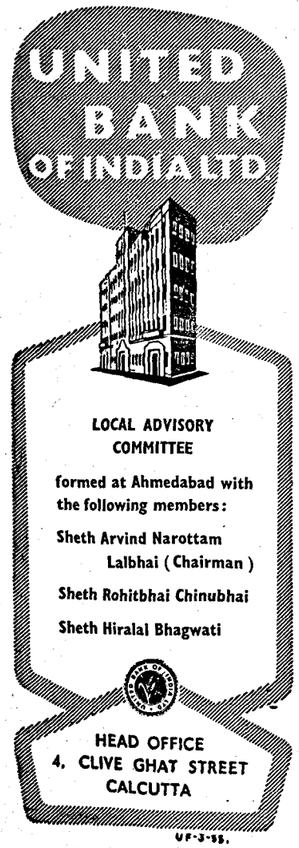
The recent re-organisation of the Corporation promises to be an important step in the development of the refrigeration and air conditioning Industry in India.

Dunlop Rubber Company of England

The following are the trading results of the Dunlop Rubber Co. of England for the year 1955.

	1955	1954
Net Profit after taxation	2,857,531	2,902,972
Transfer to General Reserve	850,000	1,000,000
Preference Dividends	451,447	364,506
Ordinary Dividend	14 per cent*	14 per cent
Carry forward	1,498,490	1,494,523

* of which 4 per cent was paid as an interim in the month of December in each year.



Kerb Trading In Shares

K D Umrigar

KERB trading in stocks and shares, particularly in Bombay and Calcutta, has been on the increase for the last four years. It is, in fact, being carried on vigorously by operators because of the inability of the stock exchange authorities to take any action against them. It is "another form of stock exchange" where business, albeit illegal, in only selected scrips, a dozen or so, is transacted almost every day without hindrance. The volume of business is quite as large as that which is normally done inside the trade halls of the Stock Exchanges.

Unauthorised business before and after the official hours of transactions is bound to continue so long as speculators wish to gamble. It is true that there are a fairly large number on the Bombay and Calcutta Stock Exchanges. It is also true that these persons many a time ensnare unwary investors.

"We do not at all recognise illegal transactions and have repeatedly warned bona fide investors to keep away from the place where unauthorisd persons do business", said a Bombay Stock Exchange official. He told me that kerb trading could not effectively be stopped so long as the present law was not amended. "At present, it is beyond our control to check this sort of trading." That being the position, irresponsible speculators continue to play ducks and drakes with other people's monies. There have been instances in the past when the authorities have levied fines on certified brokers found guilty of doing such transactions, but the punishment has had no effect whatsoever on the culprits.

On the other hand, it is felt in business circles that it is because of the leniency being shown by the authorities that excessive speculation is increasing day by day. In other parts of the world unauthorised business is kept within narrow limits because of the constant vigilance of the officials who are empowered to check illegal trading.

Stringent Clauses

Stock Exchange authorities are most anxious to abolish illegal business lock, stock and barrel, and have actually suggested that stringent clauses be inserted in the Securities Contracts Bill (1954), now before Parliament. The effect of the suggestion, if adopted, would be the absolute prevention of persons from joining, gathering or assisting in gathering "at any place other than the place of business specified in the bye-laws of a recognised exchange, any person or persons for making bids or offers or for entering into or performing any contract in contravention of any of the provisions of this Act." And this offence will be punishable for "a term which may extend to one year's imprisonment or with fine or with both."

Proposal Rejected

I gather that such a clause was, in fact, proposed by the Bombay Stock Exchange to the Bombay Government in 1947 when the Act, which provides for the regulation and control of forward contracts for prohibition of options and certain other transactions in the Province of Bombay, was before the local legislature, but the proposal was, for some reason or other, turned down. From this, it is clear that there is no question of leniency being shown by the Stock Exchange to kerb traders. It is because of its utter helplessness to take action against them that lucrative business is being carried on in Dalal Street. It is the earnest desire of every one interested in genuine trading that Parliament should not lose further time in passing the Securities Contracts Bill so that the new Act may strengthen the authorities in exercising better control over "street trading".

Some years ago, kerb trading was not so brisk as it is today. In those days, such business was mainly transacted on the telephone between certified brokers and outsiders, and it was only when sensational news saw the light of day that they gave vent to their feelings by carrying on their transactions in the open. As this went on persistently, the Stock Exchange appointed a vigilance committee, but the "rank speculators"were more than a match for the committee, with the result that it had to give up its detection activities.

It appears that it is very difficult to detect really guilty parties, who might either be certified brokers or outsiders. Very often, it is the outsiders, who take undue advantage of unauthorised business done through intermediaries. Moreover, such transactions are seldom recorded in the books of the parties concerned in the usual way. Hence, it is impossible to take any steps against the "street traders" who are beyond the control of the Stock Exchange.

It must be within the recollection of business men that some time ago the Bombay Police rounded up a party of speculators in Dalal Street for causing obstruction to traffic; they ran helter-skelter and some of them evn tried to seek refuge in the compound of the Stock Exchange, but were driven out by the authorities.

Two Questions

Is it possible to extend the official hours of trade so as to minimise street gambling? Should not the local newspapers refrain from giving publicity to kerb quotations, as these tend to encourage more and more "street traders?" These questions are, indeed, relevant to the problem with which the Stock Exchange is faced. I am told that if the period of official business were extended even by an hour, it would lead to accumulation of work and also inflict unnecessary hardship on the brokers' clerks. Some years ago, the clerks threatened to go on strike as they were asked by their employers to complete their work within a specified time. Fortunately, the crisis was averted by the timely action of the Stock Exchange.

If the newspapers stopped publishing kerb quotations, which cannot possibly be relied upon, there would be, to some extent, less encouragement to "street traders" and consequently less illegal transactions. One wonders whether the press will co-operate with the Stock Exchange which strongly feels that such publicity should be stopped in the best interest of healthy trade. About a decade ago, few newspapers ever published kerb quotations. It is, therefore, suggested that nothing would be lost if they respected the wishes of the Exchange; "let them try out an experiment at least for some time and watch the result."

On their part, the Government of India should also speed up legislation which will undoubtedly have effective control over what is nothing short of "street gambling".

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1518.51	1505.01	1506.69	1329.26
2. Rupee Coin	105.53	107.20	106.28	104.09
3. Deposits				
a) Central Government's	55.85	58.60	57.10	50.09
b) Banks'	49.40	50.84	53.42	47.24
c) Other Governments'	18.12	27.01	35.70	23.21
d) Others'	14.10	17.18	17.35	22.08
4. Foreign Securities	681.45	681.45	686.42	661.98
5. Balances held abroad	40.05	44.20	62.09	53.76
6. Rupee Securities	698.69	698.69	688.75	583.71
7. Investments	43.87	44.19	46.83	41.48
8. Loans and advances to Governments	1.83	1.79	1.35	0.8
Scheduled Banks				
1. Demand liabilities (net)	638.82	641.30	631.10	580.80
2. Time Liabilities	427.29	427.77	411.32	381.50
3. Cash on hand	37.56	37.89	35.57	34.13
4. Borrowings from Reserve Bank	55.90	50.80	65.08	26.92
of which against Usance Bills	37.52	32.82	27.43	24.84
5. Advances and Bills discounted	710.62	705.00	714.17	585.42
of which State Bank's	135.08	134.57	141.14	125.95
6. Invst. in Govt. Sec.	355.09	355.58	360.07	344.4
of which State Bank's	94.82	94.89	96.35	91.93
Cheque Clearance	154.70	143.15	193.03	144.87

†For Reserve Bank week ended 4-5-56 Scheduled Banks and Cheque Clearance week ended 27-4-56

Bombay Money Rates	10-5-56	27-4-56	6-4-56	6-5-55
Inter-Bank Call Rate	3 1/8	3 1/8	3 3/8	2 7/8
3 months deposits	3 7/16	3 3/8	3 7/16	3
6 months deposits	3 3/8	3 3/8	3 7/16	3

Bombay Bullion — In Rupees and Annas

	10-5-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	105-14 1/2	106-9 1/2	105-8	92-4
Forward	104-2 1/2	105-11 1/2	105-0	90-8
Silver (per 100 tolas)				
Spot	180-0	183-5	181-12	164-7
Forward	175-14	182-5	182-0	160-7

JUTE STATISTICS

Production ('000 tons)

	Mar. 1956	Feb. 1956	Jan. 1956	July'55 to Mar. '56
Hessian	34.8	32.0	30.3	299.3
Sacking	57.8	54.7	52.6	451.0
Others	6.7	6.1	6.0	50.2
TOTAL	99.3	92.8	88.9	800.5
Total Production in the corresponding months of:				
1954-55	88.9	81.3	83.9	750.2
1953-54	75.6	68.3	67.3	644.8

Stocks at the end of the month ('000 tons)

Hessian	* 30.2	28.2	25.6
Sacking	54.9	52.2	45.3
Others	9.5	9.0	7.5
TOTAL	94.6	89.4	78.4
Stocks at the end of the corresponding months of:			
1954-55	94.6	82.9	76.4
1953-54	92.9	95.4	95.7

Despatches:† ('000 tons)

Hessian	32.4	29.1	28.3	307.0
Sacking	55.6	47.3	41.5	433.9
Rope, twine, etc.	4.8	3.6	3.1	34.3
TOTAL	92.8	80.0	72.9	775.2
Total despatches in the corresponding months of:				
1954-55	76.7	74.8	76.7	738.7
Raw Jute Consumption: (lakh bales of 400 lbs each)				
1955-56	5.79	5.54	5.18	37.39
1954-55	5.25	4.84	4.84	33.92
1953-54	4.63	3.43	4.03	37.20
IJMA Mills' purchases of raw jute (lakh bales)				
Pakistani	.18	.09	1.63	11.14
In corresponding periods of:				
1954-55	0.73	0.90	0.86	7.59
1953-54	0.31	0.49	0.45	5.96
Indian	4.05	3.46	5.97	38.31
In corresponding periods of:				
1954-55	2.55	3.21	5.42	37.12
1953-54	2.56	2.22	3.31	29.20

† Despatches include exports and sales for internal consumption

*Provisional

Source : Indian Jute Mills Association

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group of Sub-Group	Week ending 21-4-56	Week Ago 14-4-56	Month Ago 24-3-56	Year Ago 23-4-55
I **Food Articles:**	**361.3**	**360.9**	**362.5**	**279.7**
Cereals	464	459	448	324
Pulses	347	351	389	211
Others	233	236	244	230
II **Industrial Raw Materials:**	**475.4**	**471.0**	**484.6**	**395.9**
Fibres	461	459	470	436
Oilseeds	536	524	543	319
Minerals	448	444	463	417
Others	388	395	400	449
III **Semi Manufactures:**	**378.4**	**375.1**	**375.0**	**327.0**
Leather	409	410	410	395
Mineral Oils	208	208	208	221
Vegetable Oils	535	511	521	329
Cotton Yarn	457	455	453	429
Metals	281	282	282	245
Oilcakes	426	418	402	277
Others	362	362	364	329
IV **Manufactures:**	**375.8**	**375.5**	**373.9**	**377.0**
Textiles	409	408	406	420
Jute	401	397	400	451
Cotton	408	408	403	411
Rayon & Silk	502	502	502	484
Woollen	260	260	274	310
Metal Products	371	371	371	340
Others	286	286	285	287
V **Miscellaneous:**	**496.5**	**496.0**	**494.3**	**538.6**
All Commodities:	**392.1**	**390.5**	**392.5**	**343.4**

COAL EXPORTS BY DESTINATION

	1953	1954	1955 (in tons)
Pakistan	762,218	834,870	977,893
Burma	256,141	263,339	199,432
Hongkong	87,223	117,466	30,664
Singapore	45,345	41,230	60,612
Japan	412,964	93,665	17,319
Ceylon	220,969	268,387	216,609
*Pondichery	6,161	15,719	—
South Korea	200,206	340,095	31,481
East Africa	20	35,178	633
Aden	—	3,863	9,399
Egypt	—	4,863	8,030
Madagascar	—	3,193	—
Mauritius	—	—	7,426
Murmagoa	—	88	—
Reunion	—	100	—
	1991,247	2021,956	1559,498

* Supplies to Pondichery are no longer treated as export.

Census of Industries : Value added by Manufacture 1949-53

(Rs '000)

State	1949	1950	1951	1952	1953
Bombay	113,63,38	104,72,29	137,20,13	113,68,28	126,00,10
West Bengal	66,64,84	76,84,30	90,73,69	84,98,98	80,85,96
Madras	25,76,15	26,03,42	31,74,12	26,18,28	23,82,06
Andhra					4,56,65
Uttar Pradesh	23,92,13	25,65,12	29,73,61	27,23,80	28,24,79
Bihar	25,80,08	30,60,88	29,86,56	35,67,30	38,50,13
Madhya Pradesh	5,55,78	5,98,92	6,50,94	7,32,00	7,15,60
Punjab	3,27,92	3,79,10	4,45,36	3,95,72	4,80,38
Delhi	3,80,88	4,29,13	6,45,80	5,34,77	6,64,93
Orissa	79,49	1,58,97	2,20,43	2,79,19	3,46,87
Rajasthan	—	79,70	1,29,03	1,42,39	2,00,98
Pepsu	1,28,97	1,58,01	2,14,26	1,97,32	2,39,31
Saurashtra	—	—	2,18,11	2,63,01	3,68,37
Assam	1,05,16	99,46	1,01,79	1,03,54	1,28,85
Travancore-Cochin*	38,82	51,60	1,00,77	—	—
Ajmer	66,85	41,76	48,98	58,96	67,11
Himachal Pradesh	8,17	8,49	14,99	16,96	10,38
Vindhya Pradesh	80	15	54	1,42	—60
Kutch	—	1,56	2,28	86	3,40
TOTAL	272,69,41	283,92,86	347,21,39	315,02,78	334,25,31

* Cochin only.

Source : Census of Indian Manufacturers 1949-53

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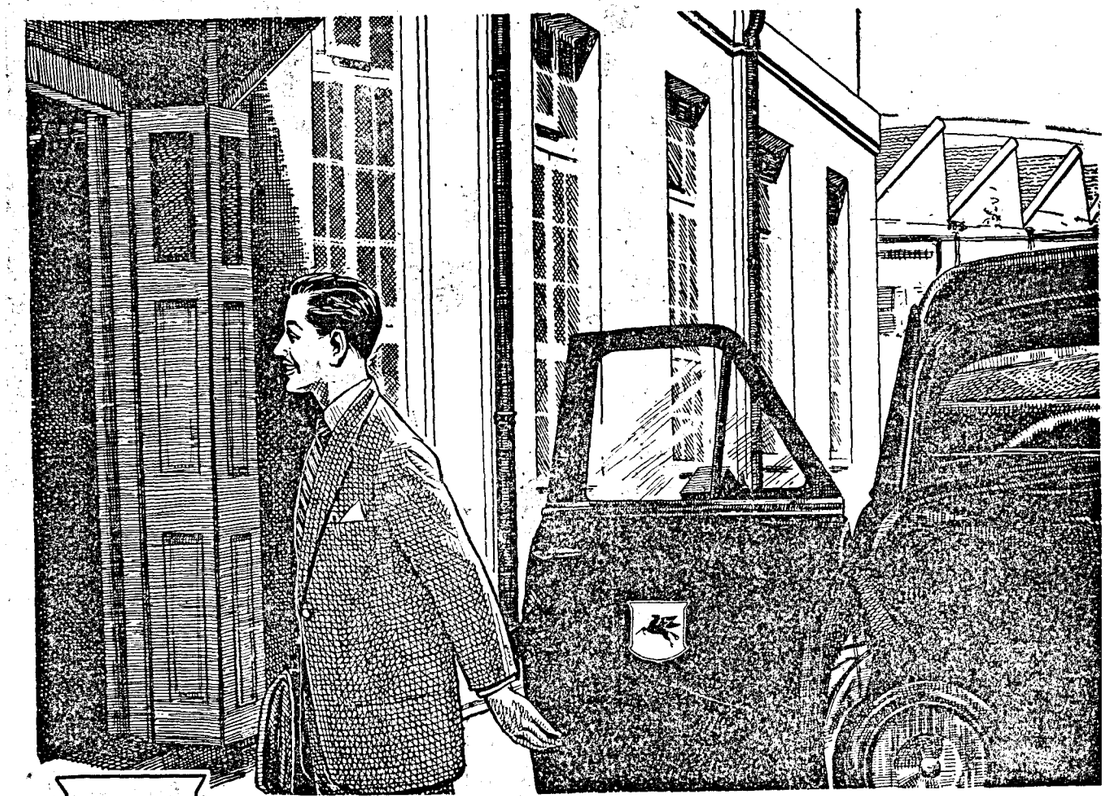
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The Inflated Version

Considerable excitement was caused in the past weeks by reports of serious differences of opinion amongst members of the Planning Commission in regard to both the size and pattern of outlay under the Second Five Year Plan. These differences were attributed to divergent views on what we should aim at and what would be practicable, assuming the maximum of effort possible in a mixed economy and a federal structure. One was led to believe that in view of this, the draft outline of the Second Plan published in February 1956 would be drastically changed in the process of finalisation. But, to put it euphemistically, the spirit of compromise has prevailed and the draft outline has now become the final version, with added length and bulk.

It would by and large be correct to say that the final version is in no way different from the draft outline. Planned outlay in the public sector is unchanged at Rs 4800 crores; allocations to major sectors like agriculture, industry, transport, etc. remain the same. Excepting a few minor items, the physical targets remain as before, and the sources of finance are no different from those in the draft. There is therefore a look of staleness about the final version, which is not entirely redeemed by the embellishments.

The questions which were left unresolved in the draft outline remain so. This is merely another aspect of the sameness mentioned above. We still have the same targets for taxation, viz. Rs 350 crores from existing taxes and Rs 450 crores from additional taxation, or a total of Rs 800 crores in five years. What precisely—or, for that matter, roughly—are the new levies that will or should be attempted is covered by the old formula—taxation will be on the basis of the recommendations of the Taxation Enquiry Commission. It is known that very recently, Prof Kaldor was in Delhi, advising the Government amongst other things, on ways and means of making the Indian tax structure more capable of meeting the demands of development. But it does not seem that the Planning Commission has benefited much from Prof Kaldor's efforts in this direction. Nor, apparently, have the State Governments been able to put forward more concrete proposals in this regard at their meetings with the Planning Commission. The alternative explanation of course is that all concerned consider it grand strategy to keep silent about it.

The taxes, new and old, are expected to yield Rs 800 crores over the five year period. As against this, of the outlay of Rs 4800 crores under the plan, Rs 1000 crores constitutes what is broadly called current developmental expenditure. They will not, that is to say, result in the building up of tangible productive assets. Clearly, the current receipts from taxation are inadequate to meet even this part of the developmental outlay, contrary to all that the Taxation Enquiry Commission and the Finance Minister have said so far.

Public capital formation under the Plan will therefore be financed entirely by a draft on private savings (from income after tax), foreign resources and deficit-financing. This is, in principle, probably acceptable to the traditionalists who would like Governments to borrow, if at all, for purposes of 'productive' expenditure. But in practice, it is likely to render the 'investment' expenditure dependent on the least reliable of

financial sources. One might object to this on the ground that deficit-financing could be what the Government decides; if therefore voluntary lenders, within the country as well as outside, do not live up to the Planning Commission's expectations, there will always be the Reserve Bank to borrow from. But in actual fact, the extent to which Government can deficit-finance will depend on very real forces operative in the economy. Shri Neogy is apparently sceptical about the financial targets and believes that if the planned outlay is put through, it will mean rampant deficit-spending. He sees in this a grave danger to the middle classes; that apart, the psychological and other repercussions of such a spending spree could be most awkward to the planners, especially against the complacent attitude towards rationalisation of organisation and control in the economy.

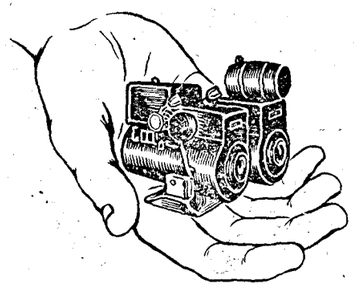
The deficit-finance spectre is all-too-familiar, and there is little point harping about it now. Very much similar is the common criticism regarding the Commission's expectations of external assistance. It is, however, significant that the Commission now says clearly that 'any shortfall in resources to be raised externally must be made good by greater effort at augmenting domestic resources, if the plans for investment are to go forward smoothly.' This is indisputable. The point really is: how exactly are the domestic resources to be augmented? The balance of payments deficit on current account for the five-year period will be, according to the Planning Commission, about Rs. 1120 crores. Whatever additional domestic resources we garner will therefore, have to be such as will enable the procurement of foreign exchange. In simple terms, if the expected foreign loans and grants are not forthcoming, we shall have to produce more export goods and reduce our imports. If this is what we are forced to do, what happens to the beautiful allocation of investment under the plan—which, obviously, assumes that no special effort need be made to fill the gap in regard to foreign exchange?

These are, it may be repeated, old doubts carried over from the draft into the final version. Having recapitulated them, one might ponder whether the Commission had any real alternative. There is, of course, the age-old prescription of adjusting outlay to probable receipts from various sources. That would have satisfied nobody, since spending on such a conservative scale would have made mockery of the plan for 'accelerated' development. The answer really is that, having noted the financial risks, the plan should look for methods of insuring against these. The most effective and basic insurance is that of getting labour to produce more and to accept only a part of its additional produce for current consumption. This is a matter of organisation, and widespread appreciation of what the plan seeks to do and why. It is true that deficit-financing will impose higher prices on the middle classes. But the higher prices are an indication that some of the people who produced little and consumed something are now consuming more and, what is equally important, producing something for the benefit of society. What these people produce may be capital goods or consumer goods. But the essential thing is to get them started on the job of production, so that with the passage of time, they can become net contributors to the social product.

All this involves tremendous adjustments in the organisation of production as well as of distribution. And far-reaching changes in the organisation of these processes must necessarily involve institutional changes. It is here that the Commission, so to speak, soft-pedals. Take the question of agricultural production. The Plan envisages an increase of about 18 per cent in food production; this, according to the Vice-Chairman of the Planning Commission, is not adequate and we should have an increase more like 40 per cent. But how? It is not surely just a question of water and fertilizers, and the Japanese method of cultivation. Along with these, and more important, there should be a more intensive application of human effort. This is particularly relevant because on employment considerations, if not any other, we cannot plump for large-scale mechanisation of agricultural operations. A new spirit has to be infused into the rural sector. How can we do it if we are not prepared to change the agrarian structure? One has only to read the Commission's chapter on Land Reform and Agrarian Reorganisation to see how futile the approach is

It is not necessary to be a Marxian to appreciate the interconnections between economic and social structures and movements. And, in any event, one does not have to be afraid these days of recognising the validity of at least some of Marx's propositions. The Planning Commission have talked for long of physical planning as opposed to financial planning. Working out an input-output matrix is just one aspect of physical planning. Equally important is the institutional side to physical planning. It is therefore somewhat of a pity that the final version of the Second Five Year Plan gives no clearer indication of the Commission's thinking on this than the draft outline did.

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Fulton to Aachen

CONSISTENCY may not be one of Sir Winston Churchill's virtues. But history, surely, will not deny the elder British statesman a sense of perspective and of history. In his life, he has espoused many causes. But, over and over again, he has shown statesmanship by fighting his former convictions. Sir Winston has no political affinity with Communism. Immediately after the establishment of Communism in Russia, he sponsored a military crusade against the Lenin regime. Until the invasion of Russia by Nazi Germany, he did everything to ostracize the Soviet Union. But, with astute realism, he initiated and maintained the wartime alliance with Communist Russia in the war against Hitler. With the end of the war, he renewed his crusade against Communist Russia. His Fulton speech anticipated the Truman Doctrine. Marshall Aid and NATO were the inevitable consequences, and causes, of the "cold war". Two rival power blocs were created.

As the "cold war" continued, the hostility between the rival power blocs was intensified. Throughout the "cold war", Sir Winston worked for closer Anglo-American alliance, and for integration of Western Germany into Western Europe. It would be irrelevant to analyse his assumption that Stalinism encouraged unity among the Western Powers and helped political and military incorporation of Western Germany into NATO. Nor would it be relevant to discuss whether the closer Commonwealth tie was an indirect sequel to Stalinism or a natural consequence of the British withdrawal from Asia or an instinctive protective shield against an aggressive American foreign policy. What is relevant is his instinctive response to changing international developments. He was as timely in his Fulton pronouncement as in his latest Aachen speech.

Germany and NATO are the two aspects of the single problem which threatens peace in Europe. As long as Germany remains disunited, Europe must remain divided. Throughout the "cold war", the Western Powers have argued that NATO and the integration of Western Germany into NATO are essential to prevent Communist aggression in Europe. France has always been a reluctant supporter of this "cold war" strategy. But, outside France, Sir Winston was the first Western statesman to concede that Russia might have legitimate suspicions about a re-united, re-militarised Germany. To alleviate Russian fears, he suggested, two years ago, an Eastern Locarno Pact. This was the first time that any Western statesman admitted that Russia's fears about a re-armed, re-united Germany were not entirely baseless.

As a logical corollary, Moscow, proposed, during the Geneva "summit Conference" among the Heads of State that the problem of Germany should be settled only after the creation of such a security system. Russia argued, could a sovereign, united Germany be included as one of its participants. This suggestion was summarily rejected by the Western Powers in their insistence that the problem of Germany should be settled first.

At Aachen last week, Sir Winston, in effect, endorsed the Russian proposal for an all-European security system. His suggestion for inclusion of Russia into NATO is, in essence, a plea for creating an all-European security system. Transformation of NATO into such a system of European security is a better alternative to the recent NATO Council meeting's suggestion for extending NATO's activities to political and economic spheres. Both for political and economic integration of Europe, organisations already exist. But NATO, whose existence is threatened by the gradual elimination of the "cold war", cannot only be kept alive, but can be enlarged by converting it into a mutual security arrangement for the whole of Europe.

Sir Winston is realistic in not only suggesting inclusion of Russia in NATO, but in conceding that the problem of Germany can be settled only in the context of an agreed plan for the security of Europe. This may embarass Bonn. Washington may feel puzzled at Sir Winston's inconsistencies. But Paris will welcome his realism as a good omen for the Franco-Soviet discussions in Moscow.

Time and time again, Moscow, has emphasised that NATO is the prime cause of continuing world tension. Even those who do not accept this Russian stand will concede that NATO and all regional military alliances are obstacles to disarmament and to world peace. Conversion of NATO into an all-European security system will further the cause of disarmament. Russia has made many concessions during the recent London talks on disarmament. Marshal Bulganin has indicated, during the Russian leaders' visit to Britain, that Russia is willing to discuss plans for reduction and control of both conventional and nuclear weapons. On the eve of the French leaders' visit to Moscow, Russia has announced a further reduction in her armed forces.

Moscow's repeated peaceful gestures emphasise the changed foreign and economic policies in Russia since Stalin's death. It is ridiculous to suggest that Russia is cutting her armed forces as she is now in a position to equip her reduced army with nuclear weapons. It is churlish to maintain that deeper economic influences are forcing Russia to slash her army budget. One of the main arguments for disarmament is that, it will not only lessen the threat of aggression, but will release resources for economic improvement. Statesmanship demands that the Western Powers must be prepared to test the sincerity of Communist Russia. Sir Winston's Aachen proposal will have achieved its purpose if it inspires the Western Powers to reach an agreement with Russia on peaceful co-existence.

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Weekly Notes

Qualitative Credit Control

THE pattern of the control that will be exercised by the Reserve Bank over the banking system in the future is indicated by the directive issued by it to scheduled banks this week restricting advances against stocks of paddy and rice. The Reserve Bank directive refers to the increase in scheduled bank advances against paddy and rice from Rs. 11.64 crores at the end of March 1915 to Rs. 24.62 crores at the end of March 1956, which appears to support the government view that speculative holding of stocks is at the root of the recent 'abnormal rise' in prices of paddy and rice. Perhaps the same may be true of other commodities as well.

The Reserve Bank has directed that no scheduled bank should increase the credit limit already sanctioned to anyone nor grant any new limit exceeding Rs. 50,000 to anyone in respect of advances in any form against the security of paddy and rice. To ensure the implementation of this directive, the Reserve Bank has also directed that in cases of composite advances, the advances against paddy and rice should be separated together with the respective limits.

Since these steps will at most help to freeze credit against paddy and rice at the present level, the directive also insists that the margin maintained in granting credit against security of paddy and rice should be increased by ten per cent of the total value of the security over whatever margins have been maintained at present. The Reserve Bank has also directed the banks "to endeavour to achieve a reduction in aggregate advances against paddy and rice to a level which at any time hereafter would not be more than 25 per cent above that of the corresponding week last year, wherever existing advances are higher than that limit."

The action taken in connection with advances against paddy and rice is evidence of the determination of the Reserve Bank to utilise its wide powers under the Banking Companies Act, 1949, for the purpose of controlling prices wherever any upward trend can be traced to the activities of the banking system. In this way, it will make up through qualitative control for the weakening of its quantitative control in the context of deficit financing.

If this directive is seen in the light of the fairly prompt response of the authorities to the recent increases in food grain prices and the activities of the Forward Markets Commission, it would appear that the mechanism for controlling prices in a heavily deficit-financed economy is slowly taking shape. That is a good sign.

Food Crisis in East Bengal

ALTHOUGH Maulana Bhasani, the 67-year old leader of the Awami League had to undertake a fast before attention was attracted to the acute food crisis in East Pakistan, conditions in that region have been difficult for some time past. Rising food prices had already indicated some months ago that there was a severe shortage of food which could be met only by immediate and urgent steps. Reports from East Pakistan show that food grain prices had risen in some districts already in February to nearly 25 rupees per maund in respect of rice as compared with Rs. 9-8 to Rs. 11-8 per maund during the same period last year.

In an interview at the Mitford Hospital on Monday, the 13th day of his fast, Maulana Bhasani gave a harrowing picture of conditions in the province. The Maulana said that some villagers had not had rice for the previous 1½ months and were living chiefly on a particular variety of vegetables called data, and on sweet potatoes. Plantains and jack fruits, with which they used to supplement their diet at this time of the year, were not available this year due to flood damage.

One aspect of the food crisis which has been stressed by Maulana Bhasani is the lack of purchasing power in the province. He insisted that conditions this year were much worse than ever before, even than in 1943. "At that time", he said, "when rice was selling at Rs. 60 and above per maund, people had the means to buy it, but today there were few buyers when rice was selling at between Rs. 45 and Rs. 35 per maund." When this is the case, there is obviously a case for relief operations, quite from the need for ensuring adequate supplies of rice.

Some estimates placed the requirements of East Bengal at somewhere between 3 to 4 lakhs of tons though in his statement at Dacca this week, Shri H. S. Suhrawardy has suggested that the total deficit amounts to one million tons. It is true that early in March an agreement had been signed with the US for the import of 165 thousand tons of rice, costing Rs. 16 crores under the US Emergency Agricultural Commodities Export Programme. It appears that 15 thousand tons of rice will be made available by India.

The reluctance on the part of the Pakistan Government to import food grains from abroad has, it appears, arisen to some extent from the fear of disturbing the precarious equilibrium in Pakistan's balance of payments which has been recently achieved. The inadequate capacity of the Chittagong and Chalna ports is also said to have something to do with the unwillingness of the Pakistan Government until recently to resort to imports.

Obviously, however, these reasons do not really justify the complacent attitude towards the food situation adopted by the Pakistan and East Bengal Governments. It should not have been impossible, for instance, to arrange for transport of food grains by the overland route through India from West Pakistan. This is, in fact, what Shri Suhrawardy has suggested. Since West Pakistan has by no means a surplus of food grains at present, imports could not be avoided in any case. That the Pakistan Government shoud have allowed balance of payments considerations to prevent it from importing food grains to meet the crisis is clearly not very much to its credit. That they should look upon rationing as a solution to the problem shows the extent to which the two Governments adopted an entirely unjustifiable attitude to this very important question facing them.

Although India herself is facing difficulties on the food front, though by no means so acute, it would be an act of good neighbourliness for her to offer to supply to East Pakistan immediately some quantity of food grains, preferably rice, and further to volunteer the use of her rail and port facilities for the transport of food grains to East Bengal to mitigate the crisis within the shortest possible period.

Pakistan's First Plan

SKETCHY newspaper reports indicate that like India's first Plan, the Pakistan Five-Year Plan for 1955-56 to 1959-60 prepared by the Pakistan Planning Board under the chairmanship of Mr. Zahid Hussain lays special emphasis on agriculture. Such an emphasis certainly appears to be justified for considerable difficulties in practice have arisen from the concentration of effort in that country, since Partition, on development of industries to the relative neglect of agriculture. To rectify this situation, the Plan gives first priority to village aid and agriculture, with one-third of the total expenditure of the public sector devoted to programmes of irrigation, village aid, reclamation and drainage. Industry claims about 27 per cent of the public expenditure on development, in addition to a large investment programme in the private sector. Transport and communications absorb about one-fifth of the total expenditure of the public sector.

The total cost of the Plan is estimated at Rs. 1160 crores, of which Rs. 800 crores is for the public sector and Rs. 360 crores for the private sector. The estimate of financial resources for the Plan shows a substantial dependence on foreign assistance; foreign aid and loans are expected to provide Rs. 380 crores and foreign investment is expected to amount to Rs 40 crores, the total accounting for 47.5 per cent of the Plan. Of the balance, Rs. 150 crores will be public savings and Rs. 590 crores private savings. Of the latter, about Rs 270 crores will be drawn into the public sphere.

The Plan aims at bringing about an increase of 20 per cent in the national income of Pakistan, which, allowing for a 7.5 per cent increase in population, will raise the per capita income of the country by 12 per cent. Among its principal targets are the creation of two million new jobs and a 13 per cent increase in food grain production. To achieve these targets, it is proposed to carry the agricultural and industrial development programme to 26,000 villages. Three million additional acres will be irrigated; the target for generation of electrical energy is 580,000 kilowatts; 250,000 new houses are expected to be constructed.

As the Planning Board calculates the foreign exchange component of the Plan at Rs. 530 crores, it calls for a special effort at improvement of the balance of payments situation. It visualises an increase of exports to the extent of Rs. 40 crores per annum and a reduction in imports of Rs. 10 crores, thus increasing foreign exchange earnings for the Plan by Rs. 50 crores per annum.

The Planning Board has shown recognition of the need for a certain measure of austerity and has recommended strict control over luxury imports. It has also emphasised that 'resources that can be devoted to improvement of social services are limited by the need to provide a solid base of agricultural and industrial progress upon which further social services depend. Whatever else may be said about the Plan, the Board cannot therefore be accused of showing lack of realism.

Apart from schemes directly included in the plan, a provision of Rs 100 crores is made for new productive programmes in East Pakistan which have still to be prepared, such as flood control and small irrigation and drainage works. A similar reserve of Rs. 40 crores is provided for West Pakistan.

While India's First Five-Year Plan was published a few months after the commencement of the period which it was to cover, the Pakistan draft comes in the second year of the Plan period. Knowing how difficult it is to step up expenditure, this does not augur well for the achievement of the fairly ambitious targets set up by Pakistan's first Plan. It is something that a start has been made, however, for the Board that has prepared the present Plan is the third body to have been set up for the purpose. If political developments in Pakistan do not again prevent concentration on the urgent economic tasks that face the country, this Plan should mark the first step in the process of bringing rapid economic development to Pakistan.

France Seeks Friends

M MOLLET, the Socialist Premier of France, can claim much to his credit during the short time he has been in office. He and his Foreign Minister have not been unsuccessful in their efforts to create better understanding between East and West. They have been honest in their criticism of the Western Powers' policy to Russia. Their emphatic comments on the Western Powers' exclusive reliance on security have been widely appreciated. M Mollet and his Foreign Minister are now in Russia for friendly discussions on world problems. At the recent meeting of the NATO Council, France took the initiative for a more positive approach to Russia in order to settle the world issues in dispute. Peace-loving peoples and nations will welcome the French Socialist Government's attempts to create greater understanding between the Western Powers and the Communist bloc.

No exception will be taken to French efforts to win friends. Even as Russia is interested in ensuring French or British co-operation for an agreed solution of European problems, French or British co-operation for an agreed solution of European problems, France is not uninterested in securing Russian help and co-operation in solving French problems in west Asia and in French North Africa. France is one of the three powers who, along with America and Britain, have a responsibility to maintain peace between Israel and Arab States. France has been eager to accept Russia's demand for consultations on west Asian issues. She has openly requested Russia to co-operate with efforts to solve France's disputes in North Africa. France hopes to enlist Russia's support for dissuading Cairo from fomenting trouble in French North Africa. France has the world's sympathy in her gesture in granting independence to Tunisia and Morocco. France claims that the situation in Algeria is different. Few accept her insistance that Algeria is a Department of France. Even moderate nationalist Algerians have now turned hostile to the idea of Union with France. Algeria is one of M Mollet's blind spots. For the prestige of France as also of her Socialist Government, an agreed solution of the Algerian problem is to be devoutly desired.

Dream and Reality

THE conflict between idealism and realism would seem to be nowhere more glaring than in the Congress attitude to prohibition. On one side, there are those who would have prohibition at any cost, irrespective of the other factors involved and regardless even of considerations of practicability or success. To these it would seem to matter little if in trying to cure one evil more evils arise in its place. Prohibition is a creed with them; and having convinced themselves of its soundness, they have no qualm in forcing

it on others, presumably on the ground that the latter may often know not what is good for them.

The other school of thought on the question has perhaps no less faith in the advisability of promoting sobriety in the nation; but it would seem to be disinclined to fly in the face of hard realities or create more complications in the process. To this section, the drive against drinks is not just a ritual of legislation to be gone through in the name of Congress ideology nor a fetish. Neither is it an end in itself, but rather a means to the end of educating people out of the craving for drinks and diverting their interest from it, so that their conformity with law may be voluntary and real and not just technical, as may often be the case in 'prohibited' areas. Again, with this school of thought, prohibition is only one of the many measures of national reform that could be usefully thought of, but not pursued until its advantages are carefully weighed against other, and may be more urgent, national needs.

While those belonging to the first school of thought have always been vocal, those belonging to the second have understandably enough been rather silent. Indeed, it is only their action or lack of action in the sphere of checking the drink habit that would seem to provide a clue to their way of thinking. But that does not apply to our outspoken Prime Minister, Pandit Nehru, who recently gave effective expression to his realistic views on the subject. While declaring that India was much more favourably situated for a policy of prohibition than other countries because of the widespread public sentiment in favour of it, he was nevertheless concerned over the methods to be adopted, inasmuch as 'sometimes they might fail to achieve their purpose and lead to other dangers.' He added, "A law which goes half way, to begin with, and is effective is perhaps better as a step than a law which is supposed to go the whole way and is rather ineffective."

That represents one aspect of the problem; another and an equally important one was highlighted recently by the Chief Minister of Madras, Shri Kamaraj Nadar, though not so much by speech as by action. In deciding to relax prohibition in the Nilgiris in order to attract tourists, Shri Nadar was bowing to the economic factor which is generally brushed aside by ardent votaries of prohibition until the sheer compulsion of events leaves them with no option but to change their attitude. In the process, however, the extreme sanctity that is apt to be attached to prohibition in certain quarters, and the place of supremacy that is given to it among contending national demands of no less importance, lay themselves open to scepticism. But would a touch of scepticism be bad in the stupor of thought that prevails in various quarters?

Shell of Freedom

THE breakdown of the London talks on Singapore's future will be widely regretted. Mr. David Marshall, Chief Minister of Singapore, sorely disappointed, has said that the offer of internal self-government, with Britain retaining imperial powers, is like 'a Christmas pudding with arsenic sauce.' Much has been made of the strategic location of this South-east Asian territory and the presence of a large number of Chinese, who, it has been said, might seize power and join up with the Peking regime. If there was such danger, the Singapore delegation could not be deemed to be less aware of it than the British authorities, nor less concerned about means for averting it in any settlement that it sought with the Colonial Office. In any case, it was the readiness of the delegation to recognise the strategic position of the territory and Britain's anxiety to maintain her base there that made the Singapore demand for freedom so modest. The delegation had insisted only on internal independence, granting considerable power of control to Britain in external matters. But the Colonial Office's response to this was not generous enough. Whatever internal freedom it was prepared to grant, it sought to take away indirectly by assigning extensive powers to the proposed supreme security council which was to control all internal security affairs.

The conception of security can be very elastic; and as Mr Marshall strikingly pointed out, he could be prevented even from laying a sewer in the road on the ground that it obstructed traffic and through it endangered the delicate structure of security. "They wanted to deprive us of all dignity and responsibility." Mr Marshall poignantly remarked. But Britain's Colonial Secretary, Mr. Lennox-Boyd, while stoutly defending his stand on the ground of strategic realities and Communist perils, would seem to have indicated that the door is still open for negotiations. And considering the fact that the main point of difference hinges largely on the powers to be granted to the security council, it should not prove difficult to arrive at a reasonable compromise provided Britain is prepared to trust Singapore's leaders to know what is best for them and also to be quite capable of looking after their country without the stultifying protective arm of the Colonial Office. The stalemate that has resulted from the breakdown of talks cannot continue for ever. And statesmanship demands that it be ended soon to restore goodwill and understanding on all hands and put Singapore firmly on the road to democratic evolution.

Cloth Export Duty Goes

ALTHOUGH Government's belated decision to abolish the 6¼ per cent. ad valorem export duty on coarse cloth will undoubtedly arrest the falling trend in India's cloth exports, it would be wrong to expect any spectacular improvements in this direction in the immediate future. Internationally, the increasing manufacture of substitutes like rayon and other synthetic fibres and the fact that a number of countries like Egypt, Pakistan, Burma and Iraq, which were previously large importers of cotton textiles have now started cloth production themselves, have caused a shrinkage in the world market for cotton textiles.

Competition in the international market has also been becoming keener during the last few years. Japan has begun throwing as big a weight of cloth into world markets as she did before the war. It is well known that she has been able to do this by cutting down her cost of production, in which process she has been assisted by the co-operative attitude of Pakistan with regard to the supply of raw cotton. But competition has also been forthcoming from China, West Germany, Bulgaria, Pakistan, Egypt etc.

In view of these factors, the decision to abolish the export duty on coarse cloth, which occupies an important position in our total exports, is undoubtedly welcome. It will help the country to meet to some extent the competition offered by these countries, but only if the national situation does not at the same time become more difficult. If internal prices continue to rise owing to scarcity or high production costs, India will not be able to derive much benefit from the abolition of export duty.

17th Parallel

MR. NGO DINH DIEM'S regime in south Viet Nam may not be democratic. But Mr Diem is clever in exploiting circumstances. Since the Geneva Agreement on Indo-China, there has been a stalemate in Viet Nam. Under the Agreement, the cease-fire should have been duly followed by a general election throughout the country. General elections have not been held; the country remains divided; Mr. Diem makes no secret that he has no intention to hold a general election. After prolonged hesitation, Britain and Russia, co-chairmen of the Geneva Conference on Indo-China, have issued an appeal to both south and north Viet Nam to make preparations for a general election. Mr Pham Van Dong, Premier of north Viet Nam has promptly responded to this Anglo-Russian appeal. Mr Diem remains adamant. He disowns his responsibility to hold general elections. There is, thus, continued deadlock in Viet Nam.

Two events have helped Mr Diem to persist in his refusal to cooperate with north Viet Nam in arranging for general elections. Immediately after the Geneva Agreement on Indo-China, the Heads of States reached an understanding during the Geneva "summit Conference" not to wage an atomic war. Mr. Diem's intransigent attitude is helped by the knowledge that the Communist bloc will not encourage north Viet Nam to violate the cease-fire agreement. Mr Diem argues further that he has no responsibility to abide by the Geneva Agreement, as he was not a party to that Agreement. This is where the political vacuum in Viet Nam enters the picture. Under the Agreement France has a responsibility to ensure implementation of the Geneva decision to hold general elections in Viet Nam. France has quit Viet Nam; the French forces are no longer there. France is no longer able to discharge her responsibility. Mr. Diem is aware of these circumstances. He has also the tacit support of America. That is how and why Mr. Diem is one of the major beneficiaries of the prevailing international atmosphere of co-existence.

Off the Record

On the Case for Nationalisation

FEW will disagree with the proposition that in bringing into existence a Socialist pattern of Society, the State has to play a big part. But equally truly, few will agree on the extent and nature of th's part. Whatever the form it takes, the essence of the transition lies in reducing inequalities in economic power, and introducing new values in society. This inevitably means that some of the institutions to which one has always been accustomed will need to be transformed, if not changed. The trouble is that those who are intimately connected with such institutions and know their strong points are convinced that extension of State power should be such that these institutions are not jeopardised. Extension of the power of the State in th's context does not mean only nationalisation. Even legislative measures directed towards reduction of econom'c power meets with ferocious opposition.

There is always a plausible reason for such opposition. The landlords see no reason for legislative imposition of ceil'ngs on personal holdings when no such restriction exists on urban property and when large-scale farms are associated in the popular mind with efficiency of product'on. Labour leaders desire protective legislation for labour and greater political importance to that class, but are scandalised by any talk of restricting the right to strike or of enforcement of discipline by the State. And, of course, industrialists feel that nationalisation of industries is the last thing that the State should do, if it wants real development.

Admittedly, it is all very confusing to the Government, which has set its sights in a particular direction and finds that movement in that direction cannot be in a manner agreeable to everybody. Not unnaturally, it takes shelter in vague policy statements and compromise formulae, in the hope that friction might be minimised. But in the process, it only adds to friction, because the reason for vagueness is interpreted differently by different people.

A case in point is the recent Industrial Policy Statement. Many were surprised that this had only a mild reaction. It could not have been otherwise, considering how little it differs from the Industrial Policy Statement of 1948. But in the meantime, the environment has changed and those who probe deeper into such matters find that the dangers of nationalisation have increased. Subsequent to 1948, air transport and insurance have been taken over; the old Imperial Bank has been nationalised; Government has made it very clear that new units producing iron and steel shall be State-owned units. Several such instances could be cited and it is against this background that extension of State power in the industrial field is disquieting to many, including Dr. John Matthai.

Dr. Matthai's position is that free enterprise should be the rule and State enterprise the exception in a developing economy. He, therefore, disapproves of the greater stress placed on State enterprise in the Industrial Policy Statement and considers it unwarranted. Neither of the two grounds put forward in support of nationalisation, viz., the necessity for State ownership in a Socialist Society and the need for speedy and planned development—appear tenable to him. For him, nationalisation is permissible only when there is a proved necessity for it. Only nobody can define 'proved necessity' in a manner acceptable to all concerned.

Dr. Matthai unfortunately uses 'nationalisation' in a wider sense than is commonly understood. He uses it to mean not only the taking over of existing units of production but reservat'on of fields for State enterprise. He is, therefore, not concerned with the narrow question whether or not the State should use its resources in taking over established industries instead of establishing new ones. Apropos of reservation of fields for the State, he finds no sanction for it either in theory or in practice. The second criterion, viz., that of rapid development through this means, comes in for its share of criticism in the process.

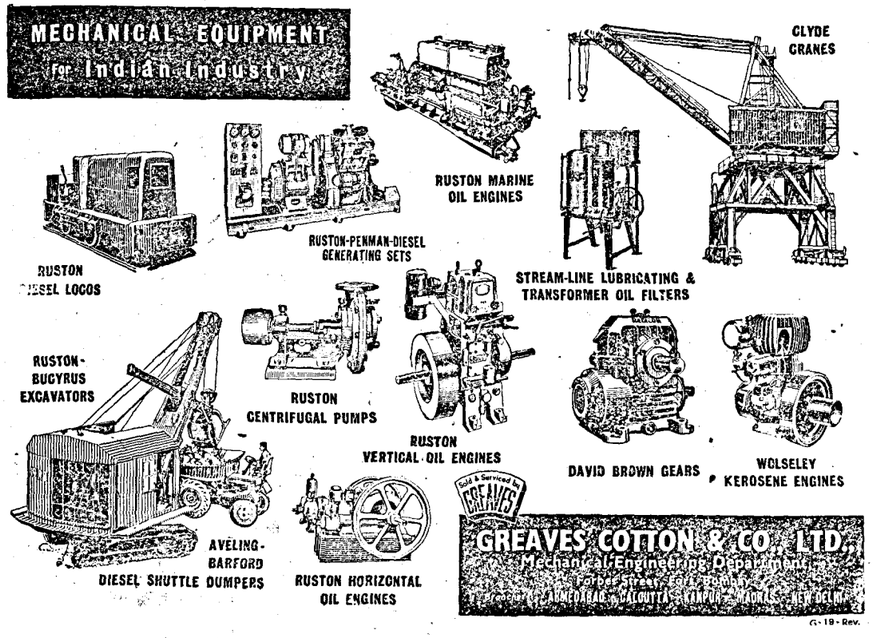
The substance of Dr. Matthai's argument is this: the impression that nationalisation is an essential element in socialism is not supported either by socialist thinking or socialist practice. If the trend has been different in the USSR, it is because before the October Revolution there was no democratic government worth the name in Russia; if Karl Marx advocated socialisat'on

of the means of production, it was because such franchise as there was in his time was based on property rights and therefore the State was run by vested interests. Since Marx's time, political democracy has come to be based on adult franchise and has made vast progress. We have such a democracy in India; and within this framework, nationalisation as a necessary agency of socialism has little place.

Dr. Matthai's points are to a large extent well taken. But certain nagging doubts remain. Either we accept that adult franchise in India has given us a parliament truly capable of reflecting the views and aspirations of the common people or we do not. If we accept it, the fact that Government-in-parliament has sworn adherence to a Socialist State in which State enterprise shall have an increasing share will have to mean that the majority of people want it so. It no longer becomes a question of doctrine. If, on the other hand, we treat it as a doctrine imposed by some, parliament loses its claim to be the mind and mouth of the populace. Which means, in other words, that you may have adult franchise, but you do not have effective policy-making by the people. The fact is, adult franchise is necessary but not sufficient to ensure the ideal democracy in which socialisation of means of production becomes superfluous. In the ideal democracy, the State's business could be, as Dr. Matthai observes, just to lay down a general plan and leave the working of it to others; this is because under the assumptions of an ideal democracy, conformity to the plan will be assured by the self-imposed discipline of the 'democrats'. One does not have to strain much to see how far we are yet from such an ideal.

Dr. Matthai's second point is that Government's organisational and administrative resources are not capable of meeting the demand for speedy development through nationalisation Few will question the administrative difficulties implicit in the extension of the public industrial sector. The point, however, is not whether the administrative machinery is now inadequate or ill-suited to the tasks of running industrial enterprises; it is whether it has always to remain so. Like many others who are afraid of bureaucracy and red tape, Dr. Matthai seems to believe that whatever else may happen to society at large, the character and tone of the administrative services will remain unaltered. For him, they will always be too slow in their decisions, too fearful of change, too unwilling to take risks and so on. They will, of course, remain so as long as the rules and regulations under which they function remain what they are today. Why, if as a nation we are all desirous of change and development, should these rules and regulations be maintained in their out-of-date forms?

We do not like to give greater freedom of action to the administrators because in a democracy their business is to implement Parliament's decisions. If Parliament does not choose to give them greater scope for initiative, it is not entirely the Government servant's fault that he sticks to precedent and waits for somebody else to take decisions. But then, should Parliament enlarge the freedom of action of Government servants, not a few will deem it the beginning of the end of democracy. It is principally because of this dilemma that the liberals opt for a free enterprise system. But that still leaves the question of rapid development unanswered. Free enterprise will lead to industrialisation and all that, provided certain 'freedoms' are given to it. In the present state of the world, and particularly in underdeveloped countries, these freedoms cannot be given to entrepreneurs, except through State intervention. To do so would, again, be to take a retrogarade step in terms of political democracy. And if it is not done private enterprise also will remain too unwilling to take risks or lose money.



From the London End

Automation and Employment

THE problem of the relation between man and machine is by no means new. The suggestion is, however, now being made that the advent of 'automation' has engendered a fundamentally new situation and that, while in earlier times, science had followed industry, it is, as Professor Bernal says in his recent **'Science in History'**, "now tending to catch up with industry and lead it as its place in production becomes clearly understood." Automation is the conscious application of science to the organisation of the 19th and early 20th century. The advent of automation has created a new situation; the reaction of workers must also be new. No longer are workers likely in their own interests to think of the machine as a mere lever to lighten the expenditure of human effort. The coming of the robot age in Britain has been so sudden that with the realisation of its implications there has been a sharp reaction among workers.

In Coventry, 12,000 men at the Standard Motor Company struck work on the ground that the company was installing £4 million of equipment for the manufacture of new tractors which would permanently displace about 3,500 men. The Managing Director of this company has announced that—

> ". . . . . we are not installing £4 million worth of equipment in order to employ the same number of men. We can't carry people for fun."

The strikers complained that the introduction of automation in the Standard Motor Company was made without consultation with the trade unions concerned and that there were no guarantees that those who would be declared relundant could be absorbed in alternative work in the factories of this company. The strike, which lasted for more than one week, has now ended on the understanding that the eleven trade unions concerned are to make a determined effort to obtain agreement at an official level that automation in any industry should take place only to the extent that it does not bring harm or unemployment to its employees.

The strike possesses a more than local significance. It has stimulated considerable controversy and brought a statement from the Minister of Labour promising the early publication of the report which the Department of Scientific and Industrial Research has been preparing for more than three years. The Government, it is clear, conceives of automation as a "good thing". It has failed so far to indicate ,however, the longer term or the social implications of this new industrial revolution. The Labour Party, on the other hand, has shown itself not only gravely confused over the issues at stake, but unable to suggest how what is now regarded as inevitable can best be implemented. The trade unions see in automation only the very short-term implications for employment, while the Trade Union Congress has remained silent on the question.

Mr John Diebald, the leading exponent of automation in the U S A, has pointed out that the production process so far was divided to allow for the most efficient use of individual human skill. Mechanisation in most cases, he claims, did not change this fundamental feature of production. Machines were developed around human skill. Automation, on the other hand, says Diebald, takes a new approach. It views the production process as an integrated system and not as a series of individual steps divided according to the most economic distribution of human skill or even of individual machines.

In effect, this definition does give a greater sense of reality to the economic distinction between capital and labour, and more particularly to the relative costs of each of these factors in the determination of their respective uses in industry. To clarify this crucial relationship, the Earl of Halsbury has spoken of the "breaking point" before which automation is uneconomic and after which it becomes economic. Speaking at the Margate Automation Conference last December, he said:

"What determines this breaking point? When depreciation costs of new automatic machines (A) are equal to depreciation costs of old machines plus cost of labour power (B) (which new machines will replace) then the breaking point has been reached. When A is more costly than B, automation is uneconomic and vice versa.

"The variable factor here, of course, is wages. When wages are low B will tend to be less costly than A, tending to make automation 'uneconomic'. When wages are high B will tend to be more costly than A making automation 'economic'. The successful struggle of the workers, therefore, for higher wages and shorter hours will tend to make automation socially necessary, facilitating further improvements in living standards. The resistance of the employers to these demands, the employment for example of 800,000 women in the engineering industry at shockingly low wages, tends to make the automatising of their work uneconomic, even though the technical possibilities for such automation exist."

On this basis, at the current level of wages in British industry, automation appears to be definitely feasible. The breaking point which the Earl of Halsbury spoke about has already been effectively calculated in one very large firm. The Austin Motor Corporation had calculated that after it had installed its automated line for machine cylinder blocks, output would be increased by 20 per cent, machine operating costs would fall by 17% and labour costs would be reduced by 81 per cent. Already, this automation has resulted in a £ 2 million saving in inventories. The British catering organisation, J Lyons & Company, has installed computers which not only work out the weekly pay packets of about 10,000 employees, but earry out a daily analysis of bakery and confectionery orders from all the London teashps and draw the attention of the management to shops that are doing well or badly, take charge of the firm's stock control of tea and do many other jobs besides. These computers have replaced about 300 clerks. Studies of comparative costs of automatic and non-automatic production are now being made by all the large industrial organisations in the country. There can be little doubt that the two examples given here are typical of automation generally in the country.

The social impact of automation as defined by Mr Diebald and the Earl of Halsbury has raised the question whether the planning of industrial development even in Wes-

tern countries is not a vital necessity. The **New Statesman and Nation** has recently written lengthily on the inability of capitalism to maintain employment even without automation in any normal situation. It, therefore, asks the fundamental question whether automation in the present unregulated structure of British industry would not involve further economic concentration, a reduction in the area of competition and the strengthening of the large companies and near-monopolies. In this situation, this journal states unequivocably that "we cannot achieve an orderly transition or work out the right social priority when we have a government that believes that what is good for Standard Motors is good for Britain".

The consequences of the general framework of the "profit system" must be a general lowering of living standards, a marked rise in unemployment and inevitably a slump of dimensions that will possibly mean the end of capitalism itself. This far-reaching estimation of the consequences of automation is not without significance. It shows the issues which are being raised by the introduction of automation.

The controversy has also covered "the causes of automation". In Left wing circles the view is increasingly held that the introduction of automation in industry in the United Kingdom, as no doubt in the United States, is the result of the military preparations that have already taken place. Automation, it is claimed, has been made technically possible by the military developments of radar and electronics generally and of automatic controls and mechanisms for aircraft and guided missiles. The inspiration for the present fervour for a quick transition into automatic industry therefore comes from rearmament which, it is stated, provides one of the surest and most profitable outlets for automatic factories.

The contemporary social fabric is however likely to be with us for some time still and considerations as fundamental as those examined above do not help in a discussion of the short-term prospects of labour displacement in newly automated factories. The report of the Industrial and Scientific Research Department is being awaited eagerly for more light on this aspect of the question.

Hooghly Mills

CORNERING attempts do not seem to be over yet. In recent months, many companies under the managing agency of Gillanders Arbuthnot and Co., Ltd., have been targets for cornering activities. Some time ago, Gondalpara Jute Mills changed hands. Air-Conditioning Corporation is no longer under the managing agency of Gillanders. By the time these lines appear in print, the fate of Hooghly Mills Co., Ltd., the jute manufacturing concern under the managing agency of Gillanders Arbuthnot will be decided.

An extraordinary general meeting was scheduled to take place on Friday last. A group of shareholders, who seek to change control and management of Hooghly Mills, requisitioned the meeting. Results of this meeting are not known at the time of writing. But the issues involved may be discussed.

During the last few months, there have been attempts at cornering of Hooghly Mills shares. As a result, the group, which has requisitioned the meeting, is reported to have acquired nearly fifty per cent of total shareholdings. With the help of the remaining shareholders, Gillanders may outvote this group, "although this is by no means certain".

Gillanders are prepared to sell their managing agency rights. But they insist that the cornering group must pay the remaining shareholders the same price as it pays to Gillanders. This, the group is reported to be reluctant to do. To safeguard the interests of shareholders, Gillanders have asked the remaining shareholders to appoint a Gillanders' director on the Hooghly board as their proxy to vote at the extraordinary general meeting.



Our Delhi Letter

K C Neogy Vindicated

AT last Shri K C Neogy has been vindicated. His projected minute of dissent has become a part of the Second Five Year Plan. The members of the Planning Commission have expressly recognised that in a document of "such wide scope there is always room for differences in emphasis which must be appreciated". Shri Neogy's note has come to be paraphrased in two sentences. He is quoted as having "specially stressed that in view of the magnitude of the Plan it will be difficult to implement it in a period of five years and that deficit financing on an excessive scale may prove dangerous to the economy and may cause hardship to certain sections of the population. He has also drawn particular attention to the need for balanced development of transport and production generally." The members agree that "these considerations are important and should be constantly kept in view in carrying out the Plan". And then, almost as a concession to themselves, it is stated that "these aspects have also been considered fully in appropriate sections of the Plan".

The fact is that "these aspects have been considered fully" and then ignored in laying the basic structure of the Plan. But that does not matter. Shri Neogy's right to have his say has been respected. He may prove to be a true prophet of despair and that would be his final—if sad—triumph over the contents of the monumental volume that he denounced in no uncertain terms. But for the present he is proceeding on leave to have a well-merited holiday at a hill station. The talk of his resignation, which started even before he joined the Commission, has evaporated and despite differences with Shri V. T. Krishnamachari and Shri Gulzari Lal Nanda, he might find the atmosphere in the Planning Commission more congenial for his work (due to the appreciation of the Prime Minister for his point of view) when he returns to his desk towards the end of June.

V K Krishna Menon

Mr. V. K. Krishna Menon's star is on the ascendant. Having shone brilliantly in the firmanent of international politics, he is shedding light on the complex problems of national economy. He was actively associated with the scrutiny of the draft outline of the Second Five Year Plan on behalf of the Congress Working Committee. He has been nominated as a member of the economic committee of the Cabinet. Shri Krishna Menon has now joined the Cabinet Committee on heavy industry which includes the Prime Minister, the Home Minister, the Defence Minister, the Minister for Production, the Minister for Commerce and Industry, the Finance Minister and the Minister for Natural Resources and Scientific Research. He may be shortly called upon to look after the nation's health when Rajkumari Amrit Kaur proceeds abroad, principally to the United States, on a tour of several months.

Atomic Energy Programme

The cost of India's atomic energy programme for the next five years is estimated Rs. 63 crores. No provision has been made for the programme in the Second Five Year Plan. Meanwhile there are unconfirmed reports that the Soviet Union has offered a reactor to India. It appears that willingness of the Soviet Government to set up a reactor in India was expressed by Mr Bulganin and Mr Khrushchev during their visit to this country.

The Government of India is faced with the problem of finding and training enough personnel to man the reactors that are to be established under the programme already accepted, It is therefore unlikely that the Soviet offer will be accepted in a hurry.

Commission for Oil

The decision has been taken to convert the Oil and Gas Directorate of the Ministry of Natural Resources and Scientific Research into a Commission, on the lines of the Central Water and Power Commission. The Minister for Natural Resources and Scientific Research, Shri K. D. Malaviya, may head the Commission, which will have wide financial powers. It will execute the Rs. 39 crore programme of oil exploration for which a sum of Rs. 11.5 crores has been provided so far in the Second Plan. Meanwhile negotiations are under way with the Standard Vacuum Oil Company and the Assam Oil Company for the exploitation of oil that may be found in West Bengal and Assam respectively. The Government is already participating in a joint venture with Stanvac in the exploration of the oil resources of the West Bengal basin on the understanding that if oil is discovered, the Government will have a majority share in a rupee company to be formed for its exploitation.

Meanwhile talks will be continued with the Assam Oil Company to reach an understanding on the formation of a rupee company to tap, exploit and refine oil found in Assam. The Government's view at present is that the refinery in Calcutta should be a separate concern while the rupee company should devote itself exclusively to exploration and exploitation of oil. The Government is reportedly agreeable to the Assam Oil Company holding a majority share in the former, but would like to keep financial control over the refinery. There are also differences on the size and location of the refinery. These can perhaps be reconciled. But the Assam Oil Company is not prepared to talk itself out of an interest in the refinery because that is where the profits come from. The talks will be resumed shortly.

Meanwhile a High level committee of the Cabinet may be formed to work out the programme for oil exploration, advise the Government on the administrative set-up of the Oil and Natural Gas Commission and lay down policy regarding the Government's participation in joint ventures with foreign oil interests.

It now appears that the synthetic oil project of the Ministry of Production is likely to be abandoned. Instead a less ambitious scheme for the carbonisation of coal is being formulated.

Rehabilitation Finance for Jute

The procedure for giving loans to jute and textile mills for the rehabilitation of machinery is likely to be streamlined. The Secretary of the National Industrial Development Corporation, Shri L K Jha, will address letters directly to each individual factory, indicating the Government's terms for giving loans and asking the owner to apply for it on a simple form that would be attached. This will cut out red tape. The terms are liberal. An interest rate of 4½ per cent is charged and a simple hypothecation

is regarded as adequate. No security of collaterals is required. In the case of one jute mill, the N I D C has sanctioned Rs. 22 lakhs on a second mortgage. A loan of Rs. 6 lakhs has also been sanctioned to another jute mill. But the amounts have yet to be disbursed. No application has been entertained so far from the cotton textile industry. The N I D C has between Rs. 20 to Rs 25 crores at its disposal for the rehabilitation of the two industries during the Second Plan period. It would like to disburse the amount quietly. The procedural reform has been undertaken at the personal initiative of the young and energetic Minister for Industrial Development, Shri Manubhai Shah.

Letters to the Editor

Technological Change

I HAVE followed with interest the controversy provoked by Dr Raj's article on Small-Scale Industries. After reading X's latest rejoinder I am at a loss to understand what the logical flaws or hidden assumptions were in Dr. Raj's reasoning which X believes he has brought into the open.

X obviously agrees that it is only logical to take into account the dole required to maintain the displaced workers. The need for doing so was explicitly stated by Dr Raj in his article. If it is agreed that the leakage on account of the dole has to be taken into account, it follows that the choice of techniques in any one industry cannot be determined with reference solely to the relative profitability of different techniques in that industry, and this was Dr Raj's main thesis. But now X's complaint is that Dr Raj "did not care to state or work out the amount of dole or the number of workers displaced". This, it seems to me, is not a logical flaw whatever else it may be, and if Dr Raj had ventured some estimates of this earlier I am not sure whether X would not have acsed him of being still more "long-winded".

As regards the Keynesian and Marxian tools of analysis, I did not see any statement in Dr Raj's article to the effect that one was superior to the other or that the same problems could not be analysed with either of them. But, in economic analysis, different models do emphasize different factors, and here the difference in emphasis between the identity of saving and investment in the Keynesian theoretical system and the correspondence, which Marx stipulates as necessary, between the surpluses from Department I and consumption outlay in Department II is of some importance.

Also, when one speaks of propensities, one has in mind the behaviouristic tendencies of the individuals within a community, and there is nothing contradictory between individuals having a zero propensity to save and saving and investment being equal and positive for the community as a whole. And this would be always so as long as receipt of income and expenditure are not instantaneous. To say, therefore, that the saving emerges because of some assumed lagged relationship, and that otherwise propensity to save could never be zero when saving for the community as a whole is positive is a kind of logic-chopping which, whatever else it does, does not certainly clarify the issues involved. The main point obviously is that, even when the propensity to save is zero, the existence of time-lags may help to prevent an inflationary burst, but that a constantly rising level of output will be still necessary to maintain the same rate of investment. How is this the same thing as saying that "a certain rate of investment could not be maintained if the elasticity of supply of consumption goods, in spite of, say, a possibility of an infinite increase in their output, were not such as to meet adequately the demand for consumption goods"?

I agree with X that in a scientific discussion a person's face is less important than his argument. I shall therefore sign this letter as:

Delhi "Z"
May 9, 1956

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Official Papers

Progress in Middle East

Economic Developments in the Middle East 1945 to 1954. Department of Economics and Social Affairs, United Nations, New York,. pp 236. Price 17sh 6d.

DESPITE political disturbances, and perhaps because of the changes brought about by them, the Middle East made rapid progress in the post-war period. Taking the region as a whole, the rise in national income was distinctly greater than the population growth which indicates that the demographic rate of investment must have been exceeded. That progress during this period was most marked in the oil industry indicates that the dominating position of this industry in the economies of mid-eastern countries has, if anything, been strengthened during the post-war period.

The study of post-war economic developments in the Middle East, carried out by the department of Economic and Social Affairs of the United Nations, shows that although achievements are still far short of needs, this region has been achieving a fairly satisfactory rate of progress. In spite of the peculiar forces operating on most countries of the world during this period, it is interesting to note that this progress was achieved 'with marked monetary and price stability and without imposing too great a strain on the balance of payment'. That the rate of advance has been accelerated during the latter part of the period covered by this study has encouraged the authors of the Report to conclude that 'there is good reason to believe that in future, progress would be more rapid'.

Whether because of the political changes that have taken place or otherwise, the countries of the Middle East are, it appears, paying increasing attention to problems of development, and the fact that the rise in per capita income was not always much by corresponding consumption indicates the increasing proportion of national product that is being absorbed by investment. At the same time, the Report notes that in certain countries the increased provision of social services by Government has made a significant contribution towards raising the standard of living of large sectors of people. The Report finds that political and administrative reforms have in many countries increased the efficiency of the Governmenal machinery, and the need to produce quick results to satisfy the people has resulted in concentration of Governmental effort on such basic development projects as irrigation, power, transport and communications and the supply of agricultural credit. With the major resources of the State concentrated in these fields, Governments have found it necessary to leave other fields such as manufacturing and mining to private enterprise.

Investment in the oil industry increased from 1,000 million dollars in 1945 to approximately 2,200 million dollars in 1954. The proved resources of the area showed an increase of 240 per cent over the 1945 figures so that the share of the Middle East in world reserves rose from 40 to 60 per cent over the period.

Production of crude petroleum quadrupled over the period, raising the share of the Middle East from 9.4 per cent to 19.7 per cent of world output. This was in spite of the well-known fall in Iran's oil production as a result of which Iran's share in Middle East output declined from 55 per cent in 1946 to 2 per cent in 1954. Obviously, therefore, the fall in Iran's output was more than offset by the increase in the production of oil in Iraq, Kuwait and Arabia. Now that an agreement has already been reached between the Iranian Government and a consortium of major oil companies as a result of which Iran's crude oil output is expected to be restored to the 1950 level by 1957, the impact on the economy of oil in the Middle East will have to be considered seriously.

While production of crude oil increased so rapidly, refining capacity increased comparatively slowly. It is well known that there has been a powerful tendency in operation for refining capacity to be set up at the consuming centre rather than in the Middle East; as a result, the bulk of crude oil was exported as such and a decreasing proportion of the world's refined oil was produced in the Middle East.

The measure of attention which is now being paid in the Middle East to the more eventual interest of various countries is proved by the efforts being made to utilize and conserve the region's natural and refinery gases which were hitherto burned in large quantities. In Saudi Arabia a field pressure maintenance plan was completed at a cost of 19 million dollars to re-inject high pressure gases into the oil reservoir. In Egypt a fertiliser plant has been built to utilize the gases of the Suez refinery while in Kuwait natural grases are being utilized to distil sea water for drinking purposes.

The growing oil activities in the issue as well as changes in oil agreements have resulted in higher revenues for oil-producing countries. Not all this increased revenue, unfortunately, was utilized for economic development. Nevertheless, the absolute amount spent for such purposes has tended to increase. The high and rising volume of investment in this region is, therefore, to be principally explained in terms of the prosperity of the oil industry.

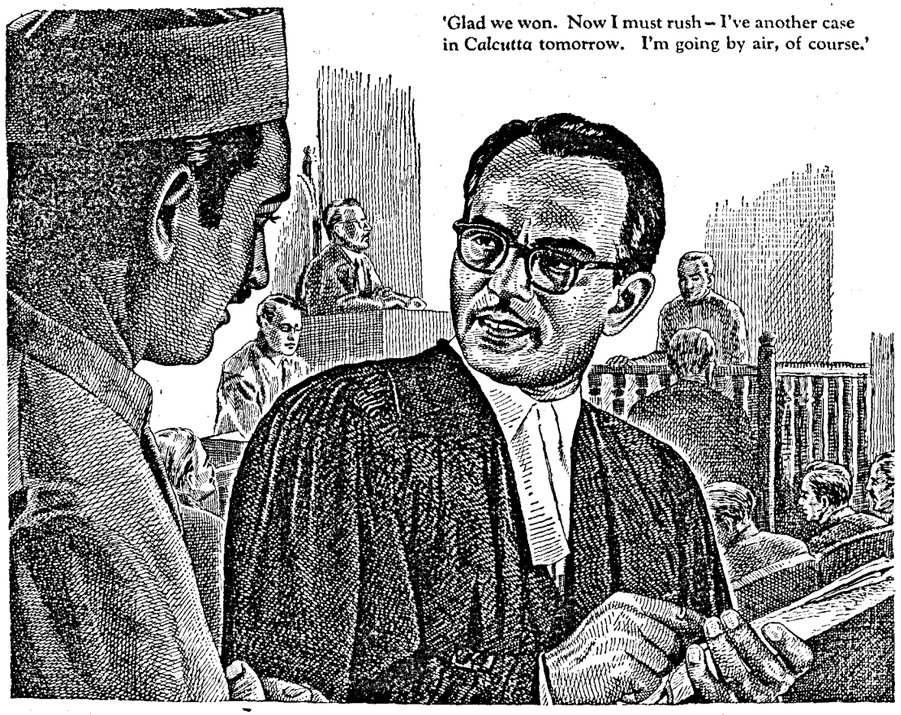
But the development that has taken place in the region, financed though it has been by revenues derived from the oil industry, has in fact been fairly diverse. Agricultural output in 1953 was a little more than one and a half times that of 1945. It is interesting to note that land reforms in Egypt and other eventual and social changes in the region are credited with having removed some of the greatest obstacles to development. "The importance of raising agricultural production to keep pace with the advance of the other sectors of the economy", says the Report, "is being increasingly understood, and efforts are being made to expand domestic output of food and agricultural raw materials; such an increase is essential if development in industry, transport and other sectors, is not to lead to inflation or an unbearable strain on the balance of payments, or both".

The increase in agricultural production is mainly attributable to the extension of cultivated area which in 1953 was more than 40 per cent above the pre-war average. This extension was made possible partly by greater mechanization, partly be increased irrigation, and in recent

years, by exceptionally favourable weather conditions. Yields per acre have, however, risen only slowly, and during the last two years of the period covered they were only slightly higher than the pre-war level. Efforts in these countries are, however, now being directed towards increasing yields as a primary object so that unfavourable changes in weather may be offset in future. An important feature of the improvement of agriculture has, however, been the lack of diversification. The combined share of cotton and grains in the exports of the region actually rose over the period. The need to expand output of livestock products and fruit is only now being realised —a realisation stimulated presumably by the fall in world prices of grains in 1953-54 and by the market surplus in US cotton. Industrially too, the region also made good progress. A large number of new industries were established for the first time in the region. Isral, Egypt and Turkey were among the foremost. But even the less industrialized countries like Iran, Syria and Iraq built up during the period consumer goods industries such as textiles and building materials such as cement, glass and bricks.

The authors of the report stress that industrial growth in the Middle East has been achieved mainly by private enterprise. At the same time this development has owed much to various forms of Government encouragement including tarrif protection, exemption from customs duties for raw materials and machinery, remission of taxation, provision of crude oil at reduced rates, allocation of foreign exchange and preferential treatment in final purchases". Since there is likely to be an intensification of Government aid during the next few years, the Report visualises a further acceleration of industrial progress in the immediate future.

Apart from a carefully-prepared introduction which endeavours to present an over-all view of the main economic trends in the Middle East, the present Report carries separate chapters devoted to individual countries: Egypt, Iran, Iraq, Lebanon, Syria and Turkey. These studies throw more detailed light on economic development in the respective countries and the part which has been played by Government policies. They are highly useful, and one would have liked the department to carry out similar studies of some of the other areas in the Middle East which, though smaller, are no less important.


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Crisis in the Cotton Market

K D Umrigar

THE forward market in cotton futures in Bombay is not likely to resume normal business for some time longer. The authorities concerned are, it appears, not satisfied that the reopening of the market in the immediate future will, in any way, ease the tension and general uncertainty created by the suits recently filed by some members of the East India Cotton Association against the Forward Markets Commission and the Association.

There is no doubt that the situation has been causing grave concern not only to the cotton trade, but also to the Forward Markets Commission. Under the Forward Contracts (Regulation) Act, the Commission is the 'eyes and ears of Government'; it advises Government from time to time, on what action is necessary for the proper regulation of the market. The association is fully aware of the fact that the Commission has wide powers which it has been directed to exercise if and when it feels necessary to do so in the best interests of the trade and in public interest.

Some members of the Association, it is true, do not see eye to eye with the Commission, accusing it of 'undue interference' with the day to day working of the market. In other words, they are opposed to its functioning as a body superior to the East India Cotton Association. The importance of the Association which has hitherto carried on its affairs admirably can hardly be denied. It is the oldest organisation in this country and has guided the trade correctly, thanks to its competent and experienced President, Shri Purshotamdas Thakurdas, who is undoubtedly a great authority on cotton transactions.

Government has, however, come to the conclusion that forward markets in cotton and other commodities would work better if they were controlled under suitable legislation enacted for the purpose. Very soon, we shall have legislation controlling transactions in stocks and shares also; in fact, it is now on the anvil of Parliament. It seems to be the desire of Government to bring the functioning of public organisations such as the EICA into conformity with certain laws and regulations governing trade and industry. Rightly or wrongly, this is being construed by a section of the trade as 'regimentation.'

"If the passing of the Forward Contracts (Regulation) Act is 'regimentation', then you might say that the whole country is being subjected to regimentation," according to official sources. The Forward Markets Commission cannot possibly abdicate its functions which have been well defined by the Act. It has already granted recognition to the EICA and approved its bye-laws with some amendments. The suggestions made by the Commission, after it was brought into being under the Act, in regard to the proper regulation of trade were, no doubt, resented by the Association. In fact, even to this day, a section of it is of the opinion that it should not be dictated to by the Commission.

A Climax

It cannot be gainsaid that the views of the President of the EICA were similar. He wrote to the Chairman of the Commission that the Association would never reconcile itself to any dictation from anybody. Recently, the differences of opinion between the President and the Commission reached a climax when Shri Purshotamdas Thakurdas tendered his resignation, and his colleague, Shri Chimanlal B Parikh, followed suit. Their resignations have been the subject of comment in trade circles which regret much the step taken by the President and Vice-President.

Are the differences between the Association and the Commission so serious that they cannot be ironed out by a free and frank discussion at a round table? I know of a much more serious crisis which occurred many years ago, as a result of the obstinate attitude of the then Government of India towards the cotton trade, but the difficulty was surmounted after a free exchange of views. At any rate, trade circles are not happy over the unfortunate incident, and they hope that the Board of the Association will take a dispassionate view of the matter and bring about harmonious relations between the Forward Markets Commission and the Association.

Let us examine briefly the whole position culminating in the resignations of the two stalwarts of the cotton trade. Shortly after the Association had been granted recognition by the Commission, the first difference of opinion between them arose. The Commission proposed that the Association should adopt a system of margins, and it was only because the Commission refused to grant permission for the opening of trading in the February 1955 contract and the market had consequently to remain closed for nearly six weeks, that the President of the Association ultimately agreed to the imposition of margins. At that time, some members of the Association thought that the President should not have yielded to pressure from the Commission.

Subsequently, the Commission recommended certain amendments to the bye-laws of the Association, and suggested that the matter could be properly thrashed out by discussion. But the Association is stated to have expressed its unwillingness to meet the Commission and it took unilateral positions causing embarrassment, to some extent, to the latter.

As early as October 1955, the Vice-President of the Association, during a discussion with the Commission, expressed the view that it was desirable to commence trading in the May 1956 contract as early as possible with a view to avoiding a squeeze on the February 1956 contract, the prices of which had been rising by leaps and bounds. The Commission fully shared his fears and granted permission on October 24 for the opening of the May 1956 contract in the hope that it would, to some extent, divert pressure on the February contract and bring down prices to a reasonable level. Unfortunately, the opening of the May contract did not have any appreciable effect on the price of the February contract.

Meanwhile, the question of cotton prices was raised at the meeting of the Export Advisory Council by the Minister for Commerce and Industry, who had been apprised of the position of the market. The Minister told the Council that Government would not release any further export quotas for cotton till prices stabilised themselves at lower levels. Later, the price of the February contract declined from Rs 709 per candy on November 26 to Rs 688|8 per candy on November 30, but thereafter it rose again.

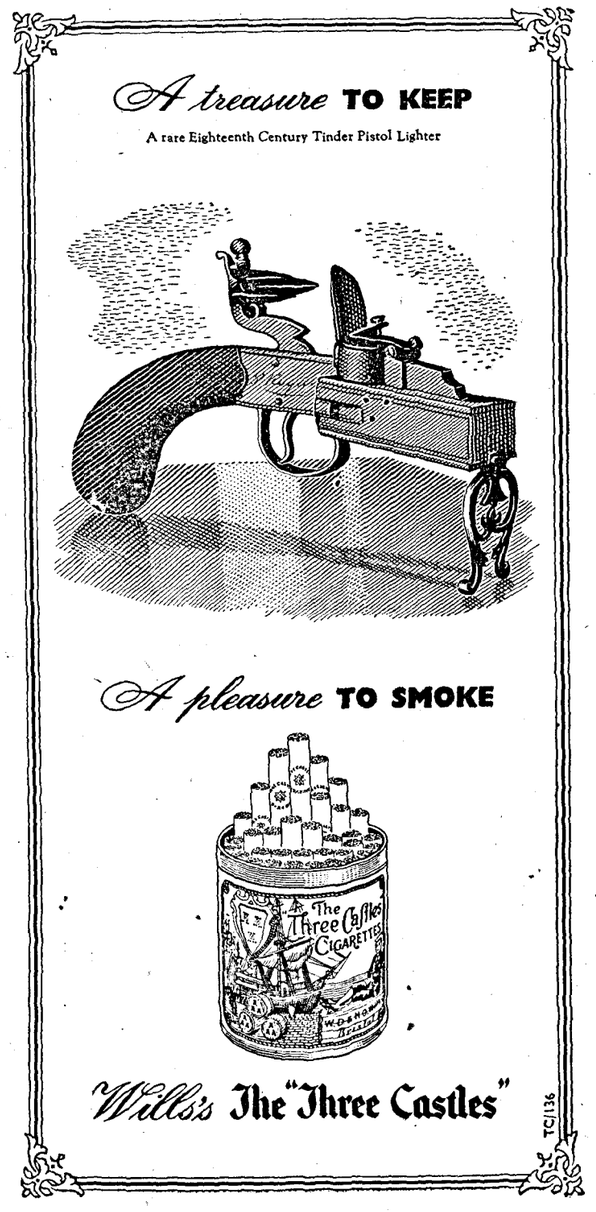
The Commission was of the view that illegal option business was responsible for pushing up the prices of the contract, and so it thought it desirable to discuss the situation with the President of the Association. The Commission advised him to examine the books of certain operators suspected of doing illegal option business and to take disciplinary action against them, if he was satisfied that there was adequate evidence against them. But no action whatsoever seems to have been taken by the President, and the result was that the situation deteriorated further, the price of the February contract rising to Rs 731|8 per candy. Thus, the market was heading for a crisis which was partially due to the 'unbridled option business going on in the market.' In the circumstances the Commission had no alternative but to address a letter to the President of the Association 'pointing out that the rapidly rising trend of the prices of the contract was likely to create a serious situation, if it was not arrested in time and inquiring what action he proposed to take so as to prevent the situation from getting out of hand'.

Prices Not Representive

As the President of the Association did not take the necessary action, the Commission wrote to him again on December 21, referring to the fact that the price of the contract had 'reached a point where prices were not representative of the supply and demand position and were influenced by heavy speculative activities' and advising him specially to 'convene a meeting of the Board immediately to consider the position and to assume the emergency powers provided in the bye-laws'. This was further impressed upon him by the Chairman of the Commission, who personally called on him to discuss the matter. Shri Purshotamdas Thakurdas, presumably after discussions with his colleagues on the Board, did not feel justified in taking the measures suggested to him by the Chairman of the Commission. As a result, the price of the February contract rose to Rs 747 per candy.

The Commission, therefore, addressed a letter to the President asking the Association to take appropriate action under its bye-laws so as to prevent the prices of the February contract from rising above Rs. 700. When the facts of the situation came to be known to the trade, the Board passed a resolution on January 6, declaring an emergency and fixing a maximum price of Rs 700.

These are the circumstances in which the Commission intervened and directed the Association's Board *to resort to special powers* 'in the public interest.' It is not necessary to go into further details which are too well known. The Commission appears to have been justified in intervening in the matter, as the prices of important varieties of cotton came down after its intervention, but the President of the Association and his colleagues felt otherwise. It is rather difficult to say what would have happened if



Milk for the Millions

G A Rao

THE problem of milk supply in India has many facets. In spite of the enormous cattle wealth in terms of number, milk supply has always remained an unsolved problem. Though in view of the economic condition of the peasant the use of milk would be a luxury, in the urban areas, milk is used almost everywhere as a principal item of diet. However, the supply of a sufficient quantity of pure milk has always been a problem.

Bombay has set an example in the supply of good milk, with the implementation of the Bombay Milk Scheme. Two institutions have been working on this scheme: The Aarey Milk Colony and the Kaira Co-operative Union in Anand. The solution of the milk problem in Bombay should serve as an example to other cities.

The Kaira Union is a unique institution in the country. It stands for the very spirit of co-operation. To a large extent, the success of the scheme is due to certain favourable circumstances in the life and vocation of the peasants in and around Anand.

The factor, which is of the greatest importance, is the economic position of the peasant. The peasant of Gujerat comes next to that of the Punjab in economic prosperity. With valuable gifts of nature, such as a rich soil, combined with a favourable monsoon, the peasant is assured of a good harvest. This prosperity makes it possible for him to rear buffaloes, which supply plentiful milk for consumption and sale. Rearing of buffaloes is the rule rather than the exception in Anand.

Bajra, which is a staple crop in these parts, provides the farmer food and the stalks serve as rich fodder for the cattle. The farmer does not have to incur fresh monetary expenditure to maintain his animals. Viewed from this angle, milk and milk products are by-products of agriculture, Bajra being the main crop.

The intelligence of the peasant helps him to choose the best course of action. In January 1946, a meeting was called to start the co-operative venture under the chairmanship of Shri Morarji Desai. The people had no difficulty in understanding the value of such an organisation for them. Thus the Kaira Co-operative Union began to function. This mutual understanding and co-operation has resulted in the steady growth and final success of the institution. Now, within 7 years of its inception, the facilities afforded by the Union are being availed of to the fullest extent by the peasants and this has contributed much to their advancement.

Constitution and Structure

The Kaira Union is an apex institution, with 64 affiliated village societies spread over a radius of 14 miles around Anand. Every morning and evening, trucks go to the villages on cart tracks to collect milk. The members come to the collection centres with their milk. Here, the milk is measured and its price paid in cash on the spot. The milk is examined and tested in the presence of the member supplying the milk and the price is based on the fat content and not solely on the quantity of milk—to discourage adulteration. The trucks take the milk to the dairy, which is equipped with modern machinery for processing and cold storage. The pasteurised milk is sent to Aarey. The Union has thus a ready market for the milk produced by its members.

The administrative affairs of the Union are dealt with by an elected body consisting of representatives from village societies. This elected body is advised on technical points by two experts who have had training in dairying in the United States and New Zealand. The village societies in their turn have similar elected bodies to attend to their own administrative problems. This administrative set-up has worked very well.

Aarey vs Kaira Union

The chief customer for the Kaira Union is the Government of Bombay. In pursuance of the scheme, a milk processing plant has been erected at Aarey, and the Union gets the full benefit of this institution.

The special features of the Kaira Union which distinguish it from the Aarey scheme may be summarised as follows:

1 The development of dairy farming on co-operative lines, with minimum possible Government aid.
2 The development of dairy farming as a subsidiary industry, agriculture being the main means of subsistence.
3 The development of dairy farming as a cottage industry, where the cattle are kept and maintained by the farmer on his farm.
4 Provision of an additional source of income and economic security

Table illustrating the progress made by the Union from 1947-48 to 1954-55.

	1947-48 July to June	1948-49 July to June	1949-50 July to June	1950-51 July to June	1951-52 July to June	1952-53 July to June	1953-54 July to March (9 months)	1954-55 April to March
Number of societies	8	13	27	33	58	62	64	64
Number of farmer members	432	924	1,995	3,873	8,992	11,307	14,741	18,983—*
Profit : Rs.	2,852	2,237	81,125	2,30,000	5,91,355	6,69,546	4,89,570	5,76,160
Bonus to societies : Rs.	—	—	24,865	72,731	1,10,586	1,36,889	99,790	1,10,537

* The number of farmer members has now increased to 20,482 and the share capital of the Union has increased to Rs 3,17,900.

since the enterprise supplements the farmer's income. Thus the Kaira Union encourages a system of dairy farming for the rural parts where similar conditions prevail. It is true that one cannot expect a ready-made market, as exists for the milk produced by the Kaira Union; but milk processing and storage, or a dairy for a group of unions, is bound to be a practical proposition, considering the profits the Kaira Union is making. The Aarey scheme has, however, struck a totally different line of development. It is entirely run by Government. It is State-owned and State-managed.

It seeks to provide pasteurising facilities to urban sellers of milk who would otherwise have had unsatisfactory and insanitary conditions for their cattle and milk. In Aarey the cattle are moved from the city to the Colony where better facilities are provided for care of the cattle. It has set standards and the consumer is assured of a steady supply of milk of a good quality at a fixed rate.

The Pricing Problem

What is of real importance is the pricing problem. Common sense requires that the scheme which can supply milk at the lowest rate should be preferred. If the Aarey scheme is given up, the objection would be that the urban milk sellers would have to face the risks of the trade single-handed. A successful milk policy must be able to reconcile these two opposing trends. If pricing were to be the only consideration, the Kaira Union would win, for it is able to supply milk at As 10 a seer, as compared with As 0-13-6 a seer, which is the price of milk bought by Government from elsewhere.

Probably the most convincing argument in favour of the Kaira Union is its brilliant progress report. In 1948 (June to July) the profit was Rs 2,237. It rose to Rs 5,76,160 in 1954-55 (April to March). The bonus distributed to societies was Rs 24,865 in 1949-50 (June to July). It rose to Rs 1,10,537 in 1954-55 (April to March). The dairy in its new premises, is capable of handling 3,00,000 seers of milk a day, of which 1,50,000 can be converted into milk products. The dairy can turn out 10,000 lbs. of butter and ghee, 12,500 lbs. of milk powder and 1,200 lbs. of caseine every day.

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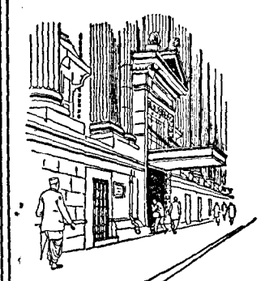
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The principles of co-operation are stuck to in the working of the Kaira Union. The division of profits is one example of the observance of the co-operative principle. The profits are divided between members in proportion to the milk that they sell to the Union and not on the basis of the share capital contributed by the members. The contribution of the member towards the working of the Society is the determining factor in the sharing of profits, though every member is given equal opportunities to avail himself fully of the facilities afforded by the Union.

The Kaira Union has been slowly expanding its sphere of usefulness to members. And it has been responsible for some important dairy development features which include cement concrete cattle standings, silo towers for storage of fodder, quality control of milk, artificial insemination service, manure pits and land transformation and research.

The Kaira Milk Union marks a step forward in the annals of co-operation in India. We should have many more institutions of that type.

What Price Nationalisation?

(From a Correspondent)

THE Joint Select Committee of Parliament on the Life Insurance Corporation Bill has submitted its report and the third reading of the Bill will be taken up for consideration by the Lok Sabha during the current session. Apart from organisational problems, the most important issue is the compensation to be paid to the companies whose business has been taken over. Out of the 149 Indian companies affected by the Nationalisation Bill, about 62 are 'surplus' companies, as disclosed by the latest available actuarial valuation of their assets and liabilities. It is learnt that according to the formula for compensation, as it has emerged from the deliberations of the Select Committee, these 62 companies (whose aggregate business in force as on 31st December 1956 amounts to over Rs. 1,000 crores), will between them receive approximately Rs. 4 crores by way of compensation.

Briefly, the compensation formula is that the surplus companies should be paid a sum equivalent to 20 times their future dividend-earning capacity. The companies concerned have no objection to this principle, but they point out that the formula adopted by the Select Committee for estimating the dividend-earning capacity is not fair.

They have advanced two grounds in support of their view. First, instead of estimating the surplus as on 19th January 1956, the date of nationalisation, or for reasons of convenience, as on 31st December 1955, the amended Bill seeks to take into account the average rate of surplus as disclosed by the last two valuations of each of the companies, and the average business in force for the six-year period 1950 to 1955. Life insurance business during the last decade has been going up steadily, even rapidly, and the trend is surely going to be maintained and even strengthened in the years to come. Therefore, by taking into account the figures of business and surplus-earning capacity of an earlier date, the value of the property nationalised and its earning capacity are being underestimated, and the shareholders of the companies are being deprived of their just due.

The second flaw in the formula is even more serious and less justifiable. As is well known, the whole of the actuarial surplus of life insurance companies does not belong to shareholders. The Insurance Act of 1949 permitted up to 7½ per cent of the surplus to be allocated to shareholders. Many companies in fact have been allocating 7½ per cent to their shareholders, and the prices of their shares have been attuned to this expectation. Special considerations have prevailed in the case of companies that have made a smaller allocation. Now the compensatton formula seeks to reduce the shareholders' share of the surplus from the customary 7½ per cent to a uniform of 5 per cent for all companies, thus slashing substantially the compensation payable.

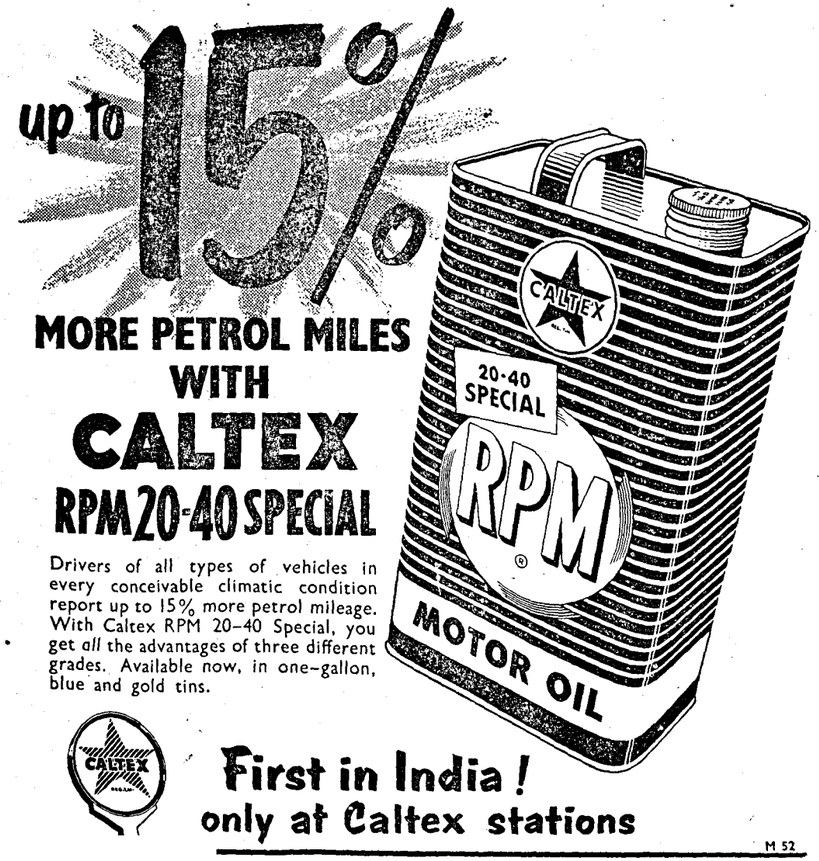
It is true that some companies in the past allocated 5 per cent only, but these usually were companies of long standing whose business had grown to sizable proportions by the flux of time, and whose quantum of surplus therefore would be very large on the basis of the statutorily-permitted maximum of 7½ per cent. It is not correct to affirm that those who have set aside a smaller percentage for shareholders are the more 'enlightened' companies. Other things being equal, a ten-year old life insurance company, however enlightened its management, would need to set apart a higher share of the surplus (within the limit placed by the law of the land), than a fifty-year old company.

It has been contended by the companies concerned that by reason of these two flaws in the compensation formula, the shareholders of the surplus companies stand to receive only 41.7 per cent. of their just due on a proper appraisal of the value of their property. Without going into the mathematical nicety of these calculations, it is evident that under the Nationalisation Bill as it stands, the State proposes to acquire an established business with an assured future at a price which is less than fair.

Ultimately, the action will be sought to be justified in terms of Government's—and the country's—declared objective of progressing towards a socialistic pattern of society. This argument, however, assumes that every shareholder is a 'capitalist'. How far is this true?

There are no statistics available about the pattern of shareholdings in our country. But so far as insurance companies are concerned, the following facts are relevant and well-known. Firstly, there is no Managing Agency system in this field. Secondly, there are severe statutory restrictions on the percentage of an insurer's capital that may be held by an individual or an institution. This and the fact that the profits of life insurers are stable, compared to those in manufacturing industries, have helped to make the shareholding in insurance companies' capital very widely spread in the community.

Because of these features, it can be said that only a small number of these shareholders would be living on their interest income. The majority belong to the middle-class having non-speculative investment habits. Is this class of people to be called upon to sacrifice in the name of progress towards a socialistic pattern of society? If so, they are doubly sinned against—first by the 'unscrupulous' insurance managements of the past (in so far Government's charges are true), and secondly by an honest Government aspiring to usher in Socialism by constitutional methods. The greater is the pity.



Tista Flood Problem In West Bengal

— Embankments No Solution

Kumud Bhushan Ray

AT a meeting at Darjeeling on April 4, 1956, the Technical Committee of the State Flood Control Board, West Bengal, proposed that an embankment should be constructed at a cost of Rs. 20 lakhs on the left bank of the Tista River for protection from floods in the Barnes-Mainaguri area. Now an embankment along the right bank of the Tista River was constructed in 1955 for the protection of Jalpaiguri Town (AB, see Fig. 1). After the proposed left embankment is constructed, the flood waters of the Tista in the Jalpaiguri-Barnes-Mainaguri area will be confined within its wide channel. The question that naturally arises is: will this pair of embankments provide a permanent solution to the flood problem posed by the Tista?

Embankments constitute the oldest form of river engineering in the alluvial plains of the world. In China they have been in use since 603 B C having been first constructed in different provinces in the interests of individual land-owners. In A D 69 under the Han Dynasty they were also put up along the banks of the Yellow River, but old records show that serious difficulties were experienced after their construction; in many instances they proved uneconomical and sometimes positively harmful.

Embankments do not prevent erosion of river banks, so that the channel gradually becomes wider and shallower and develops a tortuous alignment. The hydraulic mean depth of a wide and shallow channel is less than that of a narrow and deep channel of the same sectional area, so that when owing to erosion of river banks there is widening and shallowing of a channel, its hydraulic mean depth goes on decreasing. Moreover with the development of a tortuous alignment, the length of a river channel goes on increasing, so that its slope of water surface goes on flattening. The velocity of a current of water in a river decreases with a decrease in the hydraulic mean depth and also with a flattening of the slope of water surface. Thus with the widening of a channel and the formation of bends due to erosion of river banks, there is gradual decrease in the velocity of a current of water. The drainage capacity of a river also decreases. With inadequate drainage capacity, excess water goes into channel storage, so that the flood water level in the river goes on rising. When the water level rises to the brim of the channel, excess water goes into valley storage, riverside lands are submerged and there are floods.

River water transports silt load. The catchment of the Tista lies in the Himalayas, which are 'young' mountains formed in the tertiary era of geological time. An enormous amount of detritus is formed by the action of nature's forces of denudation, which forms the silt load of the waters of the Tista. The power of a current of water to transport a silt load varies in geometrical progression with its velocity. Hence as the velocity of a current of water decreases, it goes on depositing a part of its silt load on the channel bed, raising its level. With a rise in the level of the channel bed, there is automatically a rise in the flood water level also.

Thus the construction of embankments along a river causes a gradual rise in flood water levels in its channel, and in a few years, the height of the embankments becomes insufficient. To keep the flood water confined within the embankments, it becomes necessary to raise their height. In China, as a result of repeated raising of the height of embankments, the Yellow River now flows high on a ridge of its alluvial plain.

In the U S A., embankments or levees were constructed along the Mississippi River near New Orleans in 1777. Between the years 1833 and 1927, the heights of levees were raised by as much as 17 feet, between Memphis, Tennessee, and Helena, Arkinsas. In spite of such a rise, levels were overtopped and breached. In the year 1882, there were 284 levee breaches. The largest number of levee breaches, however, occurred during the great floods of 1927, in which 20,000 square miles in 6 States were submerged; there were about 350 deaths, 60,000 people became homeless and damage to property was estimated at 270 million dollars. Hence after the floods of 1927, instead of raising levee heights, three overbank leveed floodways have been constructed to drain away the surplus flood water that cannot be accommodated within the leveed river channel.

In the U S A, levees have also been found to accentuate the meandering tendency of a river. The Yazoo Levee District in the Lower Mississippi River has 178 miles of levees. Owing to erosion of river banks and consequent meanderings of the channel, the original levees have mostly been undermined and destroyed, necessitating the construction of new levees on successive retired alignments. A total of 305 miles of levees has therefore had to be constructed for the maintenance of the original 178 miles of levees in the Yazoo Levee District.

In India also embankments or as they are called 'bandhs' have been found to give rise to more evils than they eradicate. In his book, 'Various Problems connected with the Maintenance of Rivers and Drainage Systems of the Gangetic Delta', (1920), Addams-Williams, a Chief Engineer of Bengal, wrote:

> "With regard to embankments, our experience has been that wherever they exist, they have raised problems as great as, if not greater than, those with which they were intended to deal; either in course of time they have raised flood levels, or have led to the extinction of rivers by causing silting, and have brought about water-logging and severe epidemics of malaria and other diseases".

In his Foreword to the Book, 'A Comprehensive Treatise on North Bihar Flood Problems by Ghosh, Hall, a Chief Engineer of Bihar, too came to the same conclusion:

> "In the old days, whenever a flood problem arose, the answer was let us build a 'bandh'. Famine relief work, which frequently comprised the erection of bandhs, was in no small measure responsible for the present trouble. The problem is not to prevent floods,

which has been the erroneous idea in the past and which has led to the promiscuous construction of private bandhs which are the primary cause of the havoc now caused by floods, but to give them (floods) an easy run-off."

In the publication, 'Multi-purpose, Projects in India: Damodar Valley.' published by the Government of India, it is stated:

"The present policy of keeping floods in check by marginal embankments is not successful. It costs large sums of money, is unremunerative and does not provide protection against major floods.

Experience in ancient China, in the U.S.A. and in India, therefore makes it apparent that embankments on a river provide no permanent solution to the flood problem.

The Tista Channel

At the Ferry Crossing, connecting Jalpaiguri Town with Barnes across the Tista, the channel width on March 13, 1955, was 11,540 feet or a little over 2 miles, while the low water level in the flowing channel was 267.48. A remarkable feature was that from about 7,200 feet to 10,200 feet, the dry channel bed was in places as low as 262.71 (Fig. 2). This means that although a 3000 foot width of the Tista channel was lower than the low water level of 267.48 in the flowing channel, it formed a part of the dry channel bed. Or, in other words, the current of water in the flowing channel had deposited silt and raised the level of its banks during the dry season, so that the Tista flowed on a ridge, and not over the lowest parts of its 2 mile wide bed.

The maximum discharge, carried by the Tista during the very high flood of 1954, as recorded on August 24, 1954, has been calculated roughly as follows:

1. Discharge Q_1 spilling over the right bank of the Tista. Spilling area over a length of 2,500 feet and average depth of 1' 6", and average velocity 3 feet per second. $Q_1 = 2500 \times 1.5 \times 3 = 11,250$ cublic feet per second.

2. Discharge Q_2 passing through the main Tista channel. Sectional area of channel at highest water level—35,500 sq. ft. Average velocity, from surface velocities at 3 points —8 ft.—secs. $Q_2 = 35,500 \times 8 = 284,000$ cubic feet per second (cusecs).

3. Discharge Q_3 passing through a breach in the Barnes-Domohini railway embankment. Section of water flow through the breach—3500' x 5'. Average velocity of water about 8 feet per second. $Q_3 = 3500 \times 5 \times 8 = 140,000$ cusecs.

Total discharge carried by the Tista:

$$Q = Q_1 + Q_2 + Q_3$$
$$= 11,250 + 284,000 + 140,00 \text{ cusecs.}$$
$$= 435,250 \text{ cubic feet per second (cusecs).}$$

It will be seen that the 2 mile wide Tista channel could carry a discharge of only 284,000 cusecs, while the amount of water spilling over its left bank and flowing into the Dharla river was about 50 per cent of this. There is thus sufficient fall from the Tista into the Dharla to induce such a large flow. The velocity decreased, so that large volumes of sand have been deposited on fertile paddy lands.

With a sectional area of the main Tista channel at 35,500 square feet, and width of channel at 11,540 feet, the average depth of water in the channel is about 3 feet. Thus, although the river has a steep slope of about 3.5 feet per mile near Jalpaiguri Town, owing to the small average depth of water and consequent low hydraulic mean depth, the average velocity is only about 8 feet per second. No wonder that with such a low velocity during high floods in the Tista, when river water transports a large silt load, a current of water deposits a part of its silt load on the channel bed. Thus on account of the widening of the Tista channel to about 2 miles, there is deposit of silt, leading to a rise in the level of the Tista channel bed and in flood water levels.

Rise in Channel Bed

The rise in the level of the Tista channel bed has led to the rise in the dry season low water level and in the flood season high water level. From the gauge readings, maintained at Barnes, the lowest water level registered in the dry season and the highest water level in the flood season in the years 1941-1954 are as shown in the table below.

A study of the gauge readings shows that there has been more or less gradual rise in the low water level from 258.84 in 1941 to 263.90 in 1954, or a total rise of about 5 feet. Similarly there has been a gradual fluctuating rise in the H.F.L. from 266.54 in 1941 to 277.50 in 1954, or a total rise of over 10 feet. In this period, there has thus been an appreciable rise in the channel bed and water levels in the Tista River near Jalpaiguri Town.

In the tributaries of the Tista, there has also been an appreciable rise in the channel bed and water levels. For instance, in the Karala River, which has its outfall into the Tista in Jalpaiguri Town, the dry season water level on March 16, 1955, just south of the bridge on the Railway Station Road, was 4' 6" above the invert of the pukka drain outfall, while previous to 1950 the dry season water level used to be 1' 6" below the invert. The rise in the dry season low water level in the Karala River in the 5 years from 1950 has, therefore, been 6 feet.

In the Ghish River, another tributary of the Tista, in the year 1903, the water was deep enough in the channel at the railway bridge to bathe in. Now there has been a rise in the channel bed of the Ghish, so that it is within about 5 feet of the bottom of the girders, while the channel is dry in the dry season.

A HISTORICAL STUDY—The present course of the Tista channel does not appear to have existed around seven hundred years ago in 1206 and 1255 A.D., when the Mohammedan army invaded Assam, the Karatoya used to be the western boundary of the Kamarupa Kingdom, and it was the only large river that was crossed by the invading army. It is probable, therefore, that in the 13th century, Tista water used to flow through the Karatoya, which then had a large channel, as mentioned by the Mohammedan historians.

Date	Low Water Level	Date	High Water Level
May 24, 1941	.... 258.84	Aug. 22, 1941	.. 266.54
Feb. 19, 1942	.. 260.00	June 26, 1942	.. 266.75
Dec. 20, 1943	.. 258.85	Sept. 12, 1943	.. 266.25
Jan. 9, 1944	.. 258.90	Sept. 23, 1944	.. 266.90
April 16, 1945	.. 259.75	Aug. 19, 1945	.. 267.75
June 1, 1946	.. 263.00	July 9, 1946	.. 267.60
Oct. 30, 1947	.. 262.16	July 26, 1947	.. 266.75
Oct. 31, 1948	.. 261.80	July 14, 1948	.. 268.25
June 6, 1949	.. 261.25	Aug. 22, 1949	.. 267.09
June 1, 1950	.. 262.00	June 12, 1950	.. 270.75
Oct. 9, 1951	.. 263.00	July 17, 1951	.. 268.80
May 19, 1952	.. 263.15	Sept. 23, 1952	.. 269.05
June 14, 1953	.. 263.95	Oct. 1, 1953	.. 268.75
June 7, 1954	.. 263.90	Aug. 24, 1954	.. 277.50

From the Kalika Purana and from inscriptions on copper grants of land made by ancient kings of Kamarupa, some interesting facts come to light:

Chapters 81 and 82 of the Kalika Purana give a vivid description of a colossal flood in the Brahmaputra valley in Assam, when the sage Parashurama cut a suitable outlet with his axe in the hills on the banks of the Brahmaputra Kunda or lake, as a result of which the water stored in the lake found its way into the Brahmaputra channel and the water rose to such a high level that it was difficult to distinguish between the water of the furious Brahmaputra and that of the sacred lakes in Kamarupa.

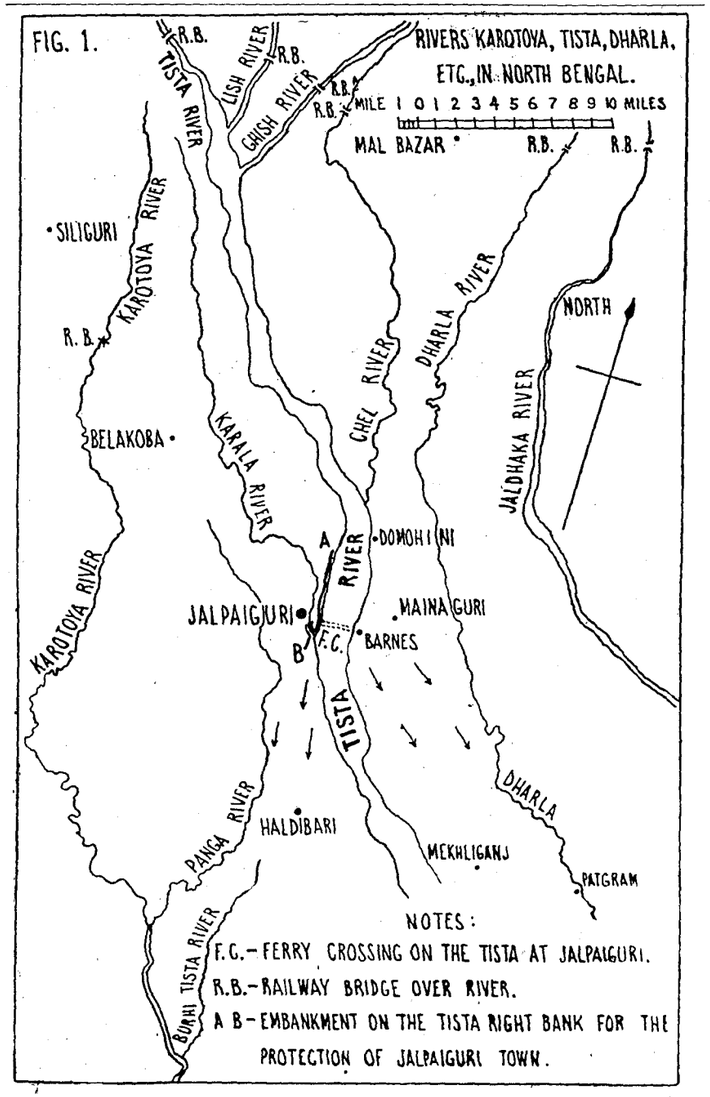
In ancient times, there was considerable intercourse between India and China. Communication between Assam and China though existent was exceedingly difficult, being about two months' march through pestilential jungle and mountain, as Hiuen Tsiang the Chinese pilgrim has noted. Nevertheless, communication did exist long before the days of Hiuen Tsiang, as is testified by Chang Kien, Chinese soldier-explorer in Central Asia in the second century B.C. who has stated that there was trade between northeast India and southwest China, through routes among the southern barbarian people. Although the sources of the Indus, the Sutlej, the Ganga etc. were more or less known to be across India's border, it is strange that in spite of the close intercourse between Assam and China, geographers and geologists were not certain even at the end of the 19th. century, of the Tsangpo in Tibet being the upper reach of the Brahmaputra in Assam.

From these facts, it appears that the Tsangpo at one time drained its water into a large lake in East Tibet, which has been described in the Kalika Purana as the Brahmaputra Kunda. The Dihong, a north bank tributary of the Brahmaputra, in extending its channel by cataract action across the East Himalayas, captured the water of the Brahmaputra Kunda, the outfall lake in Tibet for the Tsangpo. This natural phenomenon appears to have been described in the Kalika Purana as if the sage Parashurama cut a hill with his axe on the bank of the Brahmaputra Kunda. The sudden exit of an enormous amount of water, stored in the Tsangpo Outfall lake through the Dihong and the Brahamaputra, must have created an abnormal flood height in the Brahmaputra channel, so that all the inhabitants of the riverside plains perished. This enabled the hill-tribes who lived on hill tops and were not affected by the floods, to occupy the country. The several tribal kingdoms in East Kamarupa, were established in the 13th century. Durjay, the capital of Kamarupa on the banks of the Brahmaputra, must have been affected by the abnormal flood, so that it was shifted to Kamata, near Cooch Behar, also in the 13th. century.

It appears, therefore, probable that the Dihong captured the water of the Tsangpo, stored in the Outfall Lake in Tibet, sometime before the 13th century when the tribal kingdoms were established and the capital was shifted from Durjay.

(To be Continued)

FIG. 1. RIVERS KAROTOYA, TISTA, DHARLA, ETC., IN NORTH BENGAL.



NOTES:
F.C.—FERRY CROSSING ON THE TISTA AT JALPAIGURI.
R.B.—RAILWAY BRIDGE OVER RIVER.
A B—EMBANKMENT ON THE TISTA RIGHT BANK FOR THE PROTECTION OF JALPAIGURI TOWN.

Around Calcutta Markets

Steady Trend

TRADING on the stock market here has been characterised by certain contradictory trends during the last few days. Clearing shares have, more than once, tried to move up. But these attempts have not been very successful. Far more significant is the lack of response of cash scrips to the steady trend in clearing shares. Optimists, however, believe that cash scrips will gradually follow the bulge in clearing shares. That remains to be seen.

This week's steadiness in clearing shares is mainly due to settlement considerations. 'Budla' charges indicate that the weak 'bull' position persists. Meanwhile, the precautionary measures taken by the stock exchange authorities seems to have had the intended effect. It has not halted, but checked the rising trend in Indian Iron. Last week's interim clearing in Indian Iron seems to have frightened weak 'bulls' away from the market. It has also had a salutary effect on 'bears'.

Indian Copper

There is more than one reason for the spurt in Indian Copper. This scrip began to steady up as the new industrial policy assured investors that existing private industries will not be nationalised. That is why, despite the Government's known policy towards mining and mineral resources, all the existing private mining shares have been moving up since the announcement of the new industrial policy.

Two other factors have helped the recent spurt in Indian Copper. Last week, the judgement in the case and counter-case between this Company and the Bihar Government was delivered. It was in favour of the Company. There were also rumours that the Company was contemplating an issue of bonus shares on the basis of five shares for each four shares held, instead of the earlier report of one for one held. These developments coincided with reports of good working results of the Company to boost Indian Copper up in the last few days.

Iron's Rights Issue

On Wednesday last week, the stock exchange authorities decided to effect an interim clearing in Indian Iron to insulate the market against the possible consequences of over-activity in this scrip. It was doubtful whether there was any valid reason for the spurt in Indian Iron immediately after the announcement of the new industrial policy. This aspect of the problem is discussed later. But the fall in last year's output was appreciably below market expectations. And this encouraged speculation in Indian Iron.

Few believe that New Delhi will allow the Company to raise the dividend. But reports are now current that the Company is now considering the question of issuing right shares. At the last annual general meeting, the Chairman disclosed that the Company was not in need of raising fresh capital for implementing the first expansion plan, but would be in need of fresh capital to finance the second expansion plan.

Steel Prices

This problem has some relation to steel retention prices. Last year, the Chairman observed that the question of issuing right shares could not be decided without knowledge about the steel retention prices. New Delhi has since announced steel retention prices. Both Indian Iron and Tata Steel have been allowed identical steel retention prices. But the "special element" is rather unfavourable for Indian Iron. This encourages the assumption that the Company may decide to issue right shares.

This is where the second expansion plan enters the picture. Last year, the Chairman hinted that circumstances might arise which might discourage the Company from starting the second expansion plan. Some are curious to know whether the implications of the new industrial policy are such as to discourage the Company from implementing the second expansion project. It is not known what the Company has decided. In the absence of this information, it is difficult to say whether the Company will be issuing right shares.

Conflicts

This week's price movements indicate that investors are in two minds about recent economic developments. There is nothing new in the second Plan as it has emerged finally. So the publication of the final Plan has made no effect on the market. Investors are divided about the new industrial policy. They are also undecided about the effects of the provisions of the Bill to amend the Reserve Bank Act. So far as stock markets are concerned, provisions relating to reserve requirements of scheduled banks seem to cancel out the effects of amendments aimed at facilitating massive currency expansion.

Immediately after the announcement of the second Plan, existing mining shares started moving up. Indian Copper are still moving up, but for reasons which are different. The rising trend in mining shares in general has, however, been halted. Coal shares have behaved similarly. Despite the assurance that the private sector in this industry will be allowed facilities to expand, both private colliery-owners and investors seem agreed that the permitted scope for expansion is not enough.

Jute Shares

Jute shares should have been the major beneficiaries of the new industrial policy. Jute is one of the few industries which the Government has no intention to take over. Unlike the cloth industry, it is not shouldering any burden to help expansion in cottage or handloom industries. New Delhi is interested in stimulating the jute industry. This is the only industry which is receiving financial aid from the National Industrial Development Corporation for financing plant modernisation and renovation.

Despite these alluring prospects, Jute shares remain depressed. For one thing, stocks of jute goods with the mills are piling up. For another, the spinner's margin remains unfavourable. For months, the industry has been expecting heavy Russian orders. These orders have not yet materialised. Meanwhile, in anticipation of Russian orders, the industry has been induced to expand output. In consequence, stocks with the mills are mounting. Rising mills' stocks are having a depressing effect on Jute shares.

Around Bombay Markets

Firm Trend Renewed

Thursday, Morning

ALTHOUGH the week opened on an easy note under pressure of profit-taking, the firmness noticed towards the close of the previous week manifested itself again during the rest of the week. Sentiment was favourably influenced by rumours of a possible abolition of the export duty of 6¼ per cent on coarse cloth, and by the confirmation of these rumours on Monday, when the official announcement was made.

This change, which has put India into a better position to compete with other countries in world markets, coupled with the train of bonus issues announced by some leading textile mills gave a further fillip to boost the value of cotton mill shares. This in turn imparted fresh vigour to other leading countries of the market. A streak of uncertainty was noticeable for some time due to rumours of Pandit Nehru's resignation, but the market's reaction to such fleeting reports proved, as always, to be short-lived. The undertone at the close of the week remained fairly steady.

After a week of hectic activity in the Ahmedabad share market, details have become available this week of the bonuses proposed by different mill groups. Among these groups is the Kasturbhai group of mils, including Arvind Mills, Nutan Mills, Ahmedabad New Cotton and Saraspur Mills. This group has continued to be a particularly strong favourite of investors.

There has been a substantial increase in the price of Tata Chemicals during the week. The interest in this scrip is becoming increasingly broadbased as it is expected that the company's working results during the current year will be quite satisfactory. This belief has been further strengthened by the steady progress maintained in the output of soda ash.

Under its programme of expansion, the rated capacity of the soda ash plant of Tata Chemicals is expected to be increased from 140 to 200 tons in the near future. There are rumours that an ambitious programme of expansion aiming at a target of 400 tons of soda ash is under way. On this basis, investors are inclined to hope that the company will be able to recommend an ordinary dividend for 1955-56 in accordance with the hope expressed by the Chairman at the last annual meeting.

At the close of the week, the undertone remained fairly steady thanks to better advices from Calcutta. Indian Irons and Kohinoors were particularly bright on the last day.

Cotton

Active Spot Market

THIS week marked a landmark in the history of the Bombay cotton market, as it saw the acceptance by the Board of the East India Cotton Association of the resignation of Shri Purshotamdas Thakurdas, who had nurtured the Association and raised it to its present status and dignity. It was a sad affair not only for the Association but for the cotton trade as a whole. He fought bravely for a cause which he considered vital and submitted his resignation when he could not see eye to eye with the Forward Markets Commission and its "increasing powers of regimentation".

Meanwhile, in sharp contrast to the funeral atmosphere in the futures market, the spot market at Sewri was very much alive and highly active. Fairly brisk buying was noticed on almost every day of the week with mill interest being confined to Jarillas, in particular, Laxmi and Jaydhar. Another daily feature was the sustained interest shown by mills in purchasing American cotton. A prominent mill group purchased about 1200 bales of Californians 1.5/32" good middling for October-November shipment at around Rs 1,461.

In the foreign section, East Africans have been keenly sought after at steadily rising prices. This is attributable mainly to the free buying allowed at Kamala. As a result prices of these varieties were pushed up by as much as 50 points locally.

On the world cotton front, there has been a significant but none the less unfortunate development. The International Cotton Advisory Committee, which met recently to consider the world cotton situation, threw up its hands in despair over the problem of the disposal of American surplus cotton. Much was expected of this meeting which represented more than 35 different nations in the free world, comprising over 90 per cent of world cotton interests. The ICAC's confession of failure means a serious blow to all cotton growing countries. Despite repeated assurance by the U.S. President and Secretary of Agriculture that the United States would not 'dump' this cotton overseas, there is a lurking fear in all cotton producing countries outside the USA that as a last resort it might fall back upon that step.

Oilseeds

A Week of Records

IT was a week of records in the oilseeds market. The price rise in the oilseeds market during the week—in castor, groundnuts and linseed—has indeed been remarkable, thanks to paucity of stocks as against keen demand, mainly for local consumption.

In the castor section, the tight statistical position induced eagerness on the part of buyers to buy as much as was available. Quality seeds were bid at high levels and there was a strong bull grip on the market with the bears selling briskly. There were reports of demand for castor oil by Japan to the tune of 3,000 tons and likely inquiry of about 500 tons by Australia. Although the recent increase in the export duty in respect of castor oil stands in the way of any substantial exports of castor oil, the mere fact that there is demand at rising prices served to strengthen the hands of the bulls. In the event, the maturing May contract crossed the 150-mark at Rs 153-12 on Wednesday while the September delivery was quoted at Rs 157. A bear operator was credited with having covered about 15,000 candies in the advancing market.

The groundnuts section also ruled sympathetically firm thanks in this case to normal inter-play of supply and demand. Although evidence of strident advance in prices is available in the spot rates, it is not likely to be maintained in view of the Government's known prejudice against speculative rises.

Although linseed prices too managed to put on a bold front, conditions were none-too-favourable. Shippers have reported considerable loss following the imposition of duty and their failure to provide for covering their requirements. About 3,800 tons of linseed oil have been shipped to the UK and by the end of the month the total shipments will amount to 8,000 tons.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1525.88	1518.51	1515.98	1331.09
2. Rupee Coin	104.51	105.53	105.81	103.9
3. Deposits				
a) Central Government's	65.38	55.85	53.28	51.93
b) Banks'	49.73	49.40	50.95	47.97
c) Other Governments'	6.67	18.12	32.36	19.24
d) Others'	12.86	14.10	17.10	22.34
4. Foreign Securities	681.45	681.45	681.45	661.98
5. Balances held abroad	36.54	40.05	58.73	52.07
6. Rupee Securities	708.69	698.69	698.63	533.71
7. Investments	33.75	43.87	46.56	41.47
8. Loans and advances to Governments	2.58	1.83	1.20	0.8
Scheduled Banks				
1. Demand liabilities (net)	630.83	638.82	645.03	572.72
2. Time Liabilities	429.60	427.29	418.56	383.80
3. Cash on hand	36.91	37.56	38.29	34.12
4. Borrowings from Reserve Bank	62.68	55.90	50.88	32.29
of which against Usance Bills	42.65	37.52	25.44	29.94
5. Advances and Bills discounted	717.66	710.62	711.14	588.70
of which State Bank's	139.34	135.08	137.22	127.34
6. Invst. in Govt. Sec.	355.34	355.09	359.55	344.73
of which State Bank's	94.06	94.82	97.10	91.61
Cheque Clearance	136.33	154.70	146.89	123.87

†For Reserve Bank week ended 11-5-56 Scheduled Banks and Cheque Clearance week ended 4-5-56.

Bombay Money Rates	11-5-56	4-5-56	13-4-56	13-5-56
Inter-Bank Call Rate	3 1/8	3 1/8	3 1/4	2 7/8
3 months deposits	3 3/8	3 7/16	3 3/8	3
6 months deposits	3 3/8	3 3/8	3 3/8	3

Bombay Bullion — In Rupees and Annas

	10-5-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	105-14 1/2	106-9 1/2	105-8	92-4
Forward	104-2 1/2	105-11 1/2	105-0	90-8
Silver (per 100 tolas)				
Spot	180-0	183-5	181-12	164-7
Forward	175-14	182-5	182-0	160-7

CONSUMER PRICE INDEX

BOMBAY — ALL ITEMS

(Average Prices from July 1933 to June 1934 = 100)

Year	1951	1952	1953	1954	1955	1956
Average	330	337	363	359	338	—
Jan	318	331	346	363	352	334
Feb	321	324	351	348	345	337
Mar	332	313	358	349	340	—
Apr	335	345	359	355	340	—
May	335	339	363	355	336	—
June	337	338	371	367	333	—
July	333	330	373	366	340	—
Aug	328	340	376	363	341	—
Sept	325	341	371	364	333	—
Oct	332	345	368	363	331	—
Nov	333	347	361	361	330	—
Dec	331	346	359	358	332	—

CONSUMER PRICE INDEX

BOMBAY — FOOD ONLY

(Average Prices from July 1933 to June 1934 = 100)

Year	1951	1952	1953	1954	1955	1956
Average	399	410	454	439	402	—
Jan	383	394	429	448	426	395
Feb	389	379	438	420	415	400
Mar	409	358	449	420	406	—
Apr	403	424	451	429	407	—
May	403	416	456	429	398	—
June	407	416	470	453	393	—
July	402	401	470	451	405	—
Aug	392	421	473	444	408	—
Sept	385	422	462	447	395	—
Oct	403	429	458	446	390	—
Nov	405	432	445	443	388	—
Dec	401	431	442	438	392	—

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group of Sub-Group	Week ending	Week Ago	Month Ago	Year Ago
	21-4-56	14-4-56	24-3-56	23-4-55
I **Food Articles:**	**361.3**	**360.9**	**362.5**	**279.7**
Cereals	464	459	448	324
Pulses	347	351	389	211
Others	233	236	244	230
II **Industrial Raw Materials:**	**475.4**	**471.0**	**484.6**	**395.9**
Fibres	461	459	470	435
Oilseeds	536	524	543	319
Minerals	448	444	463	417
Others	388	395	400	449
III **Semi-Manufactures:**	**378.4**	**375.1**	**375.0**	**327.0**
Leather	409	410	410	395
Mineral Oils	208	208	208	221
Vegetable Oils	535	511	521	329
Cotton Yarn	457	455	453	429
Metals	281	282	282	245
Oilcakes	426	418	402	277
Others	362	362	364	329
IV **Manufactures:**	**375.8**	**375.5**	**373.9**	**377.0**
Textiles	409	408	406	420
Jute	401	397	400	451
Cotton	408	408	403	411
Rayon & Silk	502	502	502	484
Woollen	260	260	274	310
Metal Products	371	371	371	340
Others	286	286	285	287
V **Miscellaneous:**	**496.5**	**496.0**	**494.3**	**538.6**
All Commodities:	**392.1**	**390.5**	**392.5**	**343.4**

INDUSTRIAL DISPUTES IN INDIA

Year and month	Number of disputes	Number of workers involved*	Number of working days lost
1954—			
December	101	54,455	262,763
1955—†			
January	95	49,038	322,807
February	91	38,370	144,302
March	112	70,042	334,696
April	99	29,815	303,658
May	119	66,064	835,415
June	154	85,172	1,035,704
July	108	57,709	681,153
August	233	90,260	518,961
September	249	91,843	567,332
October	129	46,466	189,360
November	105	49,465	178,135
December	122	49,465	228,264

* Includes workers indirectly involved also.
† Provisional figures.

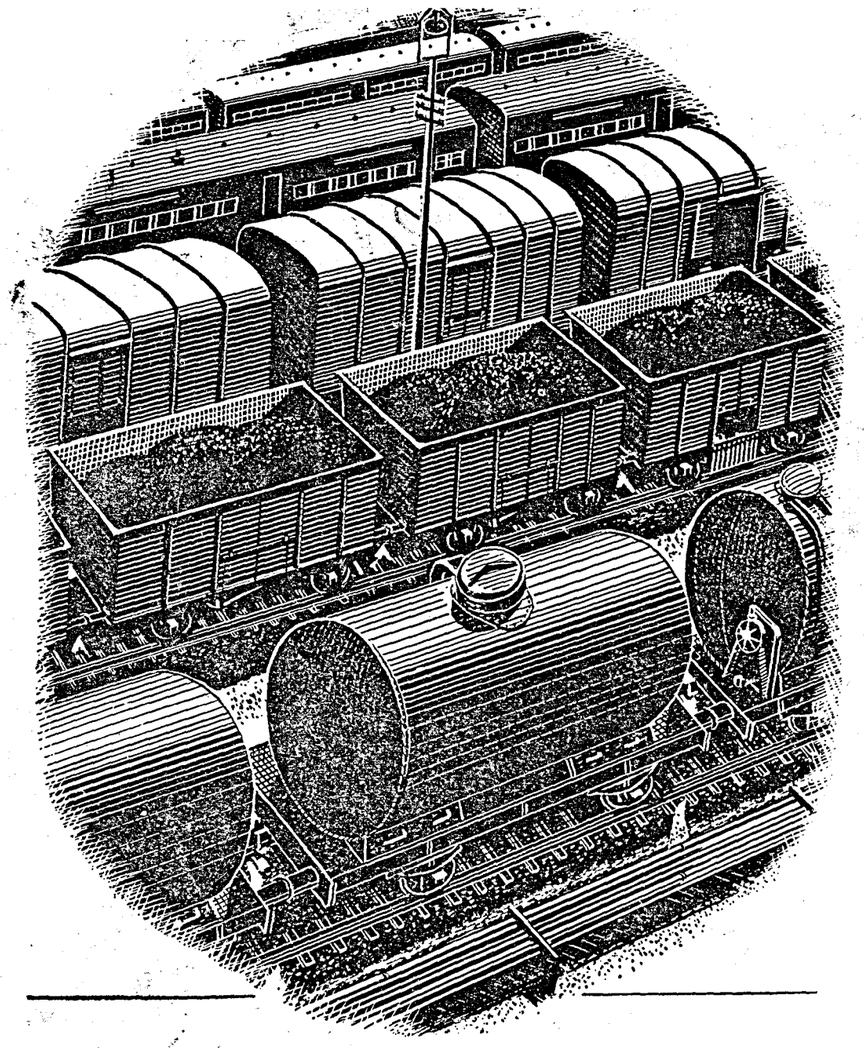
INDIA'S FOREIGN TRADE
Overall Balance of Trade

(Sea, Air and Land-Borne) (Figures in Lakhs of Rupees)

Trade in Merchandise	1949-50	1950-51	1951-52	1952-53	1953-54	1954-55	1954-55 (April-Dec.)	1955-56 (April-Dec.)
A. **Exports of Indian Merchandise**								
Sea and Air-borne	4,72,07	5,78,89	7,01,75	5,53,77	5,18,35	5,72,30	4,26,41	4,37,87
Land-borne	27,88	17,81	27,14	18,84	7,46	5,73	4,33	4,24
TOTAL	4,99,95	5,96,79	7,28,89	5,72,61	5,25,81	5,78,03	4,30,64	4,22,71
B. **Exports of Indian Merchandise** (Sea and Air-borne only)								
I. Food, drink and tobacco	1,15,88	1,35,81	1,58,25	1,43,30	1,52,49	1,98,60	1,50,02	1,16,92
II. Raw materials and produce and articles mainly unmanufactured	1,04,26	1,25,77	1,39,68	1,46,27	1,07,22	1,18,33	79,09	1,21,92
III. Articles wholly or mainly manufacured	2,49,74	3,14,78	4,00,00	2,60,08	2,53,98	2,50,65	1,90,10	1,92,03
Total (incl. IV living animals & V Postal articles)	4,72,07	5,78,98	7,01,75	5,53,77	5,18,35	5,72,30	4,22,91	4,34,02
C. **Re-Exports (Excl. Transit Trade)**	6,07	4,56	4,05	5,04	4,81	5,03	3,84	3,93
D. **TOTAL EXPORTS**	5,06,02	60,13	7,32,94	5,77,65	5,30,62	5,83,06	4,30,64	4,22,61
E. **Imports**	5,94,34	5,81,17	8,74,94	*6,39,07	*5,57,86	*6,12,90	*4,69,80	*4,56,28
Sea and Air-borne	33,71	42,79	80,45	25,16	22,92	23,39	16,02	19,85
Land-borne	6,28,05	6,23,96	9,55,39	6,64,23	5,80,79	6,36,29	4,85,50	4,77,13
TOTAL	3,71	60	80	19	12	18	10	11
Less Transit Trade	6,24,91	6,23,36	9,54,59	*6,64,04	5,80,67	6,36,11	4,85,40	4,77,02
F. **Net Imports**								
G. **Imports** (Sea and Air-borne only)	1,56,64	1,10,61	2,62,07	1,75,65	93,75	1,16,08	94,86	39,23
I. Food, drink and tobacco								
II. Raw materials and produce and articles mainly unmanufactured	1,44,27	1,98,81	2,56,08	1,79,16	1,76,62	1,87,32	1,45,03	1,15,11
III. Articles wholly or mainly manufactured	2,88,63	2,69,54	3,51,49	2,76,37	2,74,77	3,04,49	2,27,29	3,00,62
Total (incl. IV living animals and V Postal articles)	5,94,34	5,81,17	8,74,94	*6,39,07	*5,57,86	*6,12,00	*4,69,48	*4,56,28
H. **Balance of Trade in Merchandise**	—1,18,89	—22,01	—2,21,65	—86,39	—50,13	—53,08	—54,68	—34,36

(a) Only for Pakistan.
* Inclusive of the value of "Other imports of grain, pulse and flour", but excludes the value of certain stores imported on Government account full particulars of which are not yet available.

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2500 Years Ago

IT was not until Hodgson recovered some hybrid Buddhist Sanskrit texts from Nepal and these texts were read by the most eminent Indologist of the time that European scholars could accept that the Buddha was a real person and not a legendary figure. This was in the early thirties of the last century. Amongst these texts was a manuscript of Lalita Vistara which narrates the Buddha legend in considerable detail until his first preaching. Subsequent archaeological excavations confirmed some of the episodes of Buddha's life given in this text. But no one knows yet in what language this Prince of the Sakya clan spoke, nor how authentic are the sayings which are attributed to him. Soon after Hodgson's important findings, a very different source came to light. This was the Pali texts, faithfully preserved in Ceylon. The Sanskrit texts were much later than the Pali, except perhaps some earlier passages which were embedded in them. And so much later stuff had been incorporated in them that scholars failed to find any historical basis in this material or even to reach any general agreement. As late as 1856 H H Wilson still held that it was "not impossible, after all, that Sakya Muni is an unreal being, and that all that is related of him is as much fiction as is that of preceding migration" (in the Jataka stories).

If the historicity of Buddha's life was open to so much doubt, no less confusing were the manifold and widely variegated doctrines that are accepted in many Buddhist lands, doctrines that range from the primitive simplicity and rigid ethics of the Hinayana schools to the rich exuberance, idolatory, elaborate ritual and the vast pantheon of gods and goddesses, benign, bejewelled and resplendent as well as grotesque and malevolent, of the Mahayana schools. At one end there is severe austerity, at the other there is wild proliferation that staggers imagination. Which of these represent the true doctrine?

Over the last 100 years or more, the search has gone on. Many new sources have been discovered and old ones re-examined, for wherever the doctrine had spread, it had left behind a rich store of literature, legend and tradition. Apart from materials preserved in Pali, Tibetan and Chinese, the layers of later accretions on the Sanskritic texts are being patiently removed to unearth the original Prakrit base; fragments in Prakrit recovered from Khotan, other treasures from Central Asia and the desert of Gobi as well as Mongolian texts are bringing to light many things that had not even been suspected before. As a result of all this research, what has come to be established is the substantial authenticity of the Canon, if not of the hard core of the doctrine, which is now seen to be substantially the same in all the different recensions. The present state of knowledge on the subject has been summed up as follows:

"Although these schools develop special doctrines, nothing of these divergences is found in the canon itself. The variants that occur usually refer to historical or legendary events in the narrative portions attached to most of the discourses. The result of all this..... is to show how all schools inherited an authoritative series of texts. It reduces the likelihood of the notion that behind this tradition lay a forgotten or misunderstood form of primitive Buddhism."

This much about the work of the scholars. No one will question the utility of this extensive research which, it has to be admitted to our

shame, has been largely carried out by Europeans who find nothing in Buddhism as a religion and little in it of philosophy. The interest of those who are Buddhists by religion is of course quite different. Like all religions, Buddhism exercises varying degrees of influence on those who profess it, much more on those who are poor and lowly and very little on the modern mind even in the East which is trying consciously to attune itself to western science and ways of thinking. But curiously enough, it is not only on the religious, that Buddha's life and legend and his gospel exercise a fascination today. The people of South-East Asia, irrespective of religion, have come under its spell which started to work when Asia began to rise from its torpor, look around and take stock of things. It is not only those who brought about Indian renaissance who turned to Buddhism for inspiration, but a similar movement has been on in all these countries, the cultures of which have a common root. Much of it in the initial stages of awakening in Asia was romantic and revivalist but the phase of revivalism is passing or has passed, but something still endures. It is good to remind ourselves that this is the country of Buddha's hallowed birth, that this greatest of India's sons first turned the wheel, the Dharma Chakra in the Deer Park at Sarnath, slowly at first, then with gathering momentum, as it began to work on the minds of men, freeing them from fear, superstition and ignorance. The gospel kindled a spark wherever it went and it went very far indeed. Where Buddhism spread it made the national genius flower as it had never flowered before. The fire went out long ago but there is still a spark somewhere under the ashes. Blow away the ash, and it will kindle again.

It is good to remember that India was once the instrument of this great re-awakening 2500 years ago. It is much more important to make the anniversary, which is being celebrated to-day all over the Buddhist world and in the places of Buddhist pilgrimage in this country, "the home-coming of the Buddha whom we had forgotten a little although he was always in a corner of our minds". Nothing grander could have been said on this occasion and Pandit Nehru has said just this. But how to call back home what has nearly been lost to us?

The Buddha Jayanti celebrations have been planned long in advance. The A I C C at its session held in Amritsar in February last passed this resolution:

"This Congress, meeting in the year when the 2,500th anniversary of the Parnirvana of the Buddha will be celebrated, offers its reverent homage to the memory of this great son of India whose life illuminated not only the land of his birth, but also distant countries. In this age of growing violence and terrible weapons of destruction, the message of non-violence and tolerance and compassion of the Buddha is more needed than ever before".

Committees have been appointed, programmes have been drawn up, the places associated with Buddha and Buddhism have been refurbished, roads have been built, arrangements made for visitors and even a herd of deer has been put behind wire netting at Sarnath to give it the semblance of a deer park. There is a programme of publications also. Some of the important Buddhist texts will be reprinted, so that the people who are interested may have easy access to them. Lectures by scholars of international reputation have been arranged under the auspices of the UNESCO and symposiums have been planned for publication. Buddhist texts are hard to come by. They have been mostly printed abroad and are only to be found in a few libraries, so the publication of such texts is most welcome and will remove a long felt want.

Perhaps the most important part of the celebrations, however, is the monument to be erected in New Delhi to commemorate the occasion.

This paper has been trying to sell the idea to New Delhi, quite unsuccessfully so far, of establishing an International Institute of Buddhistic Studies at Sarnath where the gospel was first preached. The Government, however, has alreay a vested interest in the Pali Institute at Nalanda; it is prepared to supplement Pali studies by sponsoring the publication of Buddhist Sanskrit texts and is also willing to help set up another and a smaller institute for their study. Pandit Nehru has imagination, he has delved deep into the past to discover India and has also grasped firmly the roots of Indian culture that lie embedded in the gospel of Buddhism. But great minds some time display a strange ambivalence. No gilded bust or animated stone can be more enduring than Buddha's message and the most fitting commemoration of the Jayanti would be to found an educational and research institution, which will bring back home what had gone out from India and has been nearly lost to her through these many centuries. In course of time, such an institute is bound to come but it is sad to think that the present occasion has been lost.

Nehru Proposal for Algeria

FRANCE'S Socialist Premier and Foreign Minister have returned from Moscow sadder, though not wiser, men. It was not necessary for M Mollet to visit Moscow to be convinced that it was now possible "to organise peace". This has been evident for some months now. M Mollet can take credit that he and his Foreign Minister have not been unsuccessful in their efforts to create a climate in which East and West can negotiate to reach greater understanding. Russia, suspicious of the Western Power's insistence on negotiating from strength, has appreciated the Mollet Government's frank criticism that world peace cannot be attained as long as the Western Powers rely exclusively on security. Moscow has reciprocated this gesture by inviting the French Socialist Premier and his Foreign Minister to Russia for talks on world affairs.

But the talks between French and Soviet leaders do not seem to have yielded any positive results. France has many commitments. She has informed Russia that Paris has no intention to disown these obligations. Russia is opposed to NATO. But Russia made it abundantly evident immediately prior to the French leaders' visit to Moscow that she had no intention to request France to disown her alliances and commitments. Russia desires freer trade with France as with other European countries. With both France and Britain, Russia has arranged plans for exploring prospects of increased trade relations. On no other issue has there been any progress as a result of talks between French and Soviet leaders. M Mollet's discovery that Russia is not opposed to the principle of reunification of Germany, is not news. Both Russia and France are in favour of world economic aid under the auspices of the United Nations. But this issue cannot be solved without America's support to such plans.

If M Mollet went to Moscow to enlist Russian support to France's policy to West Asia and to North Africa, he must have returned a disappointed man. It is evident that Moscow does not accept Paris's claim that the tense situation in Algeria is due mainly to Arab interference. Algeria is not only M Mollet's, but France's main problem. M Mollet may have impressed Russia and even some Asian-African nations, including India, that, to quote Pandit Nehru, "there are special factors and complexities in the Algerian situation". But he has not succeeded in convincing either Russia or India or any other Asian-African nation that the complications in Algeria are obstacles to the grant of freedom to that country. France's NATO allies may find it diplomatic to remain silent on her claim that Algeria is part of France. But, all Asian-African countries, besides Russia, will endorse Pandit Nehru's emphatic reminder to Paris that the Algerian issue is basically and essentially a Colonial problem.

M Mollet's policy to Algeria is not only a negation of his and his party's past declarations. It has been so ruthless as to deepen suspicions that it stems from narrow party or domestic political considerations. He has shown statesmanship by transferring power in Morocco and Tunisia in face of opposition by "colons" and the Army. His stubborn attitude to Algeria is, therefore, all the more puzzling. His policy of massive retaliation in Algeria may have the support of MRP, Gaullists and Poujadists. But he is making the same mistake his party has committed throughout the post-war era. His policy of violence in Algeria is opposed not only by M Mendes-France but even by M Pinay, and M Faure seem to be in favour of starting negotiations with the Algerian nationalist leaders. He has succeeded in getting reluctant support of the Communists so far. But as the Communists are showing impatience with his Algerian policy, MRP may decide that it is no longer necessary to support his coalition Cabinet in order to wean the Government away from Communist influence. On top of these domestic political cross currents, there is revived agitation for fundamental constitutional reforms in order to eliminate perpetual political instability.

Sufficient time has elapsed to convince all impartial observers that M Mollet's Algerian policy has failed. He is under a delusion in hoping that his agricultural and administrative reforms will ease the situation in Algeria. He has plans for holding elections in Algeria three months after pacification. But he has not yet responded to Ben Bella's appeal for negotiations on the basis of independence for Algeria. Not only the militant, pro-Arab National Liberation Front, but even the moderate pro-French Democratic Union of Algeria has now lost faith in M Mollet and his Government. M Mollet had the opportunity to negotiate with the Democratic Union. But he refused its leader's request for talks, thinking that he would succeed in suppressing the violent nationalist movement so that elections could be held later on the issue of Algeria's organic relation with France. His hopes have been shattered, but he shows no intention to modify his Algerian policy.

This is the broader background against which Pandit Nehru's proposal for the solution of the Algerian problem has to be viewed. In Ben Bella's recent gesture, M Mollet has the assurance that the essential condition to start negotiations can be fulfilled. He has repeatedly insisted that negotiations cannot start until law and order has been restored. Violence must end. As the National Liberal Front is willing to negotiate, M Mollet has now the chance to negotiate in a calmer atmosphere. He has accepted, what Pandit Nehru calls, "the personality" of Algeria. But neither he nor France has yet conceded the "national entity" of Algeria. This is the crux of the problem. M Mollet can solve the Algerian problem the moment the principle of "national entity" of Algeria is conceded. Under the Nehru proposal, the French settlers in Algeria can continue to live there on an equal status. In return for transfer of power, Algerian Muslims may even accept this aspect of the Nehru plan. But they must first be assured that France accepts the "national entity" of Algeria. M Mollet must decide soon whether the Nehru proposal is acceptable to France as a basis for discussions with Algerian nationalist leaders. Indo-China must be a constant reminder to him and his government that France may lose all rights and interests in Algeria by delaying negotiations unduly.

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Weekly Notes

Wanted a Transport Board

THAT the Railway Ministry should have to set up a separate unit to look after the transport of steel and machinery indicates how urgent the transport problem has become. There is vociferous complaint from many quarters that the bottleneck in transport alone will wreck the Plan, but no one has suggested yet how this bottleneck can be broken without breaking the Plan as surely by diverting the resources away from the Plan targets.

There is no question that the separate unit can ensure transport of steel and machinery, however desperate the general transport situation might be, provided it can secure the highest priority for these. But even if transport has to be rationed, it would not be enough to give priority to steel and machinery alone; coal and cement have to be moved, and so also foodgrains and other essential consumer goods, if the objectives of the Plan are to be fulfilled. On the contrary, the favoured position given to steel and machinery might lead to more transport being provided for them than is strictly needed or provided at a time when there is no real urgency for it.

While rationing of transport and the institution of a system of priorities may be unavoidable, it is but fair to expect that before this desperate remedy is sought, every effort should be made to utilise all available transport—road, rail, sea and inland water transport. The first step for it is to set up a Transport Board which will try to co-ordinate, instead of setting up ad hoc bodies to solve particular problems as they arise, as in the case of rail-sea co-ordination.

It is amusing, if not disconcerting, to find that the Railway Board should still be living mentally in the early thirties and try to grab traffic from the roads in order not to "burden the industries with such a high incidence of transport costs" as that of road transport. By high taxation on motor vehicles, by protection to the automobile industry and by every possible means we have retarded the development of road transport systematically and persistently ever since the present Government took over. Does it not occur to the Railway Board that if we had an adequate road transport system which could take over the short hauls from the railways, the railways themselves could have operated more efficiently and at a lower cost? It is time that the railways stopped engaging special staff to prevent licensing authorities from issuing licenses to public carriers on routes that run parallel to railway lines. The Railway Board's solicitude for industry is indeed touching, had it not gone to the point of stopping people from moving their goods at a higher cost rather than not moving them at all.

Events during the last few weeks, such as Pandit Nehru's support to Prof. Galbraith's proposal to raise passenger fares, and the decision to attach a special officer for sailing vessels to the Directorate General of Shipping, besides the separate unit for steel and machinery show that the Government of India is groping towards a transport policy though Lalbahadur Shastri's Ministry may be still offering concessions to encourage more railway travel. It was at last agreed to have a probe into the idle capacity of our railway system but the beginning of such a policy is to have a Transport Board for the country which will look into every possible means of transport and not ignore either road or water transport, both on sea and on the rivers. There are now encouraging signs of a change in attitudes, but only signs, nothing more definite than that.

National Income in 1954-55

INDIA'S national income at 1948-49 prices increased by only Rs 130 crores to Rs 10,170 crores during the year 1954-55 as compared with increases of Rs 580 crores and Rs 360 crores during the previous two years. With the estimated national income for 1955-56 put at Rs 10,800 crores according to the Second Plan, this calls for an increase of Rs 630 crores during the last year of the First Plan. The press-note on national income issued by the Cabinet Secretariat shows also that per capita income remained unchanged between 1953-54 and 1954-55 at Rs 269, the increase in total income being evidently offset by the increase in population over the period. The estimates are presented in the table below.

There has been a sharp fall in national income at current prices and a still steeper fall in the per capita income at current prices and the per capita net output in 1954-55 was even lower than that in the base year of the First Plan, 1950-51. This is, of course, explained by the fall in prices, particularly of foodgrains, during the year. The press-note, however, naively comments that the fall in money incomes has not adversely affected the general population because prices have also gone down. Even if the fall in money incomes and in prices exactly offset one another, it would be misleading to imagine that the fall in prices had, therefore, no effect on the economy. The estimate of National incomes, being a statement of the result of the interaction of various forces, cannot indicate causal relationships that bring about changes in economic activity and hence in the aggregate figure.

The absence of any large rise in national income at 1948-49 prices between 1953-54 and 1954-55 was, it is further stated, "almost entirely due to no rise in agricultural production between the two years". As industrial production was expanding rapidly over the period covered, it follows that the increase in industrial production during the year was just enough to compensate for the growth of population, keeping the per capita income unchanged.

	Net Output at 1948-49 Prices (Rs crores)	Per Capita Net Output at 1948-49 Prices (Rs)	Net Output At Current Prices (Rs crores)	Per Capita Net Output At Current Prices (Rs)
1948-49 ..	8,650	246.9	8,650	246.9
1949-50 ..	8,820	248.6	9,010	253.9
1950-51 ..	8,850	246.3	9,530	265.2
1951-52 ..	9,100	250.1	9,970	274.0
1952-53 ..	9,460	256.6	9,820	266.4
1953-54 ..	10,040	269.0	10,490	281.0
1954-55* ..	10,170	269.0	9,910	262.1

*Preliminary.

Exports and Imports

AS was to be expected, the opening addresses of Shri Karmarkar and Shri Krishnamachari at the meetings of the Import and Export Advisory Councils held last weekend at Delhi featured the foreign exchange budget for the Second Plan prominently. Talking of imports, Shri Krishnamachari said that the increased tempo of industrialisation envisaged in the Second Plan was already beginning to have an effect. During January-March, 1956, imports were running at a level considerably higher than in the corresponding periods of the last two years. The balance of trade in these three months has already shown a deficit of Rs 45 cores, and, judging from the rate of licencing, particularly for capital goods, this deficit was likely to increase. The Plan, Shri Karmarkar said, envisages an enormous expansion in our imports, but our foreign exchange resources are not limitless. It will not be an easy task to find the resources even for our essential imports. It will be necessary, therefore, to make every possible saving of foreign exchange, particularly on items not directly related to our development plans. He conceded, however, that the import of essential consumer goods cannot be indefinitely restricted, but a judicious pruning was still possible.

This cautious tone with which Shri Karmarkar initiated the Import Advisory Council's meeting is largely absent from Shri Krishnamachari's address before the Export Advisory Council on the following day. He felt gratified that the return to the buyers' market after the Korean boom did not materially affect India's exports, and that in the last two years exports have increased by Rs 70 crores to approximately Rs 700 crores. As a result, despite the expansion in imports, there was no deterioration in our balance of payments position. Unlike his colleague Shri Karmarkar, Shri Krishnamachari prefers to think in terms of the balance of payments, rather than of trade. This has its advantages no doubt. But in deliberations relating strictly to merchandise exports and imports, the more limited concept of the balance of trade is, perhaps, more relevant. And in any case, the facts that the balance of payments is showing a surplus and that our sterling balance has actually risen over the last year, are matters to cause concern in the light of our commitments in the Plan. The section on "Foreign exchange resources" in the Second Plan is, of necessity, weaker than many other sections. But, while rightly laying considerable emphasis on the need for increased imports in the Plan period, no large increase in export earnings has been assumed. Not only this—Shri Krishnamachari has now hinted at the emergence of certain new factors since the Plan was drawn up which would tend to weigh on the import side more heavily.

Shri Krishnamachari referred to the recent trade treaties with several countries which, if implemented to the fullest extent, should lead to a substantial increase of exports. The magnitude of such improvement is difficult to predict, if for nothing else but that the nature of such treaties is determined more by our needs for specific imports than by our capacity to export. Prima facie, it appears that the payment position would become more adverse, although with a larger volume of trade. To what extent the imports planned under the treaties would increase our capacity to export and thereby offset the likely reduction in export surpluses in some commodities from competing home demand, are factors on which it is only possible to speculate. Shri Krishnamachari must be as fully aware of the difficulties in increasing the volume of exports as the members of the Planning Commission. Why, then, blame the authors of the Second Plan for having posed the problems and postponed the solution? What better solution has he offered? No reader of the relevant section of the Plan can fail to appreciate the sobriety and sense of history of the drafters of the Plan.

It is now clear that his Ministry will soon take steps to standardise textile production for both internal consumption and exports. There are also references to the controversy relating to the restrictions on mill production of textiles, but he has avoided any pointed remarks. Just as well, perhaps.

He has expressed sympathy for the jute mill industry in which the gap between the prices of raw jute and the finished article is gradually narrowing. The expansion of mill production seems limited by the supplies of raw jute. Talking of the tea industry and its recent difficulties, one wonders how the producers and the trade will receive his remark that their industry is one where Government controls are almost non-existent. Even if we discount heavily all the complaints that the private sector makes Government cannot altogether absolve itself of all responsibility for the state of the industry. Shri Krishnamachari has now announced that he is going to ask the Tea Board "to take a vital interest in regard to the health of this industry".

Russia is Playing the Game

Our Delhi Correspondent Writes :

TOWARDS the end of last year when the Government of India declared that "trade rather than aid" would be the pattern of economic collaboration with the Soviet Union, sceptics laughed. Messrs. Bulganin and Krushchev were then in India and were using every opportunity to woo the nation. Pancha Shila was endorsed. Indian stand over Kashmir was supported in terms which have since been modified. Nehru was hailed as a great leader. But most significantly India was promised technical know-how and capital goods. It was emphasised that Russia wanted to be India's "equal" partner in building a better world.

But no one believed the Russians and some even doubted the sincerity of India's declaration that its Government would not accept large-scale aid from the Soviet Union. Western critics saw an element of aid in the low rate of interest to be charged for the Rs 55 crore export credit for the Bhilai Steel Plant. It was rumoured that the Soviet Union had offered and India had accepted an atomic reactor for experimental purposes. The gift of a complete set of equipment for a 3,000 acre mechanised farm was publicly made by B and K and acknowledged by Government spokesmen. The Indian Government was known to be negotiating for Russian war-planes. This was regarded as the thin end of the wedge for putting an end to the monopoly that the industrial West had so far enjoyed in India. Western critics thought that through aid or trade, the Russians would enter the Indian market to stay. Had not the giant pavilions erected by the Soviet Union, China and other peoples' democracies at the Indian Industries Fair served notice already that the Communist world was making a bid to oust the West as the only supplier of capital goods and know-how to the under-developed countries?

Shortly before B and K left, however, an Indo-Russian trade agreement was signed by which India was to buy one million tons of steel from

the Soviet Union during the next three years and it was stipulated that the value of Russian imports from India would be as nearly equal as possible to the total value of Russian exports to India. Nobody took the last clause very seriously. Doubts were expressed on the possibilities of stepping up Indian exports to Russia from a paltry Rs 2 crores worth annually to about Rs 25 crores or so. The value of the million tons of steel alone would work out to between Rs 60 to Rs 70 crores.

Since then however the Russians have been scouring the Indian markets and buying whatever they can, with a diligence and acumen for bargaining that has not only won the admiration of prospective sellers but also the confidence of the Government of India that they mean to honour the trade agreement both in letter and spirit. So far jute manufactures, hides and skins, pepper and cashew nuts have been purchased of a total value of more than Rs 7 crores through private channels. Besides, 500 tons of coffee have been bought through the State Trading Corporation. Inquiries are being made in the line of woollen piecegoods and shoes, as also for a number of other manufactures. A large staff is working under Mr Magunov, a former Deputy Minister in the Soviet Government and now the Trade Representative in New Delhi, exploring the possibilities of the Indian market. That the Russians are proving to be hard bargainers is nothing to gloat about, nor is it something to be regretted. The point is that the Russians have bought almost as much from India as we are indebted to the Soviet for importing about a lakh tons of steel, and there is a good chance that the Russian purchases will soon total the value of 2.4 lakh tons of steel that have been ordered from that country. It is a hopeful sign that economic relations between India and the Soviet Union will not be one-sided.

Films on Africa Banned

IN its concern for maintaining cordial relations with Africans, the Government of India has banned eight films which are centred on Africa or have the great continent as their background. To describe all these films as 'anti-African' or even to impute to any of them a consciously anti-African motive would be far-fetched; but the overall impression they are apt to leave on the mind of the spectator is that of a superior civilisation trying to carry on with an inferior one or taking a remote, patronising interest in its doings. It is perhaps not so much in the theme itself as in its treatment and in the role assigned to African characters as a sort of exotic human foil to set off the grandeur of European adventure or romance that this bias against Africa, whether deliberate or not, is most evident. One may even go a step further and say that the African characters in such films are prone not only to appear queer and subservient in contrast with others, but also a little ridiculous.

This may be no more than a reflection of the way the white man, in his ignorance and cultural isolation from the coloured races, looks normally on the African. But that is not the truth; and it hurts the African who is striving to shake himself free of the shackles of the past and is very sensitive to what the rest of the world says about him or how it depicts him. If the white man could put himself in the place of the African, he would be able to understand the position. The latter is not particularly amused by the odd impressions which the white man collects in his travels in Africa and which he later gives expression to in various forms to the amusement of his own people. It is easy to accuse the African of touchiness or want of humour; but in his largely defenceless state, and caught as he is in the grip of the struggle for racial rehabilitation, he cannot possibly be expected to be over-tolerant of others' foibles or their strange notions of entertainment or to overflow with humour. That can come only when the African has become free and is completely self-assured.

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Strategy or Colonialism?

FAILURE of the London negotiations relating to Singapore is ostensibly due to differences on the question of ultimate responsibility for internal security of the island. Mr David Marshall agreed that defence and external affairs must remain under British control. But Singapore's Chief Minister was unable to accept the demand of the Colonial Office that Britain must continue to have a dominant voice in the internal security of the island. Suggestions have been made that Britain cannot accept responsibility for defending the strategic bastion of Singapore without ensuring the maintenance of law and order in that island. This sounds plausible. But any such argument ignores the changing world political and strategic circumstances.

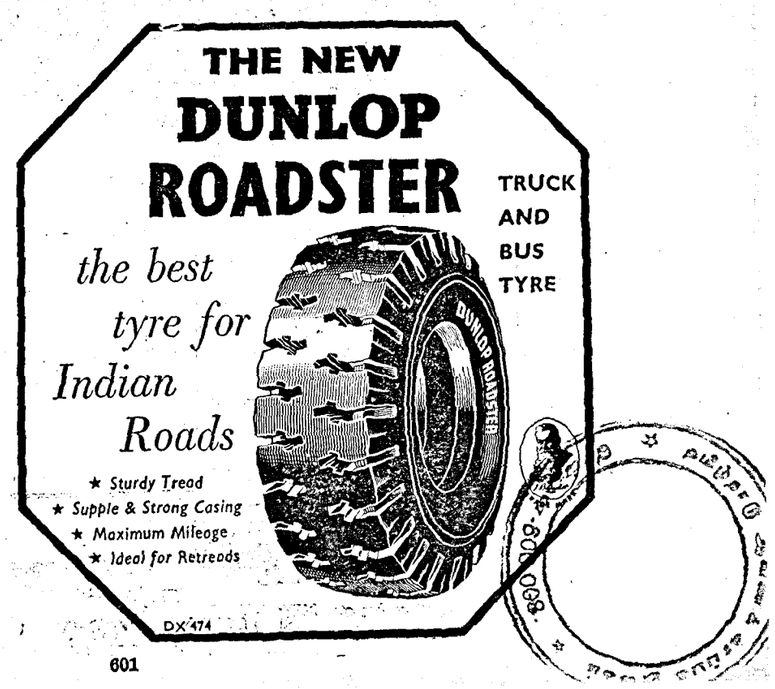
Singapore's strategic importance in the Commonwealth defence system can be over-emphasised. Even strategists may feel inclined to endorse Mr Marshall's outburst that, as a strategic base, Singapore is likely to prove a death-trap. To emphasise this is not to suggest that the irredentist Chinese element is not a threat to the island. In Singapore, the Chinese are an influential majority. This population factor explains why Mr Marshall is in favour of federation with the Malayan mainland, as also Tengku Abdul Rahman's reluctance to enter into any federal relationship with Singapore. But it is unwise to deny Singapore freedom in order to avert the Chinese threat. This threat, or rather the population aspect of it, can be averted through a federation of the whole of the Malayan Peninsula, including Sarawak and Borneo.

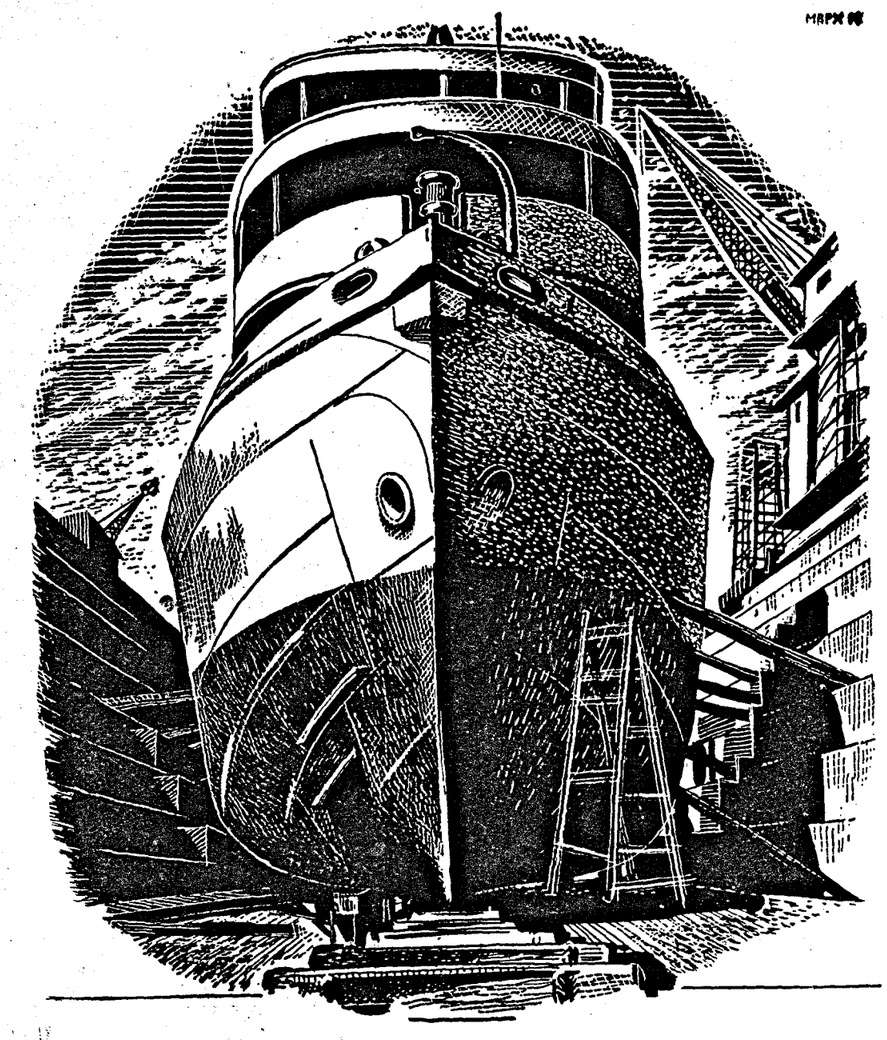
That is a possible solution of the racial problem in Malaya. But the ideological conflict can be resolved only through transfer of power to the Malayans so that the Chinese Communist elements can no longer exploit colonialism for fomenting trouble and dissension. With the grant of full independence, both the mainland and the island will hope that the international political situation will so change as to minimise the irredentist threat. Thus interpreted, the failure of the Merdeke Conference in London assumes a changed significance. Mr Marshall has been very outspoken in his speeches in London. He has repeatedly stressed the colonial people's distrust of the Colonial Office. This is the aspect of the Singapore problem which will be the main issue under discussion between Pandit Nehru and Singapore's Chief Minister. It is an issue in which India, an Asian member of the Commonwealth, is vitally interested. In the wider interest of freedom and peace in Asia, as also in the interest of the people of Singapore, there will be hope that the New Delhi talks will succeed in evolving a formula which will be acceptable to London as a basis for further negotiations with Singapore's political representatives.

Friendly Advice to Washington

INDONESIA has much to be grateful to America. Washington's friendly intervention and efforts hastened the freedom of Indonesia. Many newly-independent Asian nations are, similarly, grateful to America for her firm advice to her Western war-time allies to transfer power to their colonial countries. During and immediately after the war, America was the most popular Western country in Asia. To-day, she has few friends in this region. This has been a puzzle to Washington. Washington should be wiser by President Soekarno's friendly advice. Nationalism is the mainspring of efforts in Asia and Africa. "Fail to understand it", President Soekarno warned American Congressmen, "and no amount of thinking, no torrent of words, and no Niagara of dollars will produce anything but bitterness and disillusionment".

Washington is not unaware that nationalism has been, and is, the major influence in Asia and Africa. Nor can America be accused of conniving at colonialism in these regions, though some of the recent aspects of Washington's foreign policy is liable to such criticism. Washington's main trouble is that it does not know Asia. Its Asian policy is so tinged and obsessed with Communist fears that it fails to realise that it has only been backing wrong horses in these regions. Almost without exception, American-sponsored regimes in Asia are discredited and reactionary rumps. She is lavish with money and military aid to those nations in this region who support her foreign policy. Washington should be wiser by President Soekarno's warning that military aid can only make the recipient countries more dependent on America, "and their worth as genuine partners in the universal struggle for liberty, peace and prosperity will consequently decline". Recent elections in Ceylon, Burma and Indonesia reflect the democratic inclinations of these countries. Happenings in India since independence emphasise this country's democratic preferences. It is one of the major flaws of Washington's foreign policy that, in its preoccupation with security, it has not only failed to encourage stable democracy, but has occasionally seemed hostile to the progressive, democratic elements in Asia and Africa.





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Letters to the Editor

Pedigree of Community Projects

WHAT Mr. Marriott says about the Etawah Project in the issue of April 28 is substantially correct. It is, however, not an easy matter to trace the pedigree of the idea behind *community projects*. In fact two different strands of thought combined to develop the idea of community projects. One was that of integrated development of villages. Several notable attempts had been made in the past in this direction by the late Maharaja of Baroda near Kodinar, Tagore in Bolpur, Gandhiji in Wardha, Sir Daniel Hamilton in Gosaba, etc. The other was the use of an extension agency, comprising of a number of village level workers, backed by a hierarchy of experts and administrators, for stimulating the development of agriculture. American experiments at agricultural extension, the rural development work done in the Tennesse Valley and elsewhere, and the scheme prepared by Prof. A. V. Hill during the war for using demobilised soldiers as village level workers for stimulating food production indicated possible lines of approach. Both these sets of ideas were for some time under consideration at the Centre as well as in the States of authorities who were responsible for the development of agriculture or of backward classes or the settlement and colonisation of displaced persons.

The Etawah Pilot Project undertaken by the U P Government was only one of several attempts that were made by these authorities. The Firka development programme of Madras, the rural development schemes of West Bengal and Delhi, the refugee settlement schemes of Punjab and U P are some of the others which may be mentioned in this connection. The Etawah Pilot Project was, however, given a more conscious agricultural extension bias somewhat on American lines, because some American experts like Mr Mayer were associated with it. These experts, however, had no official connection with the Ford Foundation or the U S Point 4 Programme. Although the Project was mooted earlier, actual work on the project was started in 1948 in a group of 64 villages. The main items of work undertaken in Etawah were—reclamation of usar lands, ravine reclamation and bunding of uplands, construction of roads, construction of sanitary wells, agricultural demonstration, supply of seeds and manures and horticulture. Etawah was thus largely an agricultural extension project. It was moreover concentrated in a particular area and there was no programme at that time for progressively covering the whole country with a number of projects of this kind on a planned basis.

The idea of community projects and extension blocks designed progressively to cover the whole country took shape gradually during the years 1951 and 1952. It is not correct to say that the authorities of the U S Point 4 Programme or Ford Foundation first propounded the idea to the Government of India. In fact in January 1951 when the American official Mission headed by Mr. John Loftus came to India to discuss with the Government of India proposals for aid under the Point 4 Programme, they made no proposal for any programme of the community project type. The projects that were considered at that time were general agricultural extension including provision of implements, seeds and fertilisers, industries related to agriculture e.g., manufacture of fertilisers and implements, irrigation projects including tube-wells, etc.

It was in July 1951 that the Directorate of Economics & Statistics, Ministry of Agriculture, first prepared a model scheme for intensive development of groups of villages. In preparing this model they took into account the experience of Etawah, Delhi Development Scheme, Firka Development Scheme and other schemes mentioned earlier. This scheme which was at first called "Integrated Development Project" was designed to be repeated in different areas of the country on a planned basis and envisaged the comprehensive development of agriculture, animal husbandry, public health, co-operation and panchayats in selected groups of villages. Each project was to start with about 50 villages in the first year and to cover about 300 villages in the fifth year.

Shortly afterwards when the Ford Foundation Team led by Mr. Paul Hoffman visited India in August 1951, this scheme was revised, training and education was added to the programme and it was called the "Intensive Development Area" Project. It was this revised scheme that was put up to the Ford Foundation team for consideration along with a number of other schemes, e.g., demobilisation of Rajputana desert, establishment of a rural university, setting up of an all-India Medical Institute, etc. The Ford Foundation rejected the other projects and accepted the "Intensive Development Area Project" which they commended very strongly. It was decided to entrust the work to the Indian Council of Agricultural Research and in October, 1951 the I C A R addressed letters to the State Governments proposing the establishment of 5 training-cum-development projects and the setting up of 15 pilot development projects scattered all over the country. Each of these pilot projects was to cover 100 villages. The agreement with the Ford Foundation was signed on the 19th January, 1952.

The model of "community projects" as we know it now was later developed on the basis of this earlier project taken up by the I C A R with financial assistance from the Ford Foundation. Towards the beginning of 1952, when the U S authorities indicated to us that they were interested in financing on a fairly large scale, under the Point 4 Programme, schemes of this type, the first scheme of "community project" was prepared by the Planning Commission in consultation with the Ministry concerned. In this scheme a greater emphasis was given to health and education and rural industry was added as a new item. Each Project was to cover 3 blocks of 100 villages each. The scheme underwent some changes as a result of discussions with the T C M authorities and State Governments and the various experts and the final shape was given to it in April, 1952. The agreement with T. C M regarding community projects was signed on May 31, 1952. The subsequent history is well known and needs no recapitulation.

DELHIWALLA

New Delhi,
May 17, 1956.

A Calcutta Diary

What is Getting West Bengal Down

ONE could hardly have chosen a worse time of year to start a new diary, which should be breezy, diverting, effortless and inconsequential. All the circumstances are unpropitious in Calcutta now. The weather has been oppressive, and the brightest remark (the brightness of which is beginning to wear out) one hears is: "It isn't the heat, my dear; it's the humidity which gets you down." Of breeze there is not a breath; of rains not a drop, until Monday afternoon. To come to work is an effort, let alone doing a spot of work. This rambling on the weather acquires relevance from the fact that the Bengali situation today—on the lines of the existentialists' human situation—is not far different in several significant characteristics. It is not the heat of the Bengali temper which is getting West Bengal down; it is the humidity.

It is doubtful whether ever before there has been such indifference to politics as is to be seen in West Bengal today—a State justly famous for its political consciousness. Not as though particular questions are not discussed in the tea shops and coffee houses, but quite early, the proceedings degenerate into a denunciation of personalities. Unfortunately, most of the things said against Ministers and politicians are very close to the truth. All this has led to dangerous cynicism, and it is not surprising that the Bengali creates in most observers the impression of sulking. That many of the well-known Bengali grievances are founded on actual injuries inflicted makes no difference to the impression. Writing from Calcutta, the commentator has a hard time of it avoiding the two fatal oversimplifications: (a) joining in the Bengali moan with no thought of West Bengal's own deficiencies; and (b) harping only on the Bengali's faults without looking closely into its external causes.

* * *

To make the first of the many generalisations which are sure to follow, what is happening today is due largely to what in Europe has come to be called the treason of the intellectuals. Even the not-so-young Bengalis remember that until quite recently there was an incorruptible core in Bengali society. It is becoming increasingly difficult to trace and locate that core. The literary circles, the Press, the University—all the institutions where one would normally look for evidence of the Bengali spirit present a sorry picture which conveys to one a sense of despair. It was interesting, and saddening, in recent months to watch how each of the important sections of Bengali life today acted on, and reacted to, the scheme for a merger between West Bengal and Bihar.

The idea, it is now obvious, had an illegitimate birth; its death has been mourned by none. But these two events are less important than the process the scheme went through during its brief life. First, the politicians, or rather the politician, Dr Roy, for nobody else counts for much. He agreed to the union scheme, as the merger was called in the revised version, without reference to a single colleague, either in his cabinet or in his party. Dr Roy has never tried very hard to conceal his contempt for the majority of men around him, all his own nominees; the public, less insensitive than the politicians, took the indifference to heart, and has since registered its protest effectively enough. Humbled, Dr Roy is entitled to claim that he acted according to his lights and, surely, a Chief Minister's threat to resign if the scheme did not go through could not have been taken very seriously by anybody. The public may also rejoice that it is still within its power to tell a conceited Chief Minister where he gets off. What of the rest, those whose business it was to lead opinion?

* * *

Almost everyone stands disgraced. First, the Congress politicians. It was no secret that the union scheme evoked very little enthusiasm among them. And yet, not one leader of any importance had the courage to get up and say to Dr Roy's face that the scheme was nonsense. Rarely have Bengali politicians been guilty of such cowardly silence. Some of them actually went into hiding on various pretexts; those left in town spoke as little as possible or, against their personal convictions spoke in favour of the merger. Leadership was thus left to non-Congress hands which, in spite of their many differences, were at least able to pull off a significant election victory.

Men who must be called intellectuals, in the absence of a better term, behaved worse. Inspired no one knows by whom, a "statement" was taken round to writers and a distressingly large number of them signed it without really believing in the merger. Destitute of conviction, the statement made no difference to the issue; but it became painfully obvious that there are writers and journalists who, to be on the right side of Dr Roy, would sign almost everything approved by the Chief Minister.

* * *

The Press made the poorest showing. Since discretion is going to be the least of the virtues of this diary, it might as well mention names. The **Statesman,** still the most influential daily, said the merger scheme merited consideration. The **Amrita Bazar Patrika,** still the favourite of the mofussil bar libraries, came out in full support of the scheme, which is easily explained by the control a Deputy Minister openly exerts on its policies. The **Jugantar** and the **Ananda Bazar Patrika** supported the idea, for they dared not write otherwise. The **Hindustan Standard** maintained complete editorial silence for the best part of a week, and then asked the people to judge—as though the public needed the paper's kind permission to judge! The Press was, to put it quite plainly, gagged.

Here then was an important question affecting the future of the Bengalis, and everyone let the State down. The politicians were more mindful of their position in the party, which is dependent upon leadership at the all-India level, than of what people thought. The writers the only ones who could have asked the Government to go to hell or at least to leave them alone, fell over one another to wrest a smile from the Chief Minister. And the Press remained silent when it feared it could not get away with worse. Not the least distressing part of the whole story is that everyone remains where he was: Dr Roy in Writers' Buildings, the writers where they used to be, and the newspaper proprietors and editors in their tiny little offices —all indifferent to the people, and the people insufficiently aware of the insult.

— **Flibbertigibbet**

May 22, 1956.

From the London End

The Deadlock on Singapore

THE hopeless and long expected collapse of the Singapore negotiations adds, as James Cameron of the **News Chronicle** puts it, "one more shabby item to the apparently endless catalogue of colonial impasses that have decorated this Government." The long apologia issued by the Colonial Office for its stand throughout these negotiations now makes it abundantly clear that the British authorities have not reconciled themselves to one of the more powerful facts of our time: the determined will of the dependent people generally to shake off their status of dependency. The Colonial Office statement persists in its talk of "H. M. Government's responsibility" and "mission" in spite of the world having by now come to read through such protestations and come to recognize hypocrisy even when it emanates from the most skilful of its practitioners. The basic and overwhelming fact of Britain's position in the lengthy negotiations has been the refusal to cede, to transfer, even in the future, the ultimates in sovereignty: internal law and order and external relations. As the Colonial Office put it, "we have had to take properly into account the position of Singapore as a mercantile centre depending on a stable government for its prosperity and as a major strategic base in the defence system of the free world." The mercantile importance of Singapore to Britain is well known; as for its strategic uses, the statement reflects not only the persistence of a fundamentally archaic mentality in the War Office but certainly of the interests of Australia and New Zealand in the South-East Asian area.

From the Singapore side the negotiations have not always reflected a singleness of purpose or a unity of approach. The leader of the visiting delegation, Mr. David Marshall had, it appears, staked the life of his coalition and precarious government on success being achieved in London. The pertinency of the proposals first formulated in Singapore thus became increasingly lost in the course of his negotiations resulting not only in making the British more obdurant but in a steady deterioration in the relations between different members of the Singapore delegation. Even when the final break was made inevitable Mr. Marshall persisted in concocting "new ideas"—ideas which were disavowed and condemned by his colleagues and treated with contempt by the Colonial Secretary.

The Singapore delegation on the first day of the negotiations found themselves facing an important tactical disadvantage. They were requested to accept a series of British proposals as the basis for discussion; their own proposals were thus not even effectively tabled. The visiting delegation asked initially for independence, probably within the Commonwealth. The British, in turn, offered a "constitution"—a document of considerable detail, prepared well in advance, symbolical and characteristic of the British contemporary approach to colonial problems, but with sufficient variation to acknowledge the fact that Singapore was not Nigeria nor the West Indies. The proposed constitution gave Singapore internal self-government but with one very significant and over-riding proviso: "the right on the part of Her Majesty's Government to take action in Singapore in exceptional circumstances." In other words, the Constitution provided for the unexpected—at any time—incursion of British power, without such incursions being called for in Singapore and at the same time without infringing upon the constitution. On precisely this point, the negotiations broke down. As the Colonial Secretary put it, the British Government refused to agree to a constitution which "contained no powers whereby Her Majesty's Government could ensure the discharge of its responsibilities short of suspending the Constitution."

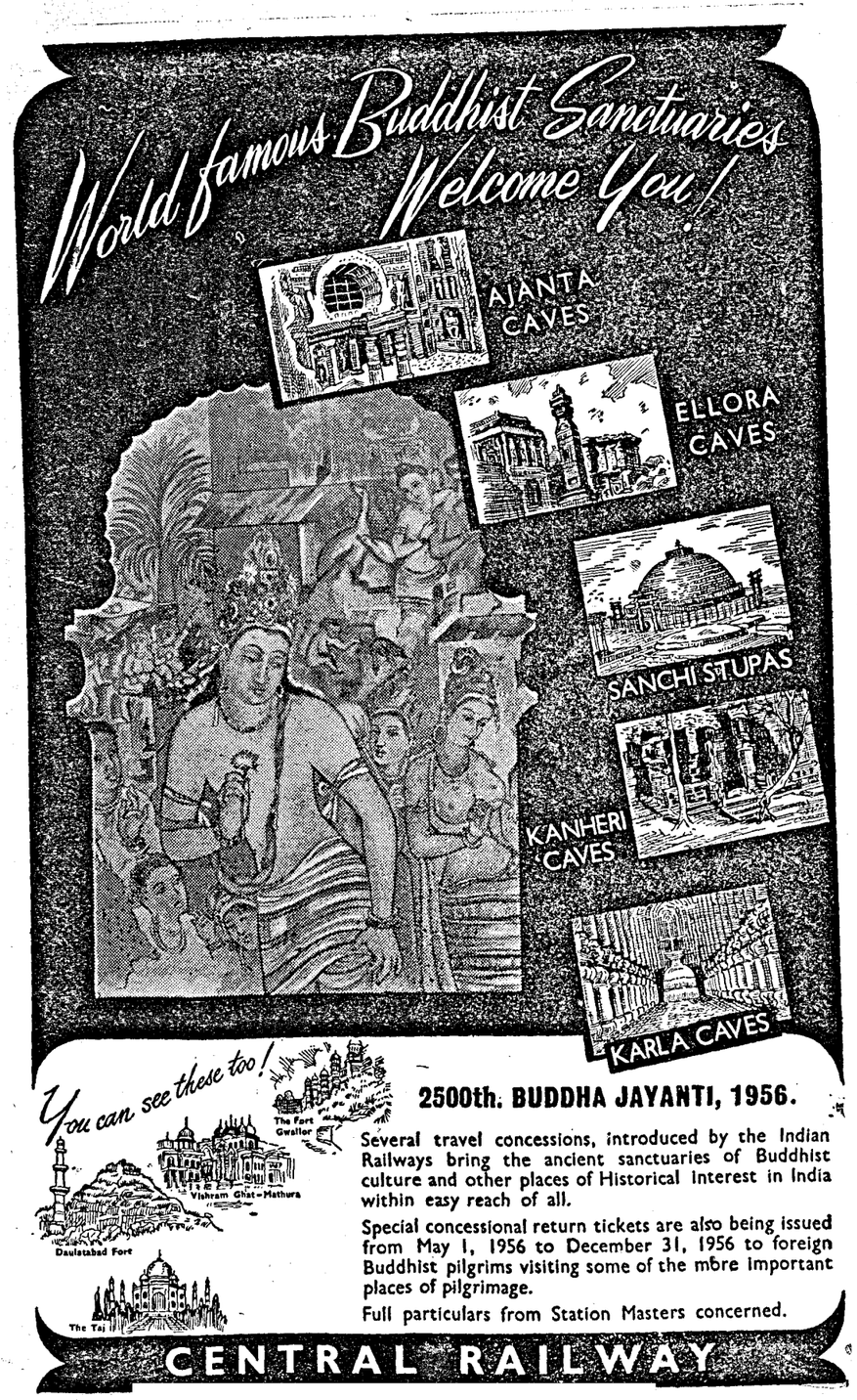
The device by which the British intended to ensure this fundamental proviso was the Defence and Security Council:

> "In recognition of the fact that external defence and external affairs would be matters of mutual interest and to take account of the link between internal security and external defence and of Her Majesty's Government's continuing responsibility to maintain law and order in the absence of adequate local forces, there should be set up a Defence and Security Council."

It would have been clear to the Singapore delegation that the very existence of such a Council would permanently compromise their powers over internal affairs. Instead, they accepted the porposal and went on to take a stand on its composition which, if accepted, as the British recognized, would have made the Defence and Security Council redundant. The functions to be given the Defence and Security Council were such as to make it necessary for Britain to have a majority on it. It was in the light of advice of the Council that the British Government was to be enabled to make Orders in Council, i.e. to make the incursions for which it required power (though it was made clear that such advice was not essential). In the British conception the Council was to be composed of equal representation of the British and Singapore Governments with the British High Commissioner acting as Chairman. The Singapore delegation proposed that the Chairman be a Malayan and that the British Government act only on the recommendations of the Council.

The "new idea" which occurred to Mr Marshall after he "chatted" with British Labour leaders involved the right of Britain to take action in Singapore only by a British House of Commons' resolution. Fundamentally, this would not have been any improvement; it neither met the wishes of Singapore nor of Britain. In turn, therefore, the members of the visiting delegation forsook Mr Marshall and Mr Lennox-Boyd, the Colonial Secretary, dismissed the idea.

What of the future? Mr Bevan, the Opposition spokesman on Colonial affairs, suggested that the Cyprus Path is not an impossibility in Singapore. The cry of **Merdeka** in Singapore is becoming alarmingly loud to British ears. Mr Marshall has called the Colonial Office "fascist minded" and M. Lee Kuan Yew of the Peoples' Action Party has indicated his Party's intention to strive to follow the uncommitted nations of Asia rather than what the **Times** declared to be the British Policy—"to make Singapore remain in the democratic world". These very conflicting positions suggest that the turmoil which has encompassed the whole of Malaya since 1945 will continue and that the British approach to the urge for independence will be in terms of armed warfare, wherever the brass hats want to squat or wherever the economic interests involved are too weighty to be ignored,



Supply of Industrial Labour in India, 1892-1943

Pravakar Sen

AN attempt has been made in the present paper to investigate the trend of the supply of labour to industry in India over the period 1892-1943, and to draw, on the basis of that investigation, certain plausible inferences concerning the process of industrialisation in the country. The choice of the period does not have any especial significance. It has been dictated by the fact that no comprehensive statistics of the supply of labour to industry are available for any year prior to 1892 and, so far as India before independence is concerned, for any year later than 1943.

The present paper falls into two parts. The first part presents the statistical material and analyses and interprets it from certain chosen points of view. The second part offers a few permissible inferences drawn from these data bearing on the process of industrialisation.

I

An investigation of the trend of the supply of labour to industry in India has to face two difficulties both of which are ultimately traceable to the same source. The first arises from the fact that there being no time-series available for the entire country of any suitable indicator of the supply of labour to industry such as the daily average number of workers employed in factories, it is not possible to find the statistical trend of the supply of labour to industry. Such a series has been started only since independence. In this circumstance, the trend referred to will be found to be no more than a broad tendency, a certain drift intuited from data available for six rather unevenly spaced years in the entire half century under review. The second difficulty arises from the fact that for the purpose of studying the process of industrialisation the definition of an industrial worker on the basis of which all available statistics are organised would appear to be somewhat narrow. This point has been discussed at some length in the following paragraph. It will be noted that both these difficulties are really due to the scarcity of statistical organisation which is one of the many scarcities from which an industrially backward area is prone to suffer.

An industrial worker is, in the light of the statistics of the daily average number of workers employed in factories presented below, a person who works in a factory and a factory is an establishment of 20 or more people engaged in manufacturing with the help of some form of mechanical power. This definition would appear to be too narrow for a study of the process of industrialisation of an area in the initial stages of its development because during these stages the scale of plant tends to have a wide dispersion of distribution, so that an arbitrary minimum of 20 workers, although a perfectly sensible criterion of a factory from the point of view of statistical organisation, might lead to a significant underestimation of the true moment of industrialisation. There is no reason to believe that the possibility of this underestimation has been reduced over the years. For during the half century under review, industrialisation in India has been both intensive and extensive. There is a second reason why the definition might be regarded as too narrow for our purpose. It is that workers employed by contractors do not figure in our statistics. In view of the growing volume of work done by contractors in building and construction, engineering and communications, this omission might prove to be another source of underestimation. Another minor irritating factor is that it is not very clear whether the statistics presented below refer to wage-earners alone or to all employees. A distinction between the wage-earners and other employed factory labour is maintained in the statistics that are being compiled since independence.

Measurement of Supply

The measurement of the supply of labour to industry should be a matter of elaborate census operations, and for a study of the process of industrialisation, the definition of an industrial worker should be broad enough to cover every kind of machinery in existence or in operation. That is to say, a perfectly adequate definition of an industrial worker would be a person who either works with a fabrication driven by mechanical power or with things made with the aid of such a contrivance. Such a definition of an industrial worker would of course cut across the conventionally fixed boundary line between agriculture and industry and would include all labour in the economy oriented to mechanical power. Although this might go against the currently accepted convention in these matters, a measurement carried out on the basis of the definition of an industrial worker just proposed, of supply of labour to industry in this strict sense of economic activity to mechanical power would be a good indicator of the trend of industrialisation.

In the present study, however, we are prevented by statistical limitations from applying such a measure. We draw our conclusions not on the basis of the aggregate supply of labour to industry but on the basis of the daily average number of workers employed in factories. But as agriculture in India has been very little industrialised, there is no further limitation of a general nature to the results of our inquiry except those indicated above. Before proceeding to present the available statistical material let us, however, note, in passing, another difficulty from which the following analysis might be thought to suffer, but in fact does not.

This concerns the schedule sense of the supply of labour. It may have already become clear that in the following analysis we are not going to regard the supply of labour in the so-called schedule sense of the numbers of persons who are prepared to offer their services to industry at various wage rates. It is true that statistical limitations prevent us from measuring the aggregate supply of labour in the schedule sense. But even if it were not so, we would not gain anything by constructing such a measure. For we are interested in a universe of human beings who are distinguishable from the others in that they have decided to work with machines for earning their livelihood and not primarily in that they react in a particular manner to an economic variable such as wages. Wages do play a part in the making of the former decision. But they do not exhaust the entire gamut of the motivational factors.

Let us therefore note that the following analysis of the trend of the supply of labour to Industry in India is subject to the two general limitations mentioned above. The first of these limitations is that the paucity of data does not permit the fitting of a statistical trend. The second is that the somewhat narrow definition of an industrial worker on which the available statistics are based creates a bias towards underestimation of the extent of industrialisation in so far as this is sought to be gauged from the data selected. The analysis is subject to a further limitation which will be discussed later.

The set of figures presented in Table 1 refers to the daily average number of workers employed in factories, so defined under the Indian Factories Act, 1934, in all British Indian Provinces, except North-West Frontier Province, in some Indian princely States such as Kashmir, Patiala, Gwalior, Baroda, Mysore, Sandur, Travancore, Cochin, Bundi, Indore and in some others of the Eastern States Agency. A notable exception is Hyderabad.

It would appear from the manner in which these statistics have been collected that figures for different years are not very strictly comparable for, in the first place, the figures were not obtained by carrying out censuses for the years concerned. They were complied from various administrative records in which notoriously incomplete data find their place. There is no knowing as to how the degree of reporting by various areas had changed over the years. Nor is there anything in the sources to indicate whether corrections were made in the older data when brought together with new data to reflect the change in the degree of reporting by these geographical units. Secondly, since part of these data was first compiled by the Royal Commission on Labour in India of 1929 and then taken over almost entirely by the Labour Investigation Committee of 1946 and since the latter does not clearly indicate the relationship of the earlier set of data to the latter, it is possible that no thought has been given to the problem of making them comparable over time. In view of the gradual improvement of statistical organisation in India over the years, the presumption is that the figures for earlier years are likely to be underestimates to a larger degree than the figures for later years.

Data for Different Periods

It will be observed from Table 1 that the entire period of 51 years from 1892 to 1943 is divided, thanks to the irregularity in the collection of data, into five parts of unequal length. While the first of these parts, 1892 to 1912, is of the maximum length of 20 years, the second, from 1912 to 1923, is the second longest part covering 11 years. The third, the fourth and the fifth and last parts of the entire period are respectively from 1923 to 1933, from 1933 to 1939, and from 1939 to 1943, that is, 10 years, and four years long. While this division is somewhat unsatisfactory from the statistical point of view, it is not wholly incongruous with the development of certain broad economic forces in India.

The period of 20 years from 1892 to 1912 is marked by an attitude of indifference on the part of the British Government in India towards the industrialisation of the country, an attitude which followed in the wake of the laying of the railroads by British private enterprise warmly encouraged by the Government. The latter half of this period is however marked by considerable nationalist agitation having both political and economic implications symbolised in the Swadeshi (which means home-made) movement. Following the partition of the province of Bengal, which incidentally was again partitioned at the time of independence, the economic agitation takes the form of the boycott of British goods, burning of British wares in public, taking of the vow to buy only Indian goods. It is needless to point out that the part of Indian industry which was owned and managed by Indians at this time received a great fillip from this agitation.

The second period, that is, 1912 to 1923, covers the First World War, which stimulated Indian industry greatly, and its aftermath. This period not only stimulated Indian industry directly; it also prepared the way to further industrialisation. For it is during the First World War that the British Government in India realised that a certain amount of industrialisation of the sub-continent was imperative in the interest of the defence of the empire, if for no other reason. In 1922 the first Fiscal Commission was set up and a policy of discriminating protection was adopted by the Government. This was the first time that the Government came forward and started taking a direct interest in the industrialisation of the country. The result is that the third part of the period under review, that is, 1923 to 1933, marks the beginning of a policy of protection to industry in India. It also covers the depression of 1929-31.

The fourth part of the half century, 1933 to 1939, carries forward the implication of the second political movement led by Gandhiji, that of "civil disobedience" which was marked by a more intense campaign of boycott of British goods, a larger impetus to industry owned and managed by Indians and so on. It also represents a temporary intensification of Governmental interest in industrialisation on a provincial level with the acceptance, in 1937, of executive responsibility in the provinces by the Indian National Congress. This refers to projects for electrification of rural areas and road-building etc undertaken by the Congress administration during the short period of its tenure. Of course the policy of protection was still there, although the Indian elements in industry were charging the Government with favouritism towards the British elements.

Average Daily Number of Workers Employed in Factories in India, 1892-1943.

Year	Number of Factories	Number of Workers			Total Number of Workers
		Men	Women	Children	
1892	656	254,336	43,592	18,888	316,816
1912	2,710	685,822	130,025	53,796	869,643
1923	5,985	1,113,508	221,045	74,620	1,409,173
1933	8,452	1,167,284	216,837	19,091	1,403,212
1939	10,466	1,498,218	243,516	9,403	1,751,137
1943	13,209	2,158,319	265,509	12,484	2,436,312

Source: Main Report, Labour Investigation Committee, Government of India, (New Delhi, 1946), page 13.

The last phase, 1939 to 1943, represents a tremendous intensification of industrial activity under the pressure of the Second World War. Though Gandhiji led the last and the largest political movement in Indian history, the "Quit India" movement in 1942, curiously enough, the industries were not directly involved in this movement or for long; and while the political struggle for independence was on, there was no slackening of industrial effort. Thus while the political movement grew by stages from "swadeshi" to "Quit India", a corresponding pattern of efforts was evolving on the economic plane which led the country towards greater and greater industrialisation. In so far as the division of the period under review follows the natural pattern of this evolution, it helps rather than hinders the task of explaining the data presented in Table 1 in terms of these broad economic forces at work.

It will be seen that the total number of factories more than quadrupled in the 20 years from 1892 to 1912, more than doubled in the next eleven years from 1912 to 1923, increased by about 40 per cent over the next ten years from 1923 to 1933, by about 20 per cent over the next six years from 1933 to 1939, and finally by about 25 per cent over the last four years of the period, 1939 to 1943. Abstracting from considerations of scale, it would appear that over the entire first three decades of the half century under review, a period marked by Government in-

Subjugation of the Mad Elephant by the Buddha.
From the Amaravati Stupa, Andhra.



अक्कोधेन जिने कोधं असाधुं साधुना जिने।
जिने कदरियं दानेन सच्चेन अलिकवादिनं॥

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Overcome the miser by generosity, and the liar by truth.

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difference towards industrialisation only temporarily relieved by the exigencies of the First World War, there was almost a uniform rise in the number of factories, at the rate of about 26 per cent annually. On the other hand, over the last two decades of the period, a phase marked by some degree of Government encouragement to industry, there was an almost similarly uniform rise in the number of factories, but at the much smaller rate of about six per cent annually. This result is not an argument in favour of laissez faire and against State interference in economic activity. It only reflects the fact that the process of industrialisation in India as it had been developing until, say, 1923, had undergone a complete change in character in the subsequent years. The nature of this transformation will be one of our main concerns in the second part of this paper. Assuming that the policy of protection was not a fundamental mistake and apart from the question whether its administration could be improved in practice, we may view the foregoing result as an indication of certain basic changes in the character of industrialisation which demanded protection, if that apparently small rate of progress were to be maintained. When considerations of scale are introduced in the discussion, however, the apparently small rate of increase in the number of factories during the latter part of the period in question no longer appears small.

In contrast to the spectacular rise in the number of factories over the half century, the increase in the average daily number of male adult workers employed in factories in India was small. Between 1892 and 1912 the annual rate of increase was approximately 8 per cent; between 1912 and 1923, the rate of increase was down to 6 per cent per annum; between 1923 and 1933, the early period of protection, the rate of increase dwindled to approximately half per cent per annum; between 1933 and 1939 the rate of increase again went up to almost 5 per cent per annum; finally between 1939 and 1943, the rate of increase went up to almost 10 per cent per annum. While it is certain that the abnormally low rate of increase of half per cent for the period between 1923 and 1933 was due to the depression of 1929, and the much faster rate of increase during the last phase was due to the pressure of war, the broad tendency towards a falling rate of increase of the average daily number of workers employed in factories over the entire period is unmistakable.

Between 1892 and 1923, the first part of this half century, the rate of increase was approximately 10 per cent per annum; between 1923 and 1943, the second part of this period, the annual rate of increase was only 5 per cent on the average.

Sharp Fall in Female Workers

A broadly similar, although in a particular respect more marked, tendency is the growth of the average daily number of female adult workers employed in factories over this period. Between 1892 and 1923, the annual average rate of increase was about 13 per cent. Between 1923 and 1943, it came down to the strikingly low figure of 1 per cent. This extra-ordinary fall in the rate of increase of the average daily number of female workers is due, among other things, to the introduction of laws binding employers to engage female workers only under certain specified conditions of work. These conditions must have proved unprofitable to the employers, for the falling rate of increase in the average daily number of female workers will be seen in due course to have reversed an earlier tendency of replacing male workers by female workers. The annual rate of increase in the average daily number of female workers employed in factories was approximately 10 per cent between 1892 and 1912 and about 6 per cent between 1912 and 1923. Between 1923 and 1933, there was an actual decrease in the average annual rate of 0.2 per cent, this reflecting both the impact of the depression of 1929 and of social legislation. Between 1933 and 1939, the annual rate of increase was only 2 per cent while during the last phase, 1939 to 1943, it went up to 2.2 per cent under the impact of the war.

Similar Trend in Child Labour

The development in respect of the annual average daily number of children employed in factories, while consistent with that regarding male and female workers, is striking in one respect. Between 1892 and 1923 it increased at the rate of 10 per cent per annum approximately, but over the period between 1923 and 1943, factory employment of child labour decreased at the rate of 4 per cent annually. This was a direct outcome of social legislation more than anything else. Between 1892 and 1912, there was an increase in the annual average daily number of children employed in factories at the yearly average rate of approximately 9 per cent. Between 1912 and 1923, the rate of increase fell to 4 per cent. Between 1923 and 1933 there was a decrease in the absolute figure, the rate of decrease being 7 per cent per year. Between 1933 and 1939, the decrease was at the higher rate of 8 per cent per year. During the period 1939 to 1943, however, there was an increase in the absolute figure, the average rate of increase being 8 per cent per year. This was presumably due to the impact of the war.

Declining Rate of Increase

Finally, taking the average daily number of all workers, men, women and children, employed in factories in India, we find that between 1892 and 1912, the number increased approximately at the rate of 9 per cent per year. Between 1912 and 1923, it increased at the rate of 6 per cent per year. Between 1923 and 1933 there was a decline in the absolute figure, the rate of decrease being 0.04 per cent per year. Obviously, this was in part due to the depression. Between 1933 and 1939, there was again an increase in the average daily number of workers, the rate of increase being 6 per cent per year on the average. Between 1939 and 1943, however this rate further increased to almost 10 per cent per year. In spite of this later tendency towards an increase, primarily due to war, the long run tendency is unmistakably downward. Between 1892 and 1923, the average daily number of workers employed in factories in India increased at the annual average rate of 11per cent. Between 1923 and 1943, the annual average rate of increase came down to only 4 per cent.

(To be Continued)

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Tista Flood Problem in West Bengal

Embankments No Solution

Kumud Bhushan Ray

(Continued from previous issue)

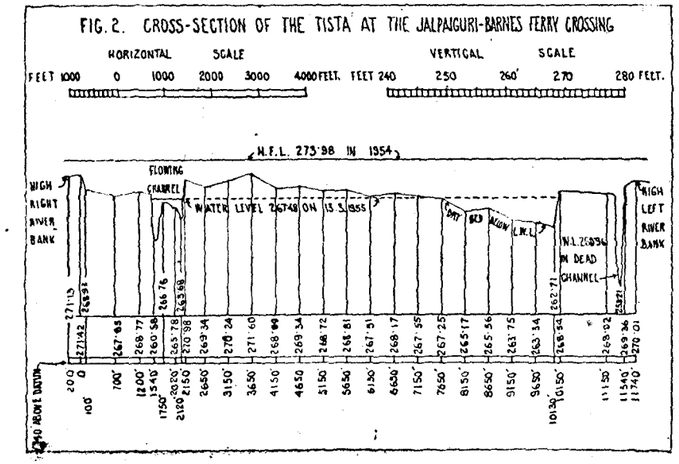
BEFORE the Dihong captured the water of the Tsangpo some time before the 13th century, the Brahmaputra drained the 'rain-shadow' area of the Assam Valley, north of the Central Hills of Assam, and carried a small discharge. It had, therefore, developed a tortuous course via Mymensingh Town with an outfall into the larger Meghna, draining the immense rainfall on the southern slopes of the Central Hills. With the capture of the Tsangpo water, the Brahmaputra carried a much larger discharge, its channel got deepened, while its alignment was straightened, from Dhubri to Goalundo past Sirajganj Town.

The improved Brahmaputra channel appears to have a better outfall for the Tista water. A cut-off channel from the improved Brahmaputra to the Tista must have been established sometime in the 13th century. Through this channel the Tista water was being diverted into the Brahmaputra. During the latter part of the 18th century, the Tista water stopped flowing through the Karotoya and its diversion through the present Tista channel was completed. The present position is that the Karotoya and its tributaries—the Panga, Burhi Tista, etc.—are completely cut off from upland water supply. As a result of this, Tista water now flows through its present channel, while the Karotoya and its tributaries are dying rivers.

A study of rivers in the East Himalayas, shows that the Arun, a tributary of the Kosi, has by cataract action deepened and lengthened its gorge across the Himalayas and captured the Yaru River valley in Tibet; but the tributaries of the Tista have not yet been able to cut across the Himalayas into Tibet. The deepening and lengthening of the gorges of the tributaries of the Tista is however, continuing and in this process enormous amounts of silt load are being added to the waters of the Tista.

It has been explained that the velocity of a current of water in the wide channel of the Tista is so low that a part of the enormous amount of silt in its water is being deposited on its bed, and there has been a gradual rise in the level of its channel bed, dry season low water level and flood season high water level. The Karotoya, on the other hand, being cut off from the Tista upland water supply, transports little silt load. There is thus little or no rise in the channel bed, the low water level or the high water level in the Karotoya or its tributaries.

The Dharla, which flows into the larger Jaldhaka River, carries a small discharge and consequently transports a small silt load. There is thus little or no rise in the level of its channel bed, or in its low water level or high water level as compared to that of the Tista. On the other hand, the Tista water spilling over its left bank near Barnes, which in the high floods of 1954 amounted to as much as 140,000 cusecs or about 50 per cent of the discharge carried by the main Tista channel, deposits the whole of its silt load while flowing over the paddy lands in the Barnes-Mainaguri area. The desilted Tista overflow water nearly doubles the discharge in the Dharla. The clear water helps to downscour the Dharla bed, so that its channel and consequently its flood water levels have remained lower than those of the Tista.



Overflow of Tista Water

With a gradual rise in the channel bed and water levels in the Tista, and with little or no rise in those of the Karotoya, the Tista water spilling over its right bank in Jalpaiguri Town has a natural tendency to flow into the channels of the Panga, Burhi Tista and other tributaries of the Karotoya. There have thus been several breaches over the years in the railway line between Jalpaiguri and Haldibari by the overflow water from the Tista trying to flow into the Karotoya.

The south end B of the embankment A B (see fig) constructed in 1955 along the right Tista bank for the protection of Jalpaigur Town, has been connected to the bank of the railway line between Jalpaiguri and Haldibari. Thus the railway line, south of the point B to Haldibari, will continue to be threatened by overflow water from the Tista, in its tendency to find its way into the tributaries of the Karotoya, while lands between the Tista and the tributaries of the Karotoya will continue to be submerged during floods.

Similarly with a gradual rise in the channel bed and water levels in the Tista and with some lowering in those of the Dharla, the Tista water overflowing its left bank has a natural tendency to flow into the Dharla, between Mainaguri and Mekhliganj. It has been mentioned that in the high floods of 1954 as much as 140,000 cusecs of Tista water spilled over its left bank. Is it any wonder that there have been several breaches in the railway line south of Mainaguri?

An embankment on the left bank of the Tista, as proposed on April 4, 1956, will probably connect the Tista left river bank with the railway line through Mainaguri. South of this connection, the railway line will continue to be threatened by the Tista water spilling over its left bank in its tendency to flow into the Dharla, while the river side lands between the Tista and the Dharla will continue to be submerged during severe floods, in spite of the embankments.

Comparison with Urban Surface Drains

A study may now be made of cutcha or unpaved surface drains in a city. By erosion of their banks, these drains gradually become wide and shallow. Owing to this and also on account of the flat slope available, the velocity of water is very low. A current of water deposits a part of its silt load, so that there are accumulations of debris in a drain as islands and sand banks, round which the drainage flows in tortuous courses. Such a surface drain has inadequate drainage capacity. Hence during and after a heavy and prolonged rainfall, excess water is incapable of being quickly drained away and roads get submerged.

To prevent flooding of roads, a Municipality does not put up embankments along both sides of a surface drain. Of course, such embankments are able to confine the drainage coming down from the upper parts of the town within the drain. But the embankments would also prevent rain water, collected on the road suface as well as from road side dwellings and compounds from flowing into the drain.

A method by which a Municipality may prevent submergence of a road by overflow from a surafce drain, is by ensuring a reduction in the volume of drainage from the upper parts of the town by the construction of small dams across a drain, thereby creating reservoirs to hold part of the heavy rainfall in storage. The drainage water may be released through sluices in the dams over a longer period. The regulated lesser discharge through a surface drain in the lower part of the town will not then overflow and submerge the roads. But the submergence of a part of the upper town above a dam across a drain is not likely to be tolerated by the citizens, even if the stored water is utilised to generate hydro-electricity at the fall created at the dam across a drain, or is used for the irrigation of gardens of these citizens.

To prevent submergence of roads from overflow from road side drains, a Municipality usually deepens a surface drain. The increased drainage capacity of a narrow and deep drain enables it to accommodate and drain away quickly the maximum discharge for a heavy and prolonged rainfall. To maintain the sectional area, the sides and bottom of a drain are generally paved with brickwork or concrete and cement plastered. The municipal staff also cleans any accumulation of debris in the drain, so that its sectional area is maintained.

Narrowing and Deepening a River Channel

If a wide and shallow river could be narrowed and deepened in the same way as a municipal surface drain, its drainage capacity would be increased, maximum discharges accommodated within its channel and drained away quickly. There would then be no spilling over banks, no overflow and submergence of river side lands and no flood damages. River channels have been deepened by dredging, but it is not always a practical proposition to do so.

A river, however, commands a great force, its own current of water, which has the power of eroding the material on its channel bed and of transporting of the silt load thus formed. In the alluvial rivers of India, this great force has been utilised by the Steamer Companies for narrowing and deepening a wide and shallow reach of a river by the use of 'bandals' for maintaining navigation by steamers. The disadvantage of 'bandals' is that with the increase of velocity in a current of water at the beginning of the flood season, the channel bed is downscoured and the lines of 'bandal' are undermined. An improved type of 'bandal', which is able to maintain, its position and alignment on the channel bed and thus continue its action of narrowing and deepening the river channel even in the flood season, has been used in the Beki River in Assam in 1949. Since then, the improved type of 'bandal', which is known as 'permeable screen', has been used by the NE Railway in rivers in North Bengal and Assam, for depositing silt on selected parts of the wide and shallow channels.

Permeable Screens in the Tista

A study of an earlier map of Jalpaiguri shows that the Tista had a narrower channel. From 1898-1905, the author was a student in the Government Zila School, Jalpaiguri. He remembers that the Tista had a half-a-mile wide channel. The greater depth in this narrow channel made it possible for a steamer to ferry passengers and vehicles across. He also remembers a steamer trip up and down the Tista, carrying Tea Planters and high government officials of Jaljaiguri.

By the use of the 'permeable screens' it is possible to narrow and deepen the Tista back to its former width of about half-a-mile. With an increased drainage capacity in the narrowed and deepened Tista, the flood water level will be lowered and there will be no spilling over the Tista banks. Submergence of river side lands will thus be prevented even without embankments while a permanent solution to the Tista flood problem will thus be ensured.

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Deficit Financing in Nepal

Y P Pant

IN a recent article in The Economic Weekly (Budgets in Nepal, issue of April 21) I had drawn attention to the annual deficit amounting to more than a crore of rupees which appears to have become a regular feature of budgets in Nepal. I had also pointed out that deficit financing has been restorted to in Nepal, in spite of the general neglect of developmental work. Even otherwise, however, the peculiar circumstances that prevail in Nepal make deficit financing a highly dangerous operation. These circumstances are examined below.

Nepal has a dual monetary system. One has therefore to face several difficulties in gauging the total supply of the two currencies. Some estimate of the volume of Nepali currency in circulation is available, but there is no means of knowing the volume of Indian currency that is in circulation in Nepal. Not to speak of the general circulation, until recently, no distinction was made in the budgets between Nepali and Indian rupes. Besides, no index number of prices in the country has been computed so far. The only measure of the value of the Nepali rupee, however imperfect, is to be found in the exchange value of the Nepali rupee in terms of the Indian rupee. Nevertheless, it is clear that during recent months, prices have risen sharply in the hilly regions, where the circulation consists predominantly of Nepali currency, while they have fallen somewhat as a consequence of falling prices of food grains in India in the Tarai, where Indian currency circulates. This situation in the Tarai may not last, since the prices in India show an upward trend. But that prices in the two parts of Nepal should move in opposite directions in this manner shows how complex the problem is.

Exchange Depreciation

During the last fifteen years, the exchange rate between the Nepali and the Indian Rupee has fluctuated between 57 : 100 and 195 : 100. Before the outbreak of World War II, the exchange rate was practically stable at 120 - 125 Nepali rupees to 100 Indian rupees. This stability existed because the Nepali currency region imported very little, even of necessities, from India, thanks to rigorous import restrictions and service earnings abroad. Though in the new set-up increasing commodity imports from India are one of the factors responsible for the decline in the value of the Nepali rupee, other factors like increasing speculative dealings and administrative disorder also play a part.

During the last six months or so, due to the favourable effects of certain short term measures taken by the Government under His Majesty's direct rule, wide fluctuations have been eliminated and excepting very short term variations, both the official and the market rates have remained stable at 175 to 100. From a long term point of view, however, this rate is unfavourable to the country's economy. Some measure of exchange control has been set up very recently by prohibition of the import of certain items, such as silks and liquor, and the Government sale of Indian currency at 175 to 100 rate for approved imports on the governmental list, which includes rice, sugar, machines, kerosene, cotton cloth and other necessities. It is, however, doubtful whether these measures will solve the problem of the exchange rate.

Foreign Trade of Nepal

Foreign trade is also important for the budget since it affects the impact of the deficit on Nepal's domestic economy. Accurate statistics of external trade do not exist. So it is difficult to judge the situation correctly. The major part of Nepali trade is with India. Statistics published in the **Indian Trade Journal** based on information obtained at railway stations adjacent to Nepal, Tibet, Sikkim and Bhutan, however, give some idea of the general trend of foreign trade. Besides the trade with India, there is some trade also with Tibet which is carried on over the Himalayas but it is only of minor importance. Exports are principally from the Tarai, while the hilly regions are the principal importers.

The Department of Commmerce and Industry has recently made some rough estimate for the years 1948 to 1951 (see Table I), of the exports to and imports from India.

Influence Obscure

These figures do not include invisible items such as travel in India by Nepali subjects and the purchase of Indian services which probably result in a sizable deficit. The voluminous exports of foodgrains from Nepal Tarai to the adjacent Indian districts in UP, Bihar and Bengal could not, however, have been correctly estimated in the above statistics in view of the existence of the same currency unit. This accounts, no doubt, for the deteriorating exchange rate of the hilly regions, which use Nepali currency and which are dependent even for some of their daily necessities on India. Prices of the main exports have tended to fall recently, while prices of the main imports have remained steady or risen slightly. In fact, the influence of the balance of payments on the economic situation is still quite obscure, as only a part of the trade between Nepal and India partakes of the character of international trade. The Tarai exports substantial quantities of food grains to India, while Kathmandu Valley is always deficit in food, but since the currency circulating in the Tarai is the Indian

TABLE I
Exports and Imports
(In crores of Rupees)

	(1948)	(1949)	(1950)	(1951)
Imports				
Cloth (constitutes half of the total) cigarettes, sugar, bicycles, salt, petroleum and kerosene etc.	7.8	8.0	8.4	9.3
Exports				
Rice and jute (constitutes about two-thirds of the total) from the Tarai, woollen blankets known as pasminas, ghee, oilseeds, fruits, vegetables and timber.	8.8	12.4	13.7	14.2
Export Surplus	+1.0	+4.4	+5.3	+4.9

rupee, the impact of this trade is not directly felt on the rate of exchange of the Nepali rupee.

Created Currency

It is unfortunate that instead of properly attacking the difficulties that the economy faces by suitable measures, the only means for financing the budgetary deficit adopted by the Government has been the increased issue of paper currency and larger coinage. It is estimated that the total increase in paper currency and coinage (as shown in the budgets) for the four years 1951-52 to 1954-55 amount to Rs 6.05 crores, i.e., at the rate of Rs 1.5 crores per year on the average. The liberal employment of such means has aggravated the financial difficulties of the country. Table II gives a comparison of exchange rates and the amount of new money created.

TABLE II
Exchange Rate and Creation of New Money

Year	Exchange Rate Nepali Rs. for Indian Rs.	Money created Rs. in crores
1950-51	110 : 100	3.00 (rough estimate of total)
1951-52	115 : 100	1.20
1952-53	145 : 100	1.60
1953-54	160 : 100	1.25
1954-55	185 : 100	1.10
1955-56 (to January 1956)	175 : 100	.04

Though the data is far from exhaustive or accurate, the inverse relationship between the two is nevertheless quite clear. Fresh creation of money has generally been followed by the adverse movement of the exchange rate.

Deficit Financing Not Justified

Deficit financing merely for meeting current financial needs in the country can never be justified. Apart from this, some specific circumstances of Nepal's economy militate against the use of deficit financing. First, the Indian rupee being legal tender in Tarai, which embraces about half the area of Nepal, the possibility of a flight from the Nepalese currency has to be reckoned with. Second, Nepal is in the unique position of attracting a large volume of foreign investment, if confidence in the Nepali currency can be established but this confidence is slowly waning. Until the Government establishes public confidence in the Nepali currency by liquidating the present dual currency system and modernising the system of note issue, fresh creation of money will have dangerous consequences. Until the country's currency is unified, the present monetary chaos will continue. Third, a significant part of the new money created is wasted almost as soon as it is issued. Since a major item of revenue, land tax, is fixed in amount being in rupees per unit of land, depreciation of the Nepali rupee resulting from deficit financing tends to increase the budget deficit and call for more deficit financing. This vicious circle has to be broken.

Scope for Increasing Revenue

The Government has already taken some steps towards wiping out the deficit and very recently, some other measures have been also announced. There are a number of sources for augmenting revenue, but it is doubtful whether many of these can be tapped immediately. It is quite certain that an improvement in administration would increase custom yields very substantially. There is also considerable scope for increasing the yield from land revenue and in fact a revision of land revenue assessment has been long overdue in all districts. A thorough overhaul of the land tax, however, may well have to await the completion of the cadestral survey, which according to the recently announced Draft Plan may take some ten years. In these circumstances, it might be better to introduce immediately a tax on agricultural income which can be easily done. Besides yielding more revenue, such a tax would also correct the inequity of the present land taxes. A step in this direction has been taken by the recent proclamation taxing at a progressive rate owners of Birta lands, which had so far been exempt from tax, whose income exceeds Rs 5,000 annually. This tax is expected to add about Rs. 15 lakhs annualy to Government revenue.

Revenue from the forests can also be greatly expanded by honest efficient and incorruptible management of forests. A six-year plan of forest development is under way, under which the sale of products of small forests, and control over the sale of the timber of dry trees are to be taken over by the Government, which will also ensure preservation of forests by means of afforestation, new plantations and scientific marking of trees that are to be felled each year.

Tax Prospects and Proposals

The introduction of a system of income tax is also under contemplation. Though desirable by all means, it is doubtful how far an administration system which is unable to administer effectively the relatively simple custom tax can be expected to administer an income tax efficiently. There is no doubt, however, about the need for a fundamental change in the tax system. Under Rana rule, taxes, if any, were levied mainly on the poor. For example, there was a tax on coolies while the families of the Ranas and big landlords enjoyed special concessions even in the matter of payment of land dues. Provided the administrative machinery can be made more efficient and honest, there is also scope for some sort of estate duty over and above the agricultural income tax. Some reliance can be placed on a variety of taxes like sales tax, business profit tax and so on. After the completion of the Kosi, Rapti Doon, Trisuli and other projects, road tolls and betterment levies for irrigation water etc, may provide an important future source of revenue. It must be repeated, however, that all these additional sources can be tapped successfully only when the necessary steps have been taken for improving the administration and for stabilizing the currency.

For wiping out budgetary deficits, needless to say, it is also necessary to curtail expenditure, especially on defence and general administration. It is regrettable that expenditure should have increased substantially in the 1954-55 budget though there has been no expansion of developmental programmes.

In this way, by increasing revenue and reducing general expenditure, it should be possible for the Government of Nepal to balance its current budget and avoid the dangers implicit in deficit financing under the conditions existing today. These conditions should in any case be improved, so as to make it possible for the Government to incur moderate budgetary deficits in the future, should the necessity arise, for the more legitimate purpose of development programme, rather than for meeting revenue expenditure which in any case should be met only from revenue.

The Bharat Line Limited

Speech of the Chairman Mr C R Srinivasan

THE following is the speech of the Chairman, Mr C R Srivasan, delivered at the Tenth Ordinary General Meeting of the Shareholders of the Bharat Line Limited, held at Bhavnagar on Monday the 21st May 1956:

Gentlemen :

It gives me great pleasure to welcome you all to the Tenth Ordinary General Meeting of the Company. The Directors' Report and the audited Balance Sheet and Profit & Loss Account have been in your hands for some time now. I trust I have your permission to take them as read.

You will notice in the agenda for the meeting there are several items included which have not hitherto found a place there. The Companies' Act I of 1956 came into force in April last and under the provisions of the New Act, much that was assumed in the past, now requires formal affirmation by shareholders after due notice. The intention obviously is to associate shareholders more intimately in the affairs of the Company; the need to do so arises not merely because there have been instances where their interests have been neglected for lack of sufficient and suitable safeguards; it arises also in the context of our expanding economy which depends in part on joint stock enterprise wisely directed and watchfully supervised for the service of the country's interests. It may be that some of these provisions of watch and ward impose needless and vexatious burdens on the freedom of enterprise, but so long as they are administered with understanding and sympathy, those who are moved and motivated by an identity of interest between the Company and the country should find little difficulty in adjusting themselves to the new conditions and if an informed and instructed body of shareholders emerge in consequence, it is all to the good and none may gainsay its value and importance. Incidentally it may help the private sector to recover its proper place in public economy.

The economy that we recovered from the foreign administration was one of shreds and patches and its reconditioning called for care and caution, especially with the limited mobile resources at our disposal. The First Five Year Plan was drawn up with emphasis on the agricultural sector and by all accounts a very good job of work has been done in the First Plan period. The Second Five Year Plan commences with the current official year and though its contours are yet to be defined with precision, it is common knowledge that this time the accent is on the industrial sector. The need to create a balanced economy with a view to widening the range of employment and raising the standard of living is now increasingly recognised and means and methods to this end are now vigorously canvassed in all informed circles. Considering the size of the plan frame and the prospect of recourse to deficit financing to service substantial parts of it, it is obvious that the success of this adventure turns largely on the measure of willing and wholehearted cooperation forthcoming from the community; in particular, wisdom lies in enthusing the private sector to engage in the task ahead, without doubts or misgivings.

Impact of New Forces

It is not so much the socialistic pattern of society to which our course is set that alarms the business community; they are realists and can appreciate the impact of new forces in a changing world. Everywhere these forces are at work; only in India additional momentum has been imparted because these forces had been dammed for decades past; but our political propagandists, in their anxiety to show that they are in the vanguard of the new movement, have unfortunately laid more stress on the break with the past than the build for the future. The business community is naturally exercised over recent developments and a restatement of Government policy in the context of the socialist pattern was clearly indicated. This has now been clearly enunciated by the Prime Minister in Parliament and should serve to enlighten concerned interests where they stand in the new economy. Industrial programme and progress will be attempted and achieved on a three tier basis. There will be at the base a public sector comprehending industries which, for reasons of security and scale of investments, can best be run on Government ownership and control; in the middle, there will be a composite sector where private enterprise is intended to supplement Government efforts; at the top there will be a private sector where private enterprise will have full play though subject to regulation in public interest. Rightly understood, interpreted and administered, few will be disposed to quarrel with this distribution of responsibilities in a country's economy if the international forces unleashed in the 20th century are properly appraised and assessed. It cannot, however, be denied that what is being attempted is a controlled economy with facets of freedom.

Fair Weather Needed

It is not enough, however, if Government restate their policy in clear terms. They must also create and maintain conditions under which industry, howsoever placed, can thrive and give of its best. The primary requisite in this direction is a period of industrial peace. In my address last year I have dealt at length with the problems posed by labour and by way of illustration cited facts and figures to establish that neither in their own interest nor in the interests of the country could the way they had reacted to the needs of the situation be justified. Government is not unaware of what is happening; but the machinery of Government moves so slowly that oftentimes it serves but to illustrate the juristic maxim that justice delayed is justice denied. I am sorry that so far as our experience goes the position has, if anything, aggravated and the infection has begun to spread to higher ranks also. Not merely is the weapon of strike indulged in on the smallest provocation as the recent dockyard strike in Calcutta illustrates, but the 'go slow' virus seems to have lodged itself deeply in the body politic. The output is steadily falling and the turnover per man hour has declined in every industry. Apart from standard wages, incentive bonuses have been offered by way of additional inducement, but it is early days yet to assess how far this will stop the rot. In marginal industries working under competitive conditions the

strain on enterprise is beginning to sap all enthusiasm for expansion. That this should happen when the country is being called upon to co-operate with a large scale expansion in the industrial sector is a tragedy too deep for tears. I hope those who are framing the plan will turn their attention to this festering sore in the system and see their targets are not defeated by it.

Problem of Transport

In a rapidly developing economy where progress on many fronts is contemplated there is one danger that farsighted men should guard against well in advance. I raise this note of warning because I am afraid in the frame work of planning sufficient attention has not been paid to the multifaced problem of transport. As it is, with the limited objectives we have achieved under the First Five Year Plan, transport has already become difficult, seriously upsetting the production and distribution programmes of industrial units. Traffic on the railways has become so congested that it is seriously suggested that propaganda should now be taken on hand for discouragement and not encouragement of traffic. There has also been large scale diversion of coal traffic to coastal shipping; but with rising costs on the one hand and avoidable delays at the ports on the other the rates offered are so uneconomic that shipping companies find little enthusiasm in a situation that should normally stimulate enterprise. The turnover of every shipping company engaged in the coastal trade has registered a fall and the margin of profit is fast coming to vanishing point. More ships should be commissioned to cope with the coastal traffic, but frankly the incentive is not there.

Nearly a year back shipping interests applied for raising the freight rates, but after repeated representations a token 5% increase was allowed in October last year. During the interval the costs of replacement, services and materials, have kept on rising with the result that the original increase, which the Indian Shipowners considered a year back as barely sufficient to meet their liabilities, is out of date to-day, and suitable representations have been made to the Government in the matter. Whereas the Coastal Trade saw the last increase as far back as in 1951, the other Trades with which India is intimately connected have seen increases ranging from 21% to 45% during the same period. Examples are not uncommon where the Conferences concerned have increased their freight rates by 21% within the last twelve months. The Coastal Trade has meanwhile been compelled to suffer heavy losses. The Government of India would appear to be cognisant of this position because at the Meeting of the Consultative Committee of Shipowners held in Bombay in November last the Hon'ble Minister for Transport stated:

"One of the matters which have of late agitated the Indian Shipowners is the question of suitable increase in the coastal freight rates. The Shipowners had proposed to put up the coastal freights by 10%, but Government have found it possible to agree to an increase of 5 per cent only. I know this has not been generally appreciated, but Government are committed to review the matter after the Rail-Sea Co-ordination Committee has submitted its report. If that report is not received by March 1956, Government would take up the matter again on their own with a view to examining whether any further modification in the freight rates could be justifiably made."

Freight Rates

The Rail-Sea Co-ordination Committee have not been able to bring out their Report so far. In the meantime, the second interim increase, which was contemplated by the Hon'ble Minister for Transport to be effective soon after 1st March, materialised only some time during the current month. Even this increase is to the extent of 5% only on general cargoes effective 1st April last. The freight rates on Railway Coal will be revised with retrospective effect from 1st April this year only after the Government receive the recommendations of the Rail-Sea Co-ordination Committee. On the other hand the freight rates on coal moving on private account or for bunkers will continue at the present level till the Government take decision on the recommendations of Rail-Sea Co-ordination Committee and will have no retrospective effect as on Railway Coal. This piecemeal treatment takes no cognisance of loss in earnings already suffered by the shipowning community, nor does it take into account the changed circumstances of the case which have been duly represented to the Government and which call for higher increases in the freight structure, nor even is the present increase in any way commensurate with the increase effected by foreign shipping on foreign trade routes with some of which the Government themselves are associated.

Unless, therefore, further substantial relief is forthcoming without loss of time, I am afraid, there is little prospect of improvement in coastal traffic. A modest target is fixed under the Second Five Year Plan for the expansion of shipping raising the total tonnage to less than a million tons in 1961 and shipping companies have been asked to frame programmes of expansion during the Second Planning period. I wonder, however, if in the conditions that prevail today the response will be adequate. Government is no doubt anxious to help with credit facilities; but unless the prospects of making both ends meet are visibly improved, few will come forward to take advantage of the credit facilities offered. Earlier experience is not calculated to enthuse enterprise either. Shareholders are aware that we were induced to enter the Persian Gulf trade with promise of Government co-operation and assistance. Though two years have passed, a lot of spade work had been done, and quite a sizable trade had been built up, at a considerable sacrifice, we still await concrete proposals as to the manner and measure of help that Government intend to extend to stabilize this new line of traffic. Another matter, which is likely to affect the financial side of the Company's operations, is the recent strike of the Company's floating staff officers, the arbitration award in respect of which imposes considerable additional financial burden on the Company. It seems that the time has come when, as in the case of the ships' crews, the emoluments of the officer staff should also be standardised: and it will be in the interests of the Shipowners that they seek immediate appointment of a Commission to examine the subject from all angles and evolve fair standards of emoluments for the officer staff linked with the Country's cost of living index. I am afraid that unless a ministry of shipping is separately organised to study and service the interests concerned, the shipping industry will not develop as much as it should if the expanding needs of the situation are to be adequately met. At the request of Government we have diverted two of our ships to the Russian Service, but it will be possible to assess its potentialities only after an initial proving period. All that I am concerned to stress in this context is that there is no lack of enterprise provided fair conditions and fruitful co-operation are assured.

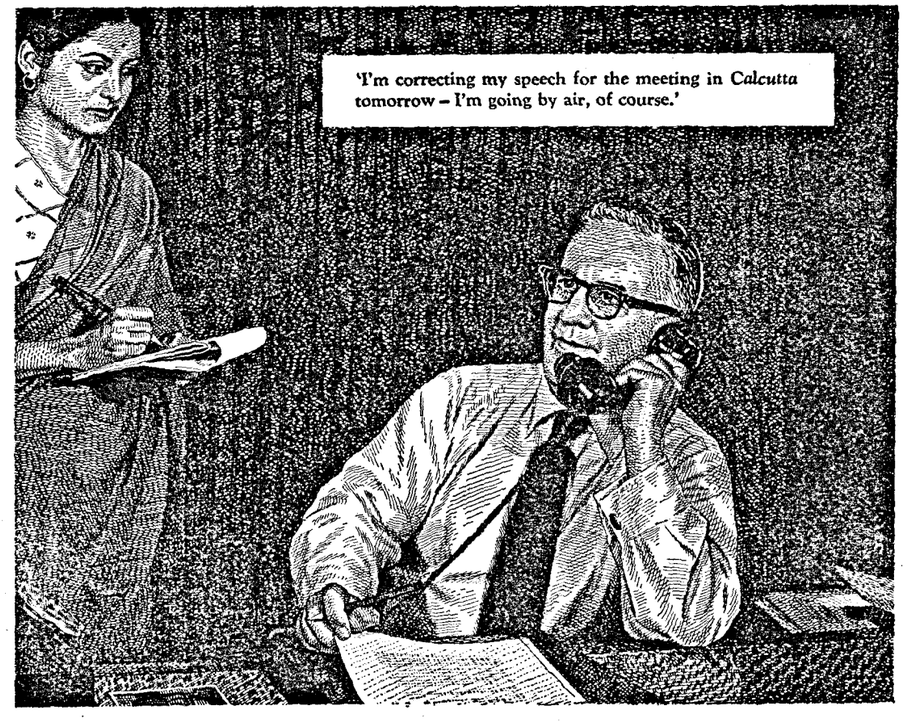
The Report of the Directors gives a comprehensive picture of the year's work and though earnings have fallen and the margin of profit reduced, we have been able to maintain the dividend at the previous level. I do not propose to make any detailed comments. My thanks are due to my colleagues on the Board and the Management for the cordial co-operation they have extended and I bear testimony also to the good work of the staff both ashore and afloat. With these words I now formally move that the Directors' Report and the audited Balance Sheet and Profit and Loss Account for the year ended 31st December 1955, already duly sent to the Shareholders be and are hereby adopted.

Hindustan Motors

HINDUSTAN MOTORS have decided to raise the capital of the Company by issue of five lakh cumulative convertible redeemable preference shares of Rs 100 each. Shareholders whose names appear on the register of the Company on May 25, 1956, are entitled to one such preference share for every ten ordinary shares held by them. Additional shares may be allotted to shareholders at the discretion of directors. Necessary consent of the Central Government has been obtained for the issue.

These preference shares not only carry preferential cumulative tax-free dividend at the rate of six per cent per annum, but have additional attractions of both conversion and resumption rights. Holders will have the right of converting these shares into ordinary shares at any time between July 1, 1961, and June 30, 1966. On the other hand, the Company has the right of redeeming these shares at any time after June 30, 1963, on three month's notice.

Directors state that they have decided to raise the capital of the Company for expanding its activities, to meet the increased demand for vehicles anticipated during the second Plan period, to ensure manufacture of a larger number of parts and components of vehicles of various types and to make the factory increasingly self-sufficient as well as to diversify manufacturing activities of the Company.



When you have a journey to make, *think first of flying.* It's the fastest way to travel, and often the only way to get there in time. You escape all the tedium of a long journey – flying is so quick, convenient, and wonderfully comfortable.

INDIAN AIRLINES CORPORATION

Mahatma Gandhi Road, Bombay 1 Telephone: 25-1544 (6 lines)

Around Calcutta Markets

Moderate Optimism

RECENT price movements on the Calcutta Stock Exchange indicated that cash scrips were slowly responding to the continued activity in speculative shares. For the first time in recent months, there were occasional enquiries for Jute and Tea shares. Raw jute was quietly steady. By the middle of this week, the falling trend in jute goods seemed to have been halted. After the recent sharp set-back, due to free imports of silver coin from Nepal, silver prices also seemed to have steadied down at the current lower levels. Spurt in shellac continued, though the rise in prices in the last few days was not as steep as in the last fortnight.

Speculators are moderately optimistic. Industrial production is mounting. Statistics indicate that agricultural output is also improving. Neither the last budget's tax proposals nor fears of progressive expansion of the public sector seem to have affected industrial profits or incentive. Cornering activities continue, though such efforts have become much more selective. Bonus or right issues continue to offer opportunities to speculators to push equities up. As speculative scrips move up, cash scrips begin to crawl up. Activity still remains rather poor, but it is showing signs of broadening.

Market Notes

Fears of growing taxation continue. But investors seem satisfied with the Prime Minister's assurance that the Government will not impose any ceiling on individual wealth or income. Behind the growing feeling of optimism, there is the spreading belief that the second Plan cannot be implemented without inflation. There is also the belief that, after the coming general election is fought and won, Congress will feel less enthusiastic about the "Socialistic pattern of society", that, nationalisation threats will recede, even as the idea of fixing a ceiling on individual wealth has been abandoned.

From the behaviour of stock markets in the last few days, it would seem that speculators have not yet had the time to study or digest the final report on the second Plan. They seem convinced that inflation cannot be avoided. As final taxation targets remain the same as in the Draft Outline, they argue that the worst is now known. Investors are less sure about both the problems of inflation and taxation. That is why, they remain hesitant. But speculators hope that as equities continue to move up, investors will be tempted to enter the market.

Monetary Measures

Equities may not be booming. But speculative scrips are gradually gaining ground. Even so, the precautionary measures undertaken, or under contemplation of the Government, may be analysed in detail. Some months ago, the Reserve Bank issued a directive to scheduled banks to submit fortnightly returns of their advances. Last week, the Bank issued another directive to scheduled banks to restrict their advances against stocks of paddy and rice. Can it be that stock market operators believe that the Government is only interested in checking speculation in bullion and in commodities?

It is in this context that some of the provisions of the Bill to amend the Reserve Bank Act needs to be properly appreciated. Some of the provisions of the Bill seek to empower the Reserve Bank to demand increased reserve requirements from banks. It is clear that the aim of the amending Bill is not only to check any undue expansion in bank credits, but to strengthen the Reserve Bank's direct powers of supervision and control over bank credits. In the final report on the Second Plan, there is emphasis on this aspect of money market control. It is stressed that the Reserve Bank will have to ensure its wider powers to check inflation.

Tax Prospects

Speculators may not be wrong in assuming that these contemplated monetary measures may not succeed in neutralising the inflationary consequences of the proposed deficit. But there are doubts whether the Planning Commission's references to taxation as an anti-inflationary weapon have been adequately appreciated yet. It seems to be assumed that even the final Plan envisages additional taxation of Rs 450 crores. Whether such an increase in taxation can be enforced without any adverse effect on equities, is not beyond controversy.

Wednesday Evening

But the main point is that there are hints in the final report on the second Plan that taxation problems may have to be examined again in the event of inflation developing as a sequel to the estimated deficit financing during the second Plan period.

No less relevant are the Planning Commission's references to the future system and structure of taxation. There are suggestions about a tax on wealth, a tax on gifts and about including capital gains in estimating incomes. Strange as it may seem, speculators seem to be enthusiastic about Prof. Kaldor's suggestion that the standard rate of income-tax should be lowered, without appreciating his other suggestions aimed at augmenting tax revenues through a more detailed and inclusive assessment of incomes. Tax reforms and suggestions under New Delhi's contemplation may encourage incentive, but are not likely to favour holders of equities.

Jute Shares

Reasons for the spurt in some speculative scrips are not far to seek. Indian Copper turned hesitant as it became known that the Company's bonus issue would be on the basis of one new share for two shares held by shareholders. This scrip has since recovered the lost ground on buying by speculative-investors who want to have the benefit of the right issue. Besides, there is the prospect that the forthcoming dividend may be higher. That remains to be seen. But it is not common for such a scrip to recede back before the quotation becomes ex-right, ex-dividend.

In this week, there have been occasional enquiries for Jute shares. Output of jute goods have been expanding. Exports and internal consumption of jute goods have been growing. But the industry's profits have not been satisfactory as Indian jute goods remain relatively cheap. There are reports that the Government may fix minimum export prices for jute goods. Such fixed minimum prices can be higher than the prevailing prices without affecting exports. It is, therefore, hoped that, with higher fixed export prices, the industry's profits will grow. These hopes are encouraging some speculative-investors to test the market for Jute shares.

Around Bombay Markets

Firm Tone

THERE was a noticeable undercurrent of firmness when the market opened for the week under review, in contrast to the subdued note on which it had closed in the previous week. Indian Iron principally initiated the recovery, which was further helped by a fair appreciation of cotton textile shares. The rise in Indian Iron, it is reported, is the result of a squeeze which rumours of a possible rights issue, that have never quite died out, were persistent enough to raise Indian Iron from Rs 36-11 last Wednesday to Rs 38-1-6 during the course of the week. Removal of export duty on coarse cloth early last week accounts for the strength in textiles, acting in conjunction with the sustained domestic demand for cloth which shows no sign of abatement. There is further the prospect of a revision of the Government's textile policy which gained fresh impetus from the speech of the Minister for Commerce and Industry at the last meeting of the Export Advisory Committee. For the declined trend of cloth exports, the Minister said that "blame must be laid on the shoulders of the Government. I am prepared to accept the responsibility for it". After this the market naturally expects a final announcement that the earlier proposal for freezing mill production will be abandoned.

A notable development was the announcement by the Bombay Stock Exchange on Monday that trading in Tata Steel ex-right shares would commence on June 4. When official trading in letters of renunciation had started, the quotation of the latter moved around Rs 58. Meanwhile, on selling pressure, the cum-right shares had declined to Rs 250-8. The members of the Stock Exchange will now have freedom to alter the rates of the ex-right shares and letters of renunciation in such a way that the overall rate is maintained at the cum-right quotation of Rs 255. Whatever may be the technical details, speculators appear to have taken a bearish view which accounted for the landslide on Monday's kerb trading. As the week progressed, apprehensions about the new issue became more and more pronounced and Tata Steel closed on a distinctly weak note.

In the miscellaneous section, Indian Copper and Surat Electrics atracted particular attention. Indian Copper declined from Rs 7 to Rs 6-11 when the India Copper Corporation Limited made the long awaited bonus announcement of one share for every two held. The market had expected a much higher dividend. However, support was forthcoming at the lower level in the hope that the final dividend would be more in line with market expectations.

Prices Continue to Hit Ceiling

SHRI Madanmohan Ruia having been unanimously elected President of the East India Cotton Association, traders believe that there will no longer be any opposition to the directives of the Forward Markets Commission and futures trading may be resumed soon; in fact, it may be resumed before July 15. The Minister for Commerce and Industry will be in the city on June 2 and the new President of the EICA, it is expected, will take the opportunity to appraise him of the present situation so that immediate action may be taken to end the stalemate that has continued since December 23 last.

Meanwhile, the spot market at Sewri has been recording new high levels in the more popular varieties like Jarilla, Oomra and Moglai, the quotations approaching the respective ceilings in most cases. As prices have hardened, business has dwindled, which clearly shows how great is the dearth of quality cotton. The assurance given to the Export Advisory Council by Shri T T Krishnamachari that Government does not propose to ban the exports of zoda and yellow pickings was naturally welcomed by the trade. Ban on the export of these varieties had long been apprehended by the trade, though it knew fully well that as these cottons are not usually used by the Indian mills, little purpose would be served by banning their export.

In the foreign section, early in the week, Americans and Egyptians tended to weaken. This, in turn affected sentiment in respect of African cottons, which had been having a hectic rise for some time past.

Restrained Bill Speculation

PROSPECTS of sizeable business in castor oil with Japan would appear to have kindled the speculative sparks in the oilseeds market during the week under review. Despite sustained enquiries from Japan, however, the actual business done in the last few days amounted to only 600 tons of BSS castor oil at £134 per ton c.i.f. on the basis of shipments at the end of the current month. Even this business is, according to certain circles, subject to the availability of import licences in that country. In the circumstances, it is clear that the only reason why prices should be moving up steadily is because bulls are interested in pushing up the market. The statistical position was undoubtedly strong, warranting a rise. But to counteract that, there have been increased arrivals recently from Hyderabad, and the rise of prices has only induced more growers to offer sizable quantities on the market. Despite these factors, if the market insisted upon scaling new heights, and actually succeeded in doing it, it was because the bulls had the market in their firm grip. At a time when the Government is very touchy about rises in prices, be it of foodgrains, or other commodities like cotton, it should be no surprise if it decided overnight to clamp down restrictions on trading. Perhaps it is this fear lurking in the minds of those who are really responsible for the price rally that led to a moderate decline in values towards the close of the week when castor May, which recorded the peak of Rs 161 during the early part of the week, came down to Rs 152-4.

In sympathy with castor futures, groundnuts also ruled steady. Bulls were encouraged by higher upcountry advices, and a shortage of ready stocks. Towards the close of the week, however, the supply position improved when both Madras and Saurashtra turned sellers. But as demand was not equally keen, prices shed a few points. Even the entry of Vanaspati interests and crushers into the market did not help and prices ruled quietly steady. The fear that restrictions on bank advances might be extended to oilseeds also induced Vanaspati and crusher interests to be chary in their purchases.

Pending the settlement of outstanding shipments of linseed oil to overseas buyers, there was no fresh business in linseed. The market, however, ruled quietly steady.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1516.28	1525.88	1509.65	1331.09
2. Rupee Coin	104.62	104.51	106.16	103.9
3. Deposits				
a) Central Government's	67.84	65.38	55.86	51.93
b) Banks'	51.09	49.73	53.33	47.97
c) Other Governments'	7.16	6.67	25.53	19.24
d) Others'	12.66	12.86	17.03	22.34
4. Foreign Securities	681.45	681.45	681.45	661.98
5. Balances held abroad	35.46	36.54	52.71	52.07
6. Rupee Securities	708.69	708.69	698.69	538.71
7. Investments	35.06	33.75	44.64	41.47
8. Loans and advances to Governments	2.83	2.58	1.00	0.8
Scheduled Banks				
1. Demand liabilities (net)	624.79	630.83	643.55	572.72
2. Time Liabilities	431.87	429.60	423.56	383.80
3. Cash on hand	36.04	36.91	37.20	34.12
4. Borrowings from Reserve Bank	73.45	62.68	49.42	32.29
of which against Usance Bills	52.03	42.65	28.95	29.94
5. Advances and Bills discounted	723.64	717.66	707.82	588.70
of which State Bank's	139.47	139.34	135.49	127.34
6. Invst. in Govt. Sec.	355.20	355.34	356.37	344.73
of which State Bank's	91.76	94.06	94.98	91.61
Cheque Clearance	129.19	136.33	139.97	127.46

†For Reserve Bank and Cheque Clearance week ended 18-5-56. Scheduled Banks week ended 11-5-56.

Bombay Money Rates	18-5-56	11-5-56	20-4-56	20-5-55
Inter-Bank Call Rate	3 1/8	3 1/8	3 1/8	2 7/8
3 months deposits	3 3/8	3 3/8	3 3/8	3
6 months deposits	3 3/8	3 3/8	3 3/8	2 7/8

Bombay Bullion — In Rupees and Annas

	23-5-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	100-0	104-11	106-0	94-4
Forward	98-6	101-3	105-10	91-12
Silver (per 100 tolas)				
Spot	173-12	177-10	180-13	165-9
Forward	167-12	169-10	180-9	160-1

COTTON STATISTICS

MILL CONSUMPTION

(in '000 bales of 400 lbs each)

Description:	Feb '56	Jan '56	Dec '55	Nov '55	Oct '55	Sept '55
Indian	348.95	353.26	397.24	352.68	386.0	382.97
Foreign	52.91	49.60	51.65	42.88	45.94	45.17
of which American*	3.26	3.02	3 35	2.70	3.72	4.40
Egyptian	16.64	15·60	15.97	13.56	13.93	15.04
E. African	21.43	21.40	20.07	16.47	17.95	17.05
Sudan†	9.93	9.46	10.84	9.68	9.94	8.44
Pakistan	—	—	—	—	—	xx
TOTAL	442.00	402.86	448.89	395.56	431.94	428.14
Consumption in corresponding periods a year ago:	Feb '56	Jan '56	Dce '55	Nov '55	Oct '55	Sept '55
Indian	322.57	348.64	363.46	348.93	311.31	328.02
Foreign	50.05	57.34	59 50	62.11	55.01	60.78
TOTAL	372.62	405.98	422.96	411.04	366.32	388.80

* Includes United States, Mexican and Peruvian cotton.
† Includes both Sudan Egyptian and Sudan American
xx Negligible

MILL STOCKS OF COTTON

(in '000 bales of 400 lbs each)

	Feb '56	Jan '56	Dec '55	Nov '55	Oct '55
Indian:					
1955-56	1187.99	1137.91	1083.36	1055.21	1125.55
1954-55	1161.16	1043.85	942.26	850.22	861.05
Foreign:					
1955-56	174.62	156.44	159.22	167.86	169.34
1954-55	135.38	135.69	152.34	161.14	173.90

Source : East India Cotton Association

COTTON IMPORTS

(in '000 bales of 392 lbs each)

Source	Feb '56	Jan '56	Dec '55	Nov '55	Oct '55
USA	1	—	—	1	—
East Africa*	7	8	3	7	11
Egypt & Sudan	88	44	31	29	22
Other countries	5	—	1	—	2
TOTAL	101	52	35	37	35
Total imports in corresponding months of the previous year	66	42	38	33	44

*Includes Kenya, Tanganyika and Uganda.
Source : Indian Trade Journal

COTTON EXPORTS

(in bales)

Destination	Exports from 1st Sept. to 17th May † 1955-56	1954-55	1953-54
United Kingdom	59,943	24,488	12,961
Continent	83,165	40,322	22,849
China	57,525	—	—
Hongkong	35,253	3,379	251
Japan	235,151	75,851	59,321
USA	4,066	16,193	12,426
Other countries	3,733	1,562	1,452
Total of all foreign countries	478,836	161,795	109,260
Coastal Ports	93,022	110,402	127,537
TOTAL	571,858	272,197	236,797

† Excluding Zoda and yellow pickings etc.
Source : East India Cotton Association

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group	Week ending 5-5-56	Week Ago 28-4-56	Month Ago 7-4-56	Year Ago 7-5-55
I **Food Articles:**	**353.5**	**356.8**	**364.9**	**272.4**
Cereals	452	461	457	309
Pulses	346	345	387	212
Others	220	227	240	230
II **Industrial Raw Materials:**	**469.6**	**471.5**	**472.9**	**399.2**
Fibres	449	457	460	427
Oilseeds	538	532	524	341
Minerals	445	440	451	418
Others	396	392	402	441
III **Semi-Manufactures:**	**380.9**	**380.7**	**374.0**	**328.2**
Leather	403	406	410	395
Mineral Oils	208	208	208	221
Vegetable Oils	547	542	511	335
Cotton Yarn	467	464	452	430
Metals	280	281	282	244
Oilcakes	401	420	411	278
Others	361	361	363	328
IV **Manufactures:**	**374.9**	**375.4**	**375.4**	**374.8**
Textiles	407	408	408	415
Jute	392	397	396	428
Cotton	408	408	408	406
Rayon & Silk	502	502	502	510
Woollen	260	260	260	310
Metal Products	371	371	371	344
Others	286	286	286	287
V **Miscellaneous:**	**499.7**	**499.0**	**495.5**	**539.9**
All Commodities:	**388.9**	**390.4**	**392.0**	**340.6**

CLOTH EXPORTS FROM INDIA, JAPAN AND THE UK DURING 1955

(In Million Yards)

Destination:	India	UK	Japan
ASIA Total:	335.08	48.70	605.68
Aden	46.47	2.19	6.92
Ceylon	24.51	9.37	34.97
Indonesia	90.01	2.31	108.32
Malaya	46.03	3.64	6.68
Saudi Arabia	31.94	1.48	11.97
Others	96.02	29.71	436.82
AFRICA Total:	277.49	251.79	102.24
Br E Africa	76.32	12.60	11.41
Br W Africa	72.68	109.43	57.76
Sudan	67.92	7.25	4.55
Others	60.57	122.51	28.52
EUROPE Total:	112.09	56.50	132.46
UK	104.94	—	51.26
Others	7.15	56.50	81.20
AMERICA Total:	34.77	40.20	221.32
Canada	16.07	8.37	13.76
USA	1.79	12.19	140.30
Others	16.91	19.64	67.26
OCEANIA Total:	55.35	139.89	77.25
Australia	42.88	99.76	70.84
New Zealand	10.00	37.87	1.89
Others	2.47	2.26	4.52

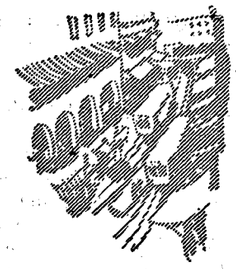
WAGON LOADING (IN TERMS OF 4-WHEELERS) ON BROAD AND METRE GAUGES—

1ST APRIL 1955 - 9TH FEBRUARY 1956

	Broad Gauge 1955-56	1954-55	Percentage Change	Metre Gauge 1955-56	1955-54	Percentage Change
A-Revenue Earning Traffic:						
1. Coal and Coke—						
a) for public	878,410	889,409	— 1.2	188,624	163,688	+15.2
b) for non-Governmental Rlys.	3,079	2,610	+18.0	88	318	—72.3
2. Grains and pulses	315,023	284,815	+10.6	253,171	237,722	+ 6.50
3. Oilseeds	61,017	53,056	+15.0	68,342	57,423	+19.0
4. a) Cotton, raw	35,090	30,383	+15.5	27,024	24,131	+12.0
b) Cotton, manufactured ..	23,387	21,770	+ 7.4	15,048	12,583	+19.6
5. a) Jute, raw	47,777	51,518	— 7.3	35,960	36,586	— 1.71
b) Jute, manufactured ..	10,576	4,518	+154.4	5,488	3,492	+57.2
6. a) Sugar	48,325	44,344	+ 9.0	61,113	55,370	+10.4
b) Sugar cane	47,005	4,186	+1,022.9	143,261	111,887	+28.0
7. Cement	135,666	135,259	+ 0.30	102,740	94,035	+ 9.26
8. Iron and steel—						
a) Pig iron	15,871	9,783	+62.2	5,857	3,121	+87.7
b) Others	136,638	117,422	+16.4	24,689	20,968	+17.7
9. Tea	13,395	12,900	+ 3.8	18,489	19,344	— 4.42
10. Metallic Ores—						
a) Manganese Ore	59,407	51,598	+15.1	17,619	13,999	+25.9
b) Iron Ore	163,911	156,464	+ 4.8	24,394	28,420	—14.2
c) Others	7,923	4,695	+68.8	7,200	6,348	+13.4
11. Miscellaneous full wagons ..	1,404,882	1,275,081	+10.2	1,055,915	917,136	+15.1
B-Non-Revenue Traffic:						
13. Free hauled Railway Coal and materials—						
a) Coal for home line ..	224,565	218,300	+ 2.87	156,039	167,328	— 6.75
b) Coal for other Govt. Rlys. and manufacturing units ..	287,221	263,832	+ 8.87	14,616	8,210	+78.0
c) Other stores	165,838	136,232	+21.7	82,418	67,289	+22.5

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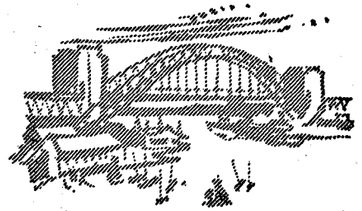
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Who Does the Planning?

MORE than a year has passed since the draft of the Draft Plan-frame was presented to the public. Examination of this draft by economists and technicians at the expert level and by administrators and political groups, it was thought, would be carried on intensively for the next few months so that ideas could crystallise and take shape. After exhaustive study and discussion, the final Plan that would emerge, it was assumed, would incorporate the results and supply the missing links, if any, and strengthen the weaker ones in the Plan-frame. It was also taken for granted that the Planning Commission would satisfy itself about the internal consistencies and make the final plan ship shape.

During the year that has passed, controversy has been focussed on various points from time to time,—the limit of deficit financing, the role of village industries, and the management of economic undertakings in the public sector. Partly associated with this last, but also independently of it, controversy has raged on another point viz. the financial procedure best suited for the tasks that the Government have undertaken. Finally, there was uncertainty about the capacity of the Railways to move the goods.

On the first of these, viz., deficit financing, the Planning Commission appears to have taken a firm stand, in that of the range of deficit proposed in the Draft Plan-frame of Rs 1,000 to 1,200 crores, it accepted the latter figure. This firmness, however, is deceptive and further, it does not appear to have been based on rational or intelligent anticipation of the possible consequences of deficit financing of this magnitude and preparedness to meet these consequences by counter-measures worked into the body of the Plan which it finally placed before the public. And because behind its stand there was no studied defence, the Commission accepted, without a murmur, the implied censure that the Plan it had put up would not be able to meet the consequences of this order of deficit financing and has to be substantially strengthened for the purpose by raising the target of foodgrains. If the target for food grains lacked any basis which could stand scrutiny, what could one say of its other targets? How could one be sure that the targets are consistent, that they are the optimum attainable and that,

in fact, they would be attained?

The question of village industries, however, has sometimes been discussed, though perfunctorily, at the expert level but thinking on the subject has been dominated all through by the group within Congress which stands for a creed radically different from that of the Avadi resolution, later passed by Parliament which commits Congress as well as the present Government to "planning with a view to the establishment of a Socialistic pattern of society where the principal means of production are under social ownership or control, production is progressively speeded up and there is equitable distribution of national wealth".

In the attempt to skip a step in the jump to planned development at a high level of industrialisation, the struggle with primitive communism has proved harder for the Government so far than struggle with vested interests in the private sector. The issue, however, has not been squarely faced by the Planning Commission. The Commission has chosen the line of least resistance, and toed the political line rather than make its authority felt.

True, implementation of the Plan is not the responsibility of the Planning Commission but would it not be interpreting its functions too narrowly to suggest that the Commission need not go beyond laying down what must be pretty obvious viz, that the "plan resolves itself into a series of well defined administrative tasks", which fall primarily in the public sector? Not that the Commission itself disowns all responsibility in this matter. Take one of the tasks which is naturally of fundamental importance, when a large expansion of industry is being planned in the public sector. What should be the form of organisation for developing industry? How could Parliamentary control be reconciled with efficient management of industry which calls for initiative, speed and flexibility of operation, none of which can be expected under the present system of cumbersome, vexatious and time consuming departmental administration?

De-centralisation of the economy both in the sense of location of industries and in terms of distribution of economic power is one of the professed objectives. An inevitable feature of underdevelopment is the shortage of administrative organisation and enterprise. So there is natural tendency towards concentration, both within and outside the Government. This tendency is strengthened and not countered when Parliament is alert enough to exercise its authority but not wise or experienced enough to devolve control and share responsibility. Parliamentary wisdom takes or rather should take—for in this matter, experience is limited and yet inadequate—the form of accepting gracefully certain conventions and codes of behaviour on the one hand and of appropriate organisations on the other. This is certainly one of the Key Factors in Development, not the elementary exercises in arithemetical ratios which the Plan parades in a section under this title. But what has the Planning Commission to say on "questions relating to the organisation of public enterprises"? They are "under constant review and greater experience is needed before a clear view as to relative advantages of different forms of organisations emerges". There is much to be said for keeping an open mind but surely this is not a virtue in framing the integral parts of a Plan?

Apart from industries in the public sector, there is also the important consideration of administration of projects and implementation of the various schemes in which also the plan finally divides itself. The present dilatory financial procedure, it has been bitterly complained, has been responsible for many of the lapses and shortfalls in expenditure which is the only measure we have got of performance. On this vital question the Plan is discreetly silent.

Finally, there is the question of railways. Any one in trade or industry will confidently say that what finally dispose of the Plan is: Transport. Shri K C Neogy's caveat was that not only we are trying to do too much, railways would not be able to move the goods and the Plan will be caught in a transport bottleneck. What he wanted was a larger allocation to the railways. There is no question that railways have an enormous job to do. Pandit Nehru himself has suggested increase in passenger fares to keep down traffic. The Railway Minister followed with an announcement that the number of passenger trains would be cut and the number of goods trains increased. Right on the top of this comes the announcement that concession return tickets, promised in the railway budget speech, would soon be introduced. Meanwhile, a whispering campaign has started about the capacity of our railway system and how much of it is being actually utilised. And these doubts have not been laid to rest by the finding of the Estimates Committee that railways keep no statistics which can answer this question and any way, they do not use the statistics which they collect. The Commission does not even attempt to say how the relative claims of production and transport could be reconciled without wrecking the plan in the process.

All along the line, there is vacillation and reluctance to come to grips with concrete problems. This raises the uneasy thought, was it the Planning Commission which produced the Plan? Platitudes can be produced at less cost and if they are no good unless they come from the highest level, there is no dearth of politicians in the country to do the job. Indeed it is difficult to escape the impression that the Commission must have been so busy with ad hoc enquiries with which it is pestered all the time that its major assignment was also treated on an ad hoc basis. This voluminous document should be the last of the series. The Planning Commission is supposed to be an Expert Body and is not charged with execution except the Community Project Administration, the planning part of which should alone be its responsibility. The time has come when it has to be made into a proper expert body, which will formulate the plan and place it before Government, so that we can be sure what exactly the Commission recommended, and where exactly Government fails in execution. The separation of functions between the Planning Commission and the Cabinet is obscured and negatived by the presence on it of the Prime Minister and the Finance Minister. It was perhaps desirable at one stage that Pandit Jawaharral Nehru should take up the Chairmanship of the Commission when planning was new to the country and support nad to be gained for so novel an idea. Now it is no longer necessary. There are other means of extending the support of the Government to the Commission in the latter's dealings which the State Governments which are probably the most difficult part of its present undertaking. It is high time that the Commission concentrated on the main job of planning and equipped itself properly for it by recruiting a select team of high level technical experts, who are completely independent of the Ministries and departments of Government.

Favourable International Setting

INDIA launches her Second Plan under more favourable international auspices. Peace is a condition of plenty. Peace still eludes the world. There are many world issues still in dispute. But the "cold war" is now less intense. Confidence spreads that the rival power blocs will settle disputes through negotiation, and without the use of force. In under-developed countries, including India, there is growing hope that, as diversion of resources for military preparations ceases, they will receive adequate economic aid and co-operation from the rich, major powers to ensure progress in poor countries. In each and all undeveloped countries, poverty is a constant threat to stability. Because they are poor, their economies are not complementary. With the exception of Japan and India, most of them are non-industrial, agricultural countries. There is scope for economic intercourse between them. But they must depend on Russia and the Western Powers for aid in men and money to become industrially strong. They have a common interest in world peace.

Bandung is symbolic of their united desire for peace so that they can prosper. Bandung is a conglomeration of countries which are not only poor, but most of which were under colonial rule till the other day. Colonialism is still a threat to some parts of the areas which Bandung represents. Britain still clings to her island fortresses. Trouble intensifies in Algeria. Africa remains a semi-colonial continent. Korea and Viet Nam remain divided. Formosa is a source of irritation to China. SEATO and the Baghdad Pact violate the Bandung principle of freedom from political, military or economic domination by foreign powers. Bandung is determined to end colonialism so that all Asian and African nations can enjoy political freedom which alone can ensure their economic strength and independence. Bandung's political aims have almost been achieved in Asia. These objectives will be in time attained in Africa.

When Bandung's political aims have been fully achieved, its economic objectives will assume significance. Though undeveloped, Bandung countries are not too poor to help each other.

The Second Plan, it is good to see, has not been unmindful of the development problems of the under-developed regions of Asia and Africa. For historic reasons, not only has this region been largely under-developed, the economies of all these countries have either remained isolated or developed affiliations with the respective colonial powers, which had dominated them. As a result, says the Plan, "the volume of trade within this region itself (sic) has not developed sufficiently and the scope for complementary effort and mutual assistance as between countries in the region has remained largely unexplored". Some of these countries are now planning their own development and as development proceeds, "problems of mutual adjustments in the matter of specialisation in certain lines of production and of mutually advantageous terms of trade and exchange of know-how and experience will assume increasing importance". This is obvious. It is important that the development of these countries should be co-ordinated and that a beginning should be made, with freer exchange of information and ideas.

But even more important is some sort of joint action in order to retain within these countries a larger share of the gains from their foreign trade. This could be done by pooling their resources and channelling the control over the shipping, exchange banking and insurance through a corporate body on which all these countries would be represented. A beginning could be made with the group of countries which are contiguous and have close economic relations to make such a proposition workable. The next task for these countries to attain would be, again through collective effort, to secure better terms in the exchange of their products with the capital goods of the West. Bandung countries may be industrially backward, but they are rich in agricultural and mining resources. As the emphasis shifts from aid to trade they should be able to obtain fairer exchange terms for their products so that they can pay for economic assistance secured from the West.

All this could be the prime aim of ECAFE had its parent organisation, the U N, not been dominated by interests which can have little sympathy for all that Bandung stands for. Where ECAFE fails, can the Colombo Plan succeed? It is curious to find, however, that even after the Bandung Conference, the Planning Commission holds that mutual aid and co-operation could still be channelled through the Colombo Plan. Despite, therefore, its well-meaning observation "that planning in India has thus to be viewed in its wider regional perspective" it fails altogether to get the wider perspective.

Bandung is no racial or economic threat to the West, even though racial, political and economic problems of Asia and Africa are its prime concerns. Good neighbourliness among Bandung countries is as much desirable as world peace. Even without the latter, the former objective is a worthwhile pursuit. But Bandung is no less an influence for world peace than the "hydrogen stalemate". Two years ago, the world stalemate was reached. It still continues. There is agreement among the rival power blocs not to start an atomic war. But on all other disputed issues, there is stalemate. East and West are not agreed on Germany. Korea, Viet Nam and Formosa are open threats to peace. There is no agreement on disarmament. Geneva's promises remain unfulfilled.

Allegations and counter-allegations continue. But the international climate is now less uncongenial. America persists in doubting the intentions of the Communist bloc. Immediately after the failure of the Geneva Conference among four Foreign Ministers, Russia started accusing the other side of insincerity. There has been a change in Moscow's tactics in recent months. It started with the Russian leaders' visit to some Asian countries. As the Geneva "summit" conference reached an understanding not to wage an atomic war, Russia started a peace campaign. She has since been assiduously cultivating friends in Asia and Europe. Moscow has patched up its quarrel with Belgrade. There is now greater understanding between Russia and Britain, and between Russia and France. Russia has gained valuable friends in Asia.

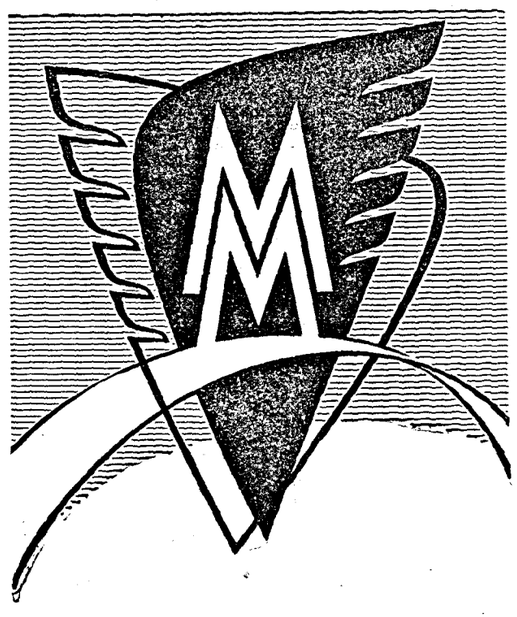
Three developments since the Geneva "summit" Conference deserve emphasis. Asian nations have always been opposed to a foreign policy based exclusively on security. They have always resented regional military pacts as threats to peace.

Bandung embodied their common hope that the rival power blocs will reach an understanding so that the United Nations could concentrate their energies and resources on world economic development. For the first time since the "cold war", the Socialist Government of France emphatically endorsed the Bandung principles of peace. Moscow's bid for gaining friends through economic co-operation combined with the French Socialist Government's insistence on world economic issues has caused a shift in the Western Powers' foreign policy. In both the Karachi and Teheran meetings of SEATO and the Baghdad Pact, the need for implementing the economic functions of these organisations was expressed. Even Mr Dulles now feels convinced that NATO must fulfil the totality of its aims.

Internal developments in Russia since the twentieth Party Congress have impressed the world about Moscow's sincere peaceful intentions. More than the posthumous dethronement of Stalin, the campaign against the personality cult is significant. Malenkov's survival even after his dismissal was the first sign of tolerance within Communist Russia. Much has happened since then. Russia's present leaders have admitted that mistakes have been made. Within the Party, freedom of thought and expression is now encouraged and tolerated. The Communist Party of Russia may not tolerate the existence of rival parties, but recent internal developments in Russia will be welcomed as significant gestures of the present regime's intention to introduce gradually greater individual freedom within that Communist country.

While these two developments are to be welcomed, the doubts stemming from the American presidential election hang like dark clouds over the world. Since the emergence of America as a dominant world Power, the uncertainties of the presidential elections have always cast shadows over the world. Mr. Eisenhower's ill health creates additional complications. It is useless to speculate whether Mr. Eisenhower will still decide to run for a second term, or whether the Republican Party has any chance to win the presidential elections without Mr. Eisenhower as its nominee. There will be hope that the scheduled meeting between President Eisenhower and Pandit Nehru will not have to be abandoned because of the President's illness.

Russia has furnished ample evidence in recent months that she is sincere in her advocacy of peaceful co-existence. Marshal Tito's impression that far-reaching changes are happening within Russia should convince Washington of Moscow's keen desire to reach an understanding with the Western Powers. Even if the conditions of President Eisenhower's health prevents any serious discussion between him and Pandit Nehru, it may be assumed that the latter will press on Mr. Dulles the need for a change in America's attitude to Russia. Soon after Pandit Nehru's participation in Commonwealth Prime Ministers' Conference and his talks with either President Eisenhower or Mr Dulles, he will meet, along with Colonel Nasser, Marshal Tito. These three world statesmen are well fitted to act as mediators between East and West. Their task will be to pursuade both sides to be more accommodative to each other. There will be hope that they will succeed in their mission.



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Pre-Planning the Elections

CONGRESS can no longer equate itself with the country. But it is still the largest political party. Its leaders are aware of the lessons of history. Political parties cannot thrive unless they represent the wishes of the people. Ideological considerations cannot be ignored. But a political party cannot survive without a strong party organisation. With the approach of the next general election, Congress has been wise in concentrating its efforts on both fronts. Avadi reflects the Congress shift to Socialism. Social and economic legislation since then has represented the pronounced socialist bias of Congress. Its foreign policy has been paying good dividends. At Amritsar, it took steps to introduce strict discipline within the organisation. Congress is taking no chances. It is clever in implying that it has to take precautions to win the elections so that it can save the country from chaos.

Deeper influences explain some of its major political and economic decisions. But it has timed its actions deliberately to suit its interests as a political party. India lives in her villages. Congress has exploited this socio-economic make-up of the country to strengthen its hold. Village uplift is not only one of the main aims of the Second Plan, Community Projects and National Extension Service are being implemented to fit in with party tactics. Nationalisation of the Imperial Bank has been justified as a means to revitalise the village community. Congress has taken elaborate pains to convince the people that widespread malpractices as well as the existence of "privileged sections" within the private sector have compelled the Government to nationalise life insurance. These are not the only actions to assure the country that Congress is opposed to vested interests, and is a government of the people. Abolition of landlordism and reform of the Company Law are supposed to mirror the economic consciousness of Congress. Progressive reform of the Hindu Law reflects the social conscience of Congress.

There are wider economic compulsions behind the bolder Second Plan. It has two socio-political aspects which are relevant to party politics. Relative expansion of the public sector implies fulfilment of the Avadi pledge. This aspect of the Second Plan reflects the popular belief that Socialism implies nationalisation of major means of production. Pandit Nehru's pronouncements indicate that Congress leadership is not unaware of the recent evolution in Socialism. New Delhi's preoccupation with the Kaldor plan for reforms of the system of taxation emphasise this awareness. Pandit Nehru is pragmatic in his approach. He has justified the envisaged broadening of the public sector as assumption of control by the State over the strategic points of the economy. These tactics provide him and Congress room for manoeuvre against the doctrinaire Socialism of PSP, even as such a policy ensures political support and economic co-operation of industry.

Creation of full employment is one of the major aims of the second Plan. It has an economic basis. But the Congress Party, if not the Congress Government, has always laid emphasis on the popular, political aspect of employment. It has claimed credit for focussing the country's attention on the growing unemployment problem. This explains the Second Plan's professed emphasis on the development of village and small-scale industries for the dual purpose of creating employment and of supplying consumer goods. Political rivals of Congress, however, are mistaken in thinking that Congress is posing as a Labour Party in order to win the vote of the workers. This may be one of its aims. But the simultaneous stress on the expansion of heavy industries within the public sector and the spread of technical education indicate the concern of Congress to win over the educated middle-class. Praja-Socialists and the Communists are over-optimistic in hoping that they can exploit the frustration of this section of the community in their political fight against Congress.

Success of the Congress Government's foreign policy, the bolder Second Plan, its bias against the private sector and its emphasis on employment have enhanced the election chances of Congress. Its political rivals are in a predicament. Communal organisations like Hindu Mahasabha have lost prestige. PSP remains a house divided against itself. As Congress has shifted to Left, PSP has found itself in a dilemma. Political developments within Russia and the closer relationship between India and Russia have caused embarassment to the Communist Party. Though the Congress claim that it is a national Government is not conceded, many of its rivals are committed to lending support to some of its major policies. Recently, the Mahasabha has declared that it will support Congress on issues like Goa, Kashmir, the Second Plan and refugee rehabilitation. CPI is also committed to supporting Congress on many national issues. PSP has always lent support to Congress on issues on which it endorses Congress policy.

Congress is not uninterested in taking advantage of conditional support to it by its rivals. But the recent proposal of Pandit Nehru is none the less intriguing. He has advocated that elections should be direct only at the base, and indirect thereafter. Three years ago, Jayaprakash proposed such a plan for elections so that a people's government could be formed. Panchayat Raj is not an entirely new concept. Some such plan for elections was tried in Yugoslavia.

The idea goes back to Gandhiji, but its implementation through the present system of Panchayats will mean perpetuation of the undesirable alignment of power and influence which goes with unequal land holding. That is to say, indirect election will strengthen the very system the Congress is committed to change through measures of land reform but in which progress has been the least satisfactory. If and when land is redistributed, and village panchayats become genuinely democratic, they could be a suitable medium for indirect elections, but not at the present stage.

Pandit Nehru is not as much interested in the representative aspect of this system of election as in its cheapness and simple mechanism. In a vast and poor country like India, there is much to be said for indirect elections except at the primary stage. There is another point. The Yugoslav experiment, as also the Jayaprakash proposal, is based on indirect primary elections on a non-party basis. Pandit Nehru's silence on the precise basis of the proposed direct panchayat elections is highly

significant. Can it be that Pandit Nehru has not forgotten the implications of the unexpected success of Independents in the last general election?

Congress organisation alone spreads even to the villages. Even if indirect representation on the basis of direct panchayat elections is introduced, Congress will meet only minor opposition, except perhaps from CPI in some States, as none of the other political parties has the requisite organisational set-up. On most of the political and economic issues, Congress is now sure of winning the elections. Only on the issue of reorganisation of States will it meet with stiff opposition. Pandit Nehru may boast that the Union Government has reached its decision on reorganisation of States in the wider interests of the nation even at the risk that Congress may lose the elections in some States. But the Congress Party has taken adequate precautionary measures. At Amritsar, it issued a directive warning Congressmen that resignations from legislatures and ministries on the issue of reorganisation of States will not be accepted. It is difficult to understand what could be the motive behind MPCC's naive move to bypass this clear directive.

Through enforcing discipline, Congress hopes to win the elections even in the States where linguistic controversies are most bitter by nominating veteran Congress leaders to contest the seats. It is futile to speculate whether Congress party tactics will ensure its success in the elections in Maharashtra and Punjab. But a developing political trend needs to be emphasised, though Congress does not yet seem to be aware of it. Recent elections in West Bengal for the State Assembly as well as for Parliament have been lost by Congress nominees on the issue of reorganisation of States. On this issue, all the Left parties with the single exception of Dr Lohia's Socialist Party (India) have combined with the Communists to nominate single candidates to contest the elections. CPI has made overtures to the parties of the Left to reach an electoral alliance for the next general election. PSP seems to have learnt the lesson of the last general elections. It is now willing to enter into an electoral marriage of convenience with CPI. With such an electoral alliance, the combined Left may succeed in winning more seats than it is possible for both CPI and PSP by contesting the elections separately. Congress won the last general elections on the split vote. By entering into an electoral alliance, the major rivals of Congress, PSP and CPI, may prevent repetition of circumstances which helped Congress to win an overwhelming majority. Any development which enhances the chances of a strong opposition emerging out of the elections will be welcomed by those who profess faith in democracy.

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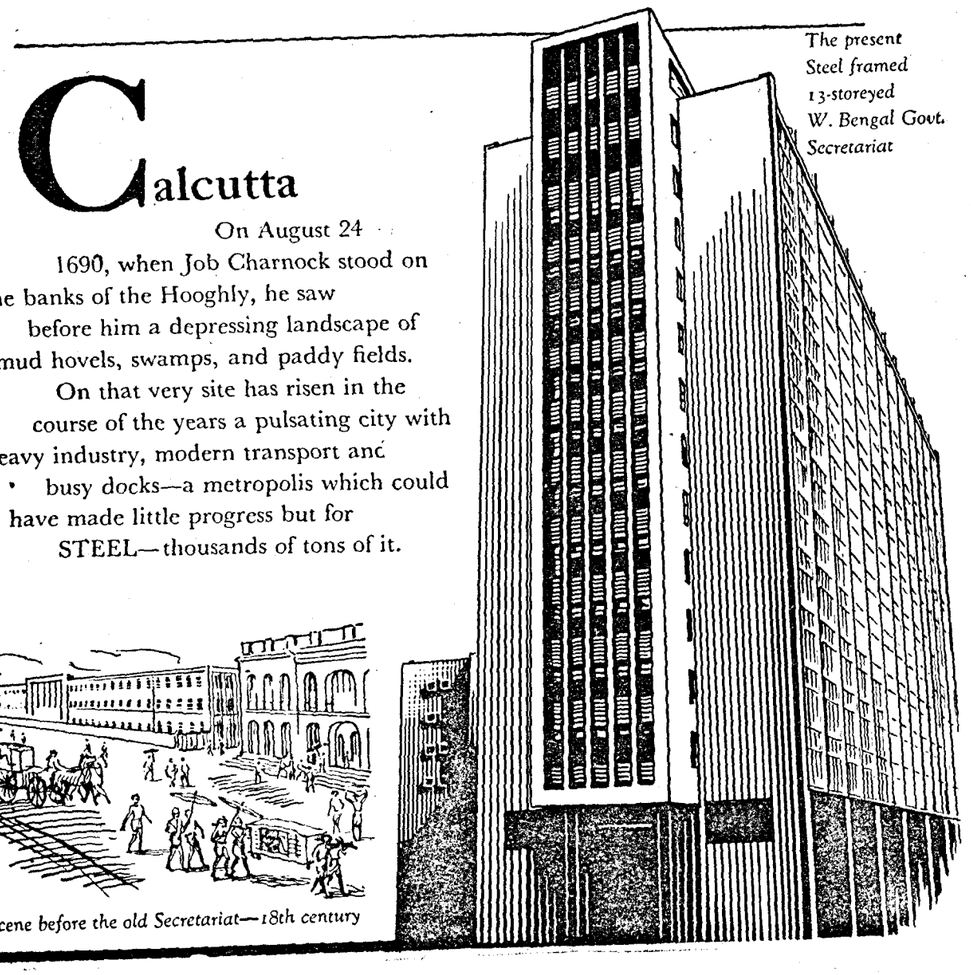
Japanese Autoloom Shuttles, Autoloom Pickers, Droppers, Automatic Pirns and Silk Shuttles.

" Where now the city stands,
there was once naught but the city's site. " OVID

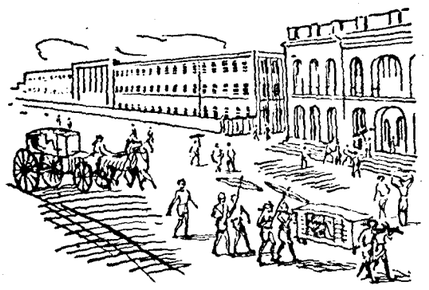
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Off the Record

Life Force Overwhelms

IT is a nice Plan, it covers everything, agriculture, industry, employment, administration, education, health and housing. A number of chapters have been devoted to each of these. The chapters are easy reading. They may sometimes tax the reader's patience but never his intelligence.

The Plan begins with an examination of the achievements of the First Plan, explains its approach to and gives an outline of the Second Plan and then goes on to examine the finance, foreign exchange, and employment aspects. Then comes the administrative tasks. Finally there are chapters on labour, backward classes and social welfare services, the last being devoted to rehabilitation of displaced persons.

There are two paragraphs by way of conclusion right at the end of this 640 page report in the second of which a caveat is entered by Shri K C Neogy that the magnitude of the Plan is such that it will be difficult to implement it in five years and that deficit financing on such an excessive scale may prove dangerous. Shri Neogy, it is added, had also drawn attention to the need for balanced development of transport and production. "All the Members of the Planning Commission agreed" reads the concluding sentence, "that these considerations are important and should be constantly kept in view in carrying out the Plan and that these aspects have also been considered fully in appropriate sections of the Plan" (emphasis ours)

The sting is, therefore, in the tail and this one concluding paragraph disposes of the 640 pages of the report. This is the Final Plan. It follows the Draft Outline which in its turn followed the Draft of the Draft Plan-frame which was submitted to the National Development Council in March last year. There can be no finality in planning. The Planning Commission follows this dictum of adventurous living and it left the targets for food and cloth, the main props on which the Indian economy rests, to be decided by a free fight. The target for cloth production and the textile policy generally was not finalised in the report that was published and presented to the Parliament. They were announced a month after the publication of the Plan. The target for food production was discarded immediately after its publication and has been left to the Food Ministers of the State Governments who are to meet at the end of the month and consider the situation *de novo*.

Democratic planning is not all backwards and forwards; in the field of industry movements may be lateral, in agriculture, gyrations are not ruled out. But don't think it is planning by fiat, China way, though China too may be thinking of raising her food production target at an identical rate.

As it has turned out, the end of the Plan has become its beginning. What will follow is at the moment anybody's guess. Yet, strange to think that the caveat which Shri K C Neogy has entered was for pruning and not expanding the Plan any further. This, however, is reassuring. The country wants to move forward rather than listen to the voice of caution, goaded on by—shall we say?—*elan vital*, for there is nothing in the targets or the econometrics of it to explain or account for the logistics of the present move. This has inspired a correspondent to break into verse as follows:

Little Planning Wagtail

(With apologies to John Clare)

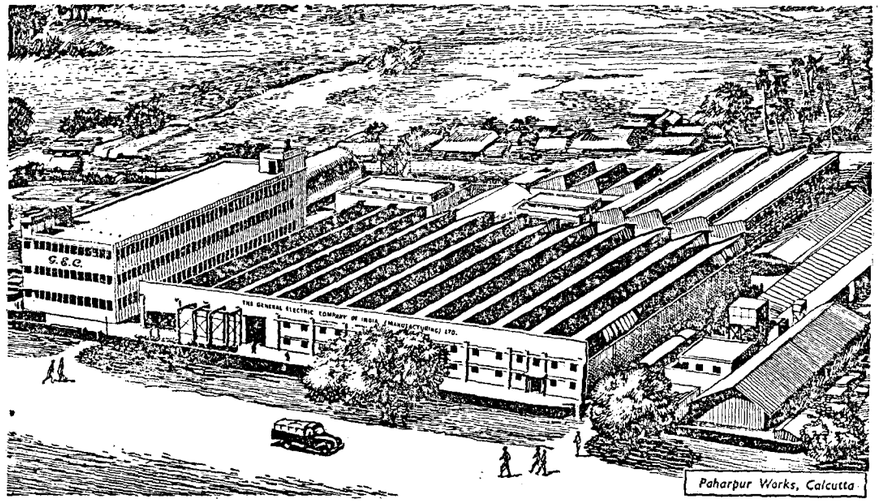
Little trotty wagtail, he went in the rain,
And tittering, tottering sideways, he ne'er got straight again.
He planned to get up from below and then to look down from the top,
But he found himself in a muddy hole which even he knew was flop.

Little planning wagtail, so flexible all about,
Even pursued in tri-lok sabha, he hoped to find his way out.
He first wanted thirtysix hundred crores but soon jumped to fortyfour
And then he settled at fortyeight but might even ask for more.

Backward forward wagtail, in a non-linear programme mood,
He rushed into a transport mess, then got frightened about his food.
But did he lose his heart? No, wishful thinking came to aid.
There's not much difference between 3 & 8 in appearance,
hence as increment rate!

Little trotty wagtail still goes his wilful way.
A "cautious" nag may block his path but the "vital" urge wins the day.
He waddles in the puddle and waggle goes his tail
And chirrups up his wings to dance upon the China rail.

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From the London End

Tremors and Earthquakes

The tremors of the present century have all had their origin in America and it is the situation in the U S which gives Western Europe the greatest cause for anxiety.

The sharp drop in automobile sales in the U S, the levelling of industrial production in the U K for the first time in two years and the indication that production in West Germany can no longer be expected to increase have led to a search for appropriate counter measures.

In Britain, the question of 'trade defence' against a possible recession in the U S is being discussed and a confused debate has been going on about the advisability of raising or lowering the bank rate.

THE current economic situation reveals three outstanding developments:

(1) The production of motor vehicles in the United States has fallen by 23 per cent between the first four months of 1955 and 1956;

(2) Industrial production in the United Kingdom has levelled off for the first time in two years and is now no higher than it was a year ago; and

(3) Industrial production in Western Germany has now reached a level where further increases can no longer be expected.

A lively controversy has been provoked in all these three countries on the need for appropriate counter measures. In the United States and Germany, the heads of the Governments concerned have disavowed the interest rate policies their respective central banks have pursued in the past two months. In Britain, the question of "trade defences" against a possible recession in the United States is being sharply raised and a debate, albeit a confused one, about the advisability of raising or lowering the bank rate is raging in and out of Parliament.

This turn in economic events has been sudden, almost unexpected. And yet economists in the United States have for some time viewed the American boom with considerable misgiving; many of them have instinctively felt that "this situation cannot last". Professor Reder of Stanford University wrote some three months ago that "a turning point in the business cycle is suspected", and the Economic Commission for Europe in the 1955 Survey questioned the official restraints on economic activity in many of the European countries. In the United Kingdom the situation has been overshadowed by the magnitude of wage claims, yet now and then symptoms of weakness appear which point to the over-all direction of economic trends: fall in sales and exports of motor vehicles, slump in the carpet and textile industries, etc. These pointers have of course not been taken very seriously and there is probably some justification for this attitude but the wage-price spiral cannot be regarded as lightly; it does have an over-whelming influence on economic affairs.

Commodity Markets Weakening

Although prices in general have proved to be flexible in only one direction, tendencies in the international commodity markets portray a developing situation which is in tune with the other sensitive indicators of economic activity. Thus the commodity market trend, which was beginning to emerge in the first quarter of the year, has become more clear-cut over the past two months. In 1955 industrial raw materials generally ruled firm with rubber and the major non-ferrous metals as leaders. Foodstuffs and agricultural products were weak. Today the markets for industrial raw materials are very much weaker than those for foodstuffs and agricultural products. Even with regard to the latter, the price pattern is only being maintained by the agricultural price policies of the US Administration.

It is however the situation in the United States that gives Western Europe the greatest cause for anxiety: the tremors of the present century have all had their origin in America. And it is towards an understanding of the nature of these periodic tremors and when these tremors are likely to turn into earthquakes that many in this part of the world direct their attention. Hence **The Economist** suggested that while the situation in the United States did not immediately give cause for alarm, "watchfulness" on the part of the United Kingdom would bring rewards; this journal then went on to examine the most desirable forms of "trade defences" to be adopted should the situation in America really become serious.

Soft Spots in the U S Economy

The American economy is showing two weaknesses which in the view of your correspondent are particularly infectious. There is firstly the weakness in the demand for steel and steel products and secondly the weakness in the demand for agricultural products. The "soft" spots which began showing themselves at the turn of the year are now being reflected in the fact that over 80,000 new 1956-model passenger cars and an equally substantial quantity of farm implements are in dealers' stocks with little chance of their being worked off. In other words, the rise in what the Americans term "inventories" reflects the fundamental weakness in the demand for steel. According to the US Department of Commerce **Survey of Current Business**, ". . . inventories in manufacturing and in lines of trade other than new car retailing have evidenced a rather steady expansion since the Spring of 1955" and further, "the continued growth of inventories have raised book values for manufacturing, wholesale and retail trade firms combined to $ 83½ billion at the end of last February—an increase of about $ 6 billion over last February".

The inventory structure described above follows a performance in the American economy which has been described as "breath-taking". During 1955, the seasonally adjusted GNP rose by 2½ per cent in quarterly intervals—for the year as a whole it rose by 2 per cent. Such a rate of growth for a highly industrialised economy is certainly "breath-taking". It is all the more so when the increase in output has been largely the result of increased employment (and very slightly that of price increases). The Federal Reserve Board's index of industrial production recorded a rise of 11 per cent in 1955 and the gain in the second half was somewhat larger than in the first.

Breathtaking Expansion

This remarkable expansion in the American economy—an expansion which tended to become cumulative as the months of 1955 rolled by—appears in retrospect as an approach to the peak of the customary business cycle. This interpretation is not only justified by the growth of inventories and the decline of sales in the opening quarter of 1956 but also by the nature of the 1955 build-up. Personal consumption expenditure on durables in 1955 proceeded at a rate considerably higher than that on non-durables. Further, while personal consumption expenditure had increased between 1954 and 1955 by 8 per cent, the increase in gross fixed investment proceeded at a higher rate viz 12 per cent. Of the increases in fixed investment, that of house construction and producers' durable equipment was the most rapid. These features are symptomatic of the well-known building-up of activity to the peak of the business cycle when either an earthquake takes place, or, when appropriate policy measures are set to work, the crack-up at the peak takes the milder form of a tremor.

The Turning-Point?

The developments in the first four months of this year in the United States suggest that the turning-point has been reached. Weak spots have appeared precisely where the boom was most in evidence in 1955. Last year the smaller motor car producers were able not only to increase their share of the market but to increase their net profits as well. Now each of these small producers faces what one American commentator describes as "extinction". Further, such giants as General Motors and Fords have joined the ranks of firms calling for production holidays. Taking 1947-49=100, the index of motor car production rose to a peak of 212 in November 1955 and has since steadily fallen to 164 in April this year. The index for the production of durable manufactures as a whole has come down in the first quarter of this year to the September 1955 level. Automobile production is now running at about 10 per cent below that of last year and major car producers have projected a more or less proportional cut for the entire year.

The slump in the US motor vehicle industry (and in the demand for farm equipment) has not yet produced an impact on steel production. As the manufacture of durables has continued unchanged, steel output has not yet been affected.

Company Profits Decline

The **Monthly Letter** on business and economic conditions issued by the First National City Bank for May 1956 contains some revealing information on company profits in the United States in the first quarter of this year. For the 777 firms reported on, net profits fell by 8 per cent between the fourth quarter of 1955 and the first quarter of 1956.

TABLE I

USA—Selected Economic Indices
(1947-49 = 100)

Period	Industrial Production	Consumer Prices	Wholesale Prices
1952	124	113.5	111.6
1953	134	114.5	110.1
1954	125	114.8	110.3
1955	139	114.5	110.7
1955 March	135	114.3	110.0
June	139	114.4	110.3
Sept	142	114.9	111.7
Dec	144	114.7	111.3
1956 March	144	114.6	112.8

TABLE II

US Manufacturing and Trade Inventories

	Book Values $ Billions				Stock-Sales Ratio	
	1955		1956		1955	1956
	February	December	January	February	February	February
Manufacturers	43.3	45.9	46.3	46.8	1.75	1.72
Wholesalers	11.7	12.3	12.4	12.5	1.23	1.20
Retailers	22.4	23.9	24.1	24.2	1.51	1.58
Total	77.3	82.1	82.8	83.5	1.58	1.58

TABLE III

Construction and Employment

Period	Commercial Construction Contracts $ millions	Non-Farm Housing Starts 000's	Unemployment 000's monthly average
1953	1488	1104	1602
1954	1815	1221	3230
1955	2359	1329	2654
1955 March	194	114	3176
June	228	135	2679
Sept	197	115	2149
Dec	192	76	2427
1956 March	153	76	2834

TABLE IV

Expenditure on New Plant and Equipment By U S Business

$ millions

	1954	1955	1956 (Expected)
Manufacturing Industry	11,038	11,439	15,036
Durable Goods	5,091	5,436	7,685
Non-Durable Goods	5,948	6,003	7,351
Mining	975	957	1,141
Railways	854	923	1,307
Public Utilities	4,219	4,309	4,989
All Industries	26,827	28,701	34,893

This sharp fall may no doubt partly be due to seasonal influences, but in the case of companies in the automobile, electrical equipment and radio industries, profits have fallen compared to those in the first quarter of 1955.

The other depressed area of the economy, agriculture, has been in the doldrums for some months. In February this year incomes of farmers at a level of $1,839 billion were some $60 billion less than a year ago. The short and quickest answer to the troubles of the American farmers (in this election year) has been the Agriculture Act of 1956 which by the time it has been through the processes of legislation has become so repugnant to the Administration that President Eisenhower has vetoed it, only to announce equally rigid high price supports for a number of commodities in the coming crop year. The uneconomic and opportunist remedies to the problems of American farming do nothing more than either postpone the collapse of American agriculture or imperil the international market for the commodities of other agricultural countries. The US policy of funnelling farm surplus to countries abroad under the Mutual Security Act has caused more than consternation in Australia and Canada.

Next to automobiles and farming, house construction has become the main cause for concern. Up to September last, the number of private house constructions started was about 17 per cent above that for the corresponding months of 1954. A seasonal slump set in after that; it has however continued into the new year. Probably this continuation in the decline in housing has been the result of a tightening of mortgage lending terms by agencies of the Federal Government. In any event, the pressure for work by building contractors forced the Government at the end of January 1956 to rescind its tighter lending policy and yet new private construction expenditure on dwellings was some $20 million less in February 1956 than in February 1955. Many informed Americans believe that the post-war housing shortage has been overcome and that the current recession in house construction is likely to develop into a serious slump.

The one important but unpredictable factor likely to have a marked influence on developments is investment in durable producers' equipment.

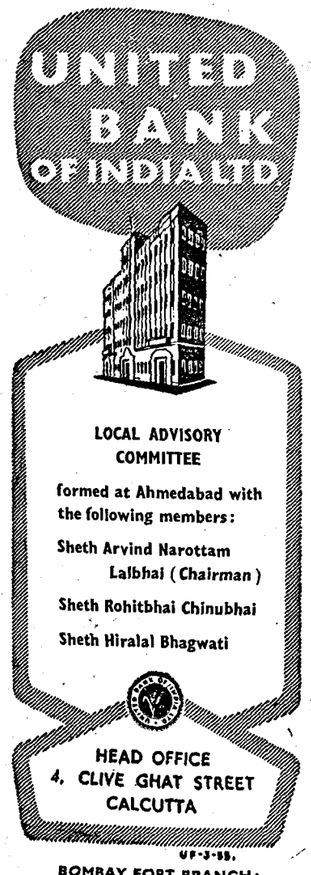
According to the First National City Bank Monthly Letter this "key item in business change" reflected an increase (in expenditure) of $1½ billion between the fourth quarter of 1955 and the first quarter of 1956. Business plant and equipment expenditures are scheduled, it says, to total $35 billion in 1956, exceeding 1955 by 22 per cent. This optimistic forecast is repeated by a McGraw-Hill survey which found 1956 business investment plans amount to $33.4 billion or 13 per cent above that of 1955. By the look of things in the United States, this "key item" will determine whether "it" is to be a tremor or an earthquake.

The doubts about the course of the American economy which are widely held even in the United States should have suggested to the monetary authorities a more liberal financial policy. And yet as late as April last, another round of discount rate advance was announced by the twelve Federal Reserve banks. Simultaneously the Federal Reserve authorities jointly conducted open market operations by selling Government securities, thereby adding pressure on the banks to borrow. Member bank borrowings from the Federal Reserve averaged $1.1 billion during April, higher than in the first quarter of the year and slightly above the billion dollar peak of November last. In this situation the major banks adjusted their rates, forcing up Treasury bill yields to 2¾ per cent from 2.17 per cent previously. Stock and share prices fell correspondingly and the Stock Exchange in New York remains in the doldrums.

For some reason Federal Government expenditure has been showing a decline of about 2 per cent every quarter since the beginning of 1955. This decline has occurred on both defence and other expenditure items. On the other hand, Federal receipts have been running about 11 per cent higher in the first five months of the 1956 fiscal year compared with the corresponding period of 1955.

Against these positively deflationary features in the American economy (except the hoped-for intentions in business investment), the wage-price structure continues its upward trend. Wage demands have received official support this Spring—minimum wages are generally increased by a third—as well as the support of collective bargaining pressure. Prices for industrial products have risen by 0.5 per cent per month since June 1955 and the overall wholesale price index has been rising at an annual rate of 3½ per cent in the same period.

The United States economy, possessing as it does a number of deflationary elements and one or two inflationary ones, appears to be precariously poised at a very high level of income and employment. It is to the buoyancy of the capital goods sector and the "possibility of heavier government spending on public works and defence", that one has to look hopefully for countering the depressive influences emanating from automobiles, farming and housing. In this uncertain, precariously-balanced position, the American economy is most vulnerable to shock or downward pressure from any quarter. And should the hopes placed on business investment be not realised, the tremor may become more serious.



The Indian and Chinese Plans

Similarities and Differences

K N Raj

Comparative studies of the Indian and Chinese Five Year Plans have usually brought them out either as contrasts, reflecting the totally different philosophies and attitudes which are supposed to underline them, or as broadly similar blue-prints, embodying the aspirations of two peoples who have a great deal in common.

This is an issue on which the statistical data at our disposal and the knowledge of actual conditions in China are both too meagre for any judgment to be more than guess-work.

But from whatever little one can make of the information that is available on the Chinese Plan for a comparative analysis, it would appear that the differences between the two plans are not so much in their structure or in the relative magnitudes of what is proposed to be achieved as in regard to certain supporting policies.

LET us first consider the similarities. In so far as international comparisons between standards of living have any meaning, it is perhaps a reasonable assumption to make that the per capita levels of consumption and income reached by 1952 in China were more or less on a par with those in India in 1951. Though there are considerable differences in the estimates about China's agricultural output, it is fairly certain that the amount of foodgrains available per person was greater in China than in India. But, on the other hand, the availability of cloth and of other consumer goods like sugar was obviously very much less. Some estimates of the per capita income in China in 1952 have placed it at about 10 per cent lower than the per capita income in India in the same year, and this may well be a correct appraisal, but in view of the numerous unknowns in the comparison no serious difference is perhaps made if we assume that it was actually about the same in both countries. With a population of a little under 600 million people, this would give for China a national income of over Rs. 15,000 crores in 1952 in terms of Indian currency.

The total outlay on the Chinese Plan in its first year has been estimated at about 8600 million yuan, which works out at the current exchange rate to about Rs 1600 crores. This, however, includes expenditure of a recurring character on various items, and it would appear that the outlay on capital construction proper was not more than about 60 per cent of this amount i.e., about Rs 960 crores. On the other hand, it excludes investment on private account which, in the context of the Chinese Plan, could not have been more than a fifth of the public investment, so that the total investment in the economy in that year may be placed at around Rs 1150 crores. This works out to less than 8 per cent of the national income.

Investment Targets Not Higher

By 1955, the rate of outlay on the Chinese Plan was 50 per cent higher than in 1953, and by 1957 it is expected to be stepped up still further. But the national income will also go up alongside, and it is therefore unlikely that, by the end of the Plan period, the rate of investment in the Chinese economy will be very much higher than about 11 to 12 per cent of the national income.

These estimates, it will be obvious, are based on somewhat heroic assumptions, and must be treated with caution. Nevertheless, they suggest two conclusions which we may accept at least as tentative hypotheses. One is that the rates of investment that are being attempted in China in its First Plan are considerably lower than those aimed at in the Soviet Union in the nineteen twenties, and lower than even those attempted and realised in the countries of Eastern Europe in the period after the Second World War. The other is that the targets in regard to these over-all rates of investment in China's First Plan are not significantly higher than those which are proposed in India's Second Plan.

It is not only the targets in regard to the over-all rate of investment that are similar; the expected increases in total national output are also not very much larger in China. At first sight this may seem to be not correct, since the estimated increase in national income in India in the period of the Second Plan is only about 25 per cent while the anticipated increase in the combined output of agriculture and industry in China in the course of its First Plan has been placed at about 43 per cent.

But the industrial output which has been taken into account in the estimate for China appears to cover only the output of factory enterprises, and, in addition, the weightage given to industries in the index of total output seems to be based on the gross value of their output and not on the net value added as is the case in India. Both these are likely to give the estimates of the changes in total output an upward bias. Our guess about the basis of computation of these indices is borne out by the fact that, if we impute to agriculture and industry in the Chinese estimates a weightage of 3 : 1, and apply this to the estimates of the increases in output in each of these sectors (23.3 per cent in agriculture and 98.0 per cent in modern industry), we get an increase of 43 per cent in the total output which is the same as the official estimate.

Share of Factory Industry

The share of modern factory enterprises in the Indian economy is obviously no smaller than in China. If, therefore, we were to give agriculture and industry the same weightage of 3:1 to the Indian estimates of increases in output, the over-all increases in output would work out as follows:

	(in percentages) First Plan	Second Plan
Increase in the output of agriculture and allied pursuits ..	18	18
Increase in the output of factory enterprises ..	43	64
Increase in the total output of agriculture and industry ..	24	30

With a larger weightage to industry, as would be justified in the Indian case, the increases in total output would appear to be even larger. This means that the actual difference between the planned in-

crease in China over the period of its First Plan and the increase expected in India during the Second Plan is not really as large as may seem at first sight.

The estimates that are available in regard to the targets for specific commodities support this conclusion.

Thus the planned increase in the output of foodgrains in China is only a little over 13 per cent as compared to about 15 per cent in India. In the case of cotton piecegoods, the amount available in China was to begin with far smaller than in India (the per capita availability being perhaps only about a third) and so the planned increases are also larger, but considering the initial disparities the difference is still not very enormous as will be seen from the fact that the planned increase is 24 per cent in India as against about 55 per cent in China. In regard to the output of producer goods also, while there are differences in particular items, the broad orders of magnitude of the planned increases are very much the same.

No Full Employment in China

Apart from these similarities in regard to the targets of investment and output there are several other features in common between the two plans. For instance, it has been made clear in China, as in India, that despite the progress expected as a result of the plans, the problem of unemployment will continue to be serious. "It will still be impossible", says the Report on the Chinese Plan, "to completely eliminate unemployment, a legacy of old China, and to make full use of surplus labour power. The solution of these problems will demand continued effort in the periods of the Second and Third Five Year Plans".

Slow Pace of Socialist Transformation

It is also clear that the fear of aggravating the position in regard to unemployment has affected many policies in China as in India. To cite one instance, the Chinese have decided to go slow with the nationalisation of retail trading for fear of the numbers that would be thrown out of employment. This will be obvious from what the Report on the Chinese Plan has to say on the subject.

"With regard to the socialist transformation of commerce, after the winter of 1953 the volume of trade handled by private retailers was cut rather sharply as a result of the somewhat too rapid increase, in certain places, of the volume of retail trade handled by State trading organizations and especially co-operatives. Readjustments have since been made. In order to maintain the business of private retailers, small traders and pedlars in urban and rural areas, the State has temporarily stopped the increase or suitably reduced the retail sales of all state trading organizations and co-operatives in cities and towns where their volume of retail trade increased to an excessive degree . . . All cities and towns should, taking local conditions into consideration, work out what should be the proportion between the volume of state and privately run retail sales in each trade, which will not only stabilize commodity market prices but also maintain the business of private retailers".

Similarly, the Chinese Plan places almost as much stress on hand and household industries as the Indian Plan. "Local industry and handicrafts in our country play an important part in supplying the needs of production and of everyday life of the urban and rural population. During the past few years, because of defects in planning and other reasons, some branches of local industry made the mistake of expanding production blindly, thus adding difficulties to the organization of industrial production in the country as a whole. But in general it is right to actively promote local industries. In the future, too, in accordance with the requirements of the state plan and the policy of serving the needs of agricultural production, we should continue to make proper use of local industries and handicrafts. Some areas and certain departments underestimate the role of local industry and handicrafts in the national economy and therefore do not guide and help them actively or systematically. This is obviously wrong, and must be corrected".

In regard to medium and small enterprises, the Report on the Chinese Plan says that since they "can be built and put into operation in a comparatively short time, bringing quick returns on investment and adding to our productive capacity, they not only play an important role in increasing supplies of industrial products and supporting agricultural production but also constitute an indispensable factor in increasing accumulation of funds and in supporting and assisting construction of the big priority projects".

Strategic Hold of Public Sector

What then are the differences between the two plans? The first important difference, as one should expect, is in the relative roles of the public and private sectors. But it is possible to exaggerate the share of the public sector in China. For small-scale enterprises form such a large proportion of the existing units in production and trade that the share of the public sector is not often as large as would appear from the published statistics which relate to the ownership of the more modern medium and large-scale enterprises. It is clear, however, that one consideration is always kept in mind in China, namely that of securing in the hands of the State as large a proportion as possible of the enterprises which are likely to be in a position to earn large profits as the rate of investment increases. Apart from the ideological objective of "socialist transformation", this is designed to provide the financial resources for investment and to gain control of the economy at strategic points.

It would be wrong, however, to assume that the profits from State enterprises account at present for the bulk of the finance available to the Government or even that they are adequate to avoid the need for deficit financing in China. For it would appear that the total tax revenue of the Government in China in 1953 was equivalent to about Rs 2200 crores (at the current exchange rate), which works out to about 15 per cent of the national income. Though defence expenditure accounted for about two-fifths of this, it is probable, in view of the relatively low administrative expenditures in other fields, that investment of the order of at least 5 per cent of the national income was being financed from taxation. Also, more than an eighth of the total tax revenue was derived from the agricultural grain tax.

Countering Inflation

As regards deficit financing, it would appear that there have been gaps between the income and expenditure of the Government fairly regularly, though these have been concealed in various ways such as by taking credit for the surpluses of previous years. Thus, in 1954, despite a loan of the equivalent of Rs 150 crores that was raised, there was a gap between total revenue and total expenditure of about Rs 330 crores. It is, therefore, not unlikely that this method of finance supports investment of the order of 1½ to 2 per cent of the national income as in India, though it is difficult to be very sure or precise about this.

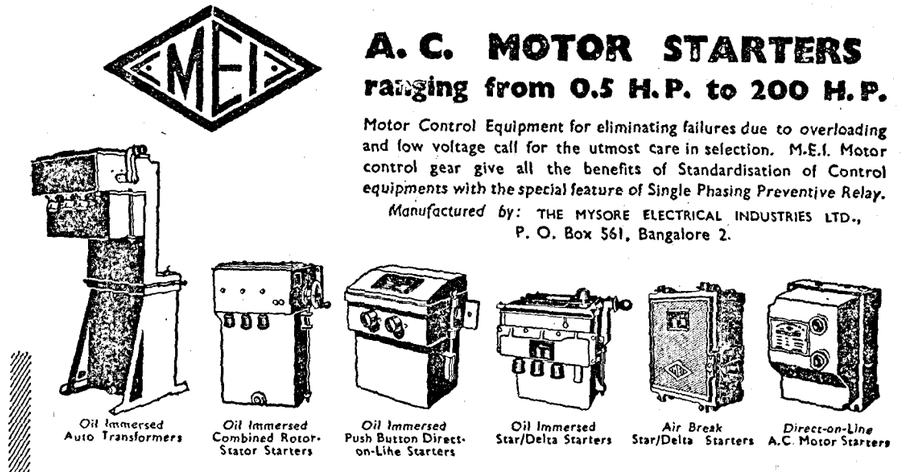
But even if there is no deficit financing, investments of the order contemplated must be expected to generate inflationary pressures. One of the important differences in the Chinese Plan compared to the Indian is in the measures designed to prevent an inflationary rise in prices. It is clear, for instance, that this is the main purpose of the nationalisation of wholesale trade, which does not figure at all in the Indian Plan but is a very integral part of the Chinese programme. With the gradual stepping up of investment, and the failure of harvests, the Chinese economy appears to have felt the beginnings of inflationary pressure towards the middle of 1953. In November, 1953, therefore, the State started planned purchases and supplies of foodgrains, and later followed this with similar operations in cotton and cotton textiles as well as in edible vegetable oil. "There is no doubt", says the Report on the Plan, "that these measures are an important guarantee of fulfilment of the Five Year Plan by the state and conform to the immediate and long-term interests of the people. The implementation of this policy will, of course, bring about a certain change in the way of life of hundreds of millions of people and a reorganization of supply and distribution. During the first few years of this great reform, it is very difficult to ensure that there are no shortcomings in the way it works out. But we must realize that our positive achievements are the main part of the picture".

It is also obvious that there has been as much hostility in China to the idea of State control over distribution as in India. For the Report goes on to say that "there are some people who have adopted an attitude of doubt or even opposition to the policy of planned purchase and supply of grain. Some, seizing on certain defects in our work, deny the tremendous achievements made in carrying out this policy. They fail to see that on the whole the situation is good". The policy of nationalisation of wholesale trade has, therefore, been adopted in China, not without opposition, nor without an appreciation of the difficulties and limitations, but primarily for the reason that it has been found to be the only way of preventing speculation and inflationary rise in prices. The relaxations in regard to retail trading, which we have referred to earlier, confirm this impression.

Investment Priorities Different

There is also one other significant difference between the Indian and Chinese Plans. It is in the distribution of investment and in regard to certain priorities in investment. For, though both of them emphasize the development of producer goods industries, and steel also figures prominently in both, the allocation in the Chinese Plan for industries producing machines is considerably larger. There is provision not only for industries producing tractors, power generating equipment, and various types of metallurgical and mining machinery, but also for the production each year of equipment necessary for setting up an integrated iron and steel works. "When the two heavy machinery plants . . . which begin construction in the present five-year period are completed, they will be able, according to their projected capacities, to produce every year a complete set of iron smelting, steel-making rolling mill and coke oven equipment for an integrated iron and steel works with an annual capacity of 1,600,000 tons of steel". In the Indian Plan, there was originally a provision of obout Rs 150 crores for such industries, but it has been cut to around Rs 32 crores in the final draft

Matching this emphasis on ma-



chine-making industries is the conspiciously lower priority given to transport in China. Railways, in particular, account for a much smaller proportion of the total proposed investment. This is despite the fact that China has, to begin with, a railway network less than half as extensive as India. The greater attention given in India is usually sought to be explained with reference to the proposed expansion in the output of coal and steel. But not only is the targeted increase in steel in China almost as high as in India, but the proposed increase in the output of coal is twice as high, being 23 million tons in India and 50 million tons in China. The real reason for the difference between the two plans in this regard is that, just as residential construction and such other requirements are usually discouraged in a period of scarcity, the Chinese Plan is based on a very much lower priority being given to passenger traffic than is the case in the Indian Plan.

This could have been considered merely as a difference in the conception and structure of the two plans, if the targets in each case were internally consistent. We have no means of testing the internal consistency of the Chinese Plan, particularly because there is almost nothing known about its foreign exchange aspects. But it is clear that the Indian Plan is heavily dependant on external aid to cover its direct foreign exchange requirements. It is also clear that the railways account for nearly half of these requirements and that, even if the necessary external assistance for this Plan is forthcoming, the relatively small allocation given to machine manufacturing industries will make the process of industrialization for some more years to come as heavily dependant on external aid as now. Since there is no assurance about external aid either for the immediate future or for the years to follow, the priorities in this regard in the Indian Plan cannot be interpreted as based on anything more firm than a somewhat Micawber-like hope that something is bound to turn up.

Allowing for all the assistance that China may be receiving from the Soviet Union, and the unpredictability of the aid that India may get from the West, it is difficult to escape the impression that the Chinese Plan shows far greater awareness of the implications of the targets that have been set, and willingness to face them, than one is able to detect in the Indian Plan. As a pencil sketch of what should be done the Indian Plan undoubtedly compares favourably with the Chinese and, as a model built on detailed statistics and carefully worked out input-output ratios, it may be even technically superior on a point or two. But as a programme of action, it does not have the claws and the teeth for coming to grips with the problems which it will necessarily have to face.

This is not to suggest that the Chinese Plan has not its own weak points and share of unsupported beliefs and aspirations. As for difficulties in implementation, it is already becoming clear that the impetus which the Chinese economy received from land reforms, immediately after the Revolution, is rapidly running out, and that the increases in consumption on the part of the small peasants are tending to dry up the marketed surpluses necessary for industrialisation. The implications of this have been brought out forcefully in a report on agricultural co-operation submitted by Mao Tse-Tung in July, 1955: "As everyone knows, the level of production of marketable grain and industrial raw materials in our country today is very low, whereas the state's demands for these items grow year by year. Therein lies a sharp contradiction. If, in a period of roughly three five-year plans, we cannot fundamentally solve the problem of agricultural co-operation, if we cannot jump from small-scale farming with animal-drawn farm implements to large-scale farming with machinery — which includes state-sponsored land reclamation carried out on a large scale by settlers using machinery . . ., we shall fail to resolve the contradiction . . . In that case our socialist industrialisation will run into formidable difficulties".

Time alone will show to what extent the gigantic movement that has been initiated in China for the formation of agricultural co-operatives will deliver the goods. But at least one thing is clear. In a country in which there are no vast virgin areas to be brought under cultivation as in the Soviet Union, and where by intensive cultivation the yields per acre are already among the highest in the world, large-scale mechanised farming will have a hard task producing the surpluses necessary for industrialisation, while feeding, at the same time, those who are displaced by the mechanisation and the twelve million additional human beings who, by the natural growth of population, have to be provided for each year in China. One would have expected, in the face of this enormous problem, at least a token recognition of the need to make a beginning with family planning, but that would be weak-minded, and obviously even hard-boiled Marxists must have their share of illusions to cling to.

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NOTICE

NOTICE is hereby given that in connection with the financing of the cost of the further expansion which the Company is required to undertake in contribution towards the increase of steel production under the Second Five Year Plan, application was made to Government for consent to the issue of further Ordinary shares at par on the basis of one new right share for each Ordinary share held. Advice has now been received that Government have sanctioned the issue of new Ordinary share capital at a price of Rs. 13|8|- per share.

In according their sanction Government have stipulated that no fresh issue of capital shall be made until after the 1st November 1956.

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F. G. Liversedge,
MANAGING DIRECTOR,
Managing Agents.

Calcutta,
12th June, 1956.

Non-Monetized Economy and Development

Sukhamoy Chakravarty

The non-monetized sector is only remotely connected with the process of accumulation. It should, therefore, be excluded from national income estimates to make them more meaningful in relation to economic growth.

NATIONAL income statisticians and others often tell us these days that quite a significant part of the Indian economy is, in fact, not monetized. All that they mean is that the proportion of the total national output that has a monetary counterpart is much lower here than in the economically advanced countries. They do believe, however, that the proportion is apt to rise in the course of economic development. Beyond this no effort is made to bring out the implications of a non-monetized sector from the point of view of economic development. An attempt will be made in the course of this paper to clarify some of the conceptual and analytical issues connected with the question of non-monetization from a growth-oriented standpoint. It need not be presumed that what is said here applies in toto to the specific situations prevailing in India.

To start with, we do not mean by a non-monetized economy an "amonetary" economy of the Crusoe type where the question of any commodity having general purchasing power is ruled out by the sheer logic of the situation. We mean by a non-monetized economy only a partially monetized economy where the characteristics of money have not yet sufficiently crystallised. This results from the fact that money does not discharge here all the functions that are logically associated with the concept of a really monetary economy. What money does has been dealt with ad nauseum in economic literature but it is unfortunate that the whole discussion from Knapp onwards has been conducted from the point of view of the evolution of credit. Here our purpose is not to discuss credit, but economic development. This is not to deny the importance of a developed credit system in the process of economic growth. Schumpeter with his great insight into the process of economic development sought to analyse the intimate relationship between the two as early as 1911.

From the point of view of economic growth, the crux of the monetary system lies in the fact that wages there are paid out in terms of money. A non-monetary economy, on the other hand, is one where in the Marxian terminology the question of the exchange of labour-power against money never arises. There one may conceive of any commodity as a numeraire in the Walrasian sense, but the commodity remains only a 'shadow money' unless we postulate that labour is being compensated in terms of that commodity. The generalised purchasing power which a unit of money represents follows from its purchasing power over labour. So long as money cannot purchase labour because labour power has not become a saleable commodity, the role of money is bound to be limited in character. Only when money starts performing the task of wage payment do we have a genuinely monetized economy. This, however, presupposes the emergence of capitalist relationships. From this point of view, the difference between the monetized and the non-monetized sectors of the same economy boils down to the fact that in the former we have a developed wage-labour-capital relationship while in the latter, the above relationship has not yet developed or is, at its best, only in an embryonic form.

This interpretation may sound somewhat amazing especially to those accustomed to thinking in terms of two rival antitheses: money—non-money, capitalist-pre-capitalist. Money—non-money antithesis is, at bottom, not a real antithesis at all. For money understood in the sense of a circulating medium only and having little or no connection with production relationships has been prevalent since very ancient days. As a matter of fact, the money economy understood in this sense had not even registered a uniform trend of expansion till it merged in the money-economy in our sense of the term. (Compare M M Postan in 'Essays in Economic History' Ed. by Carus-Wilson.)

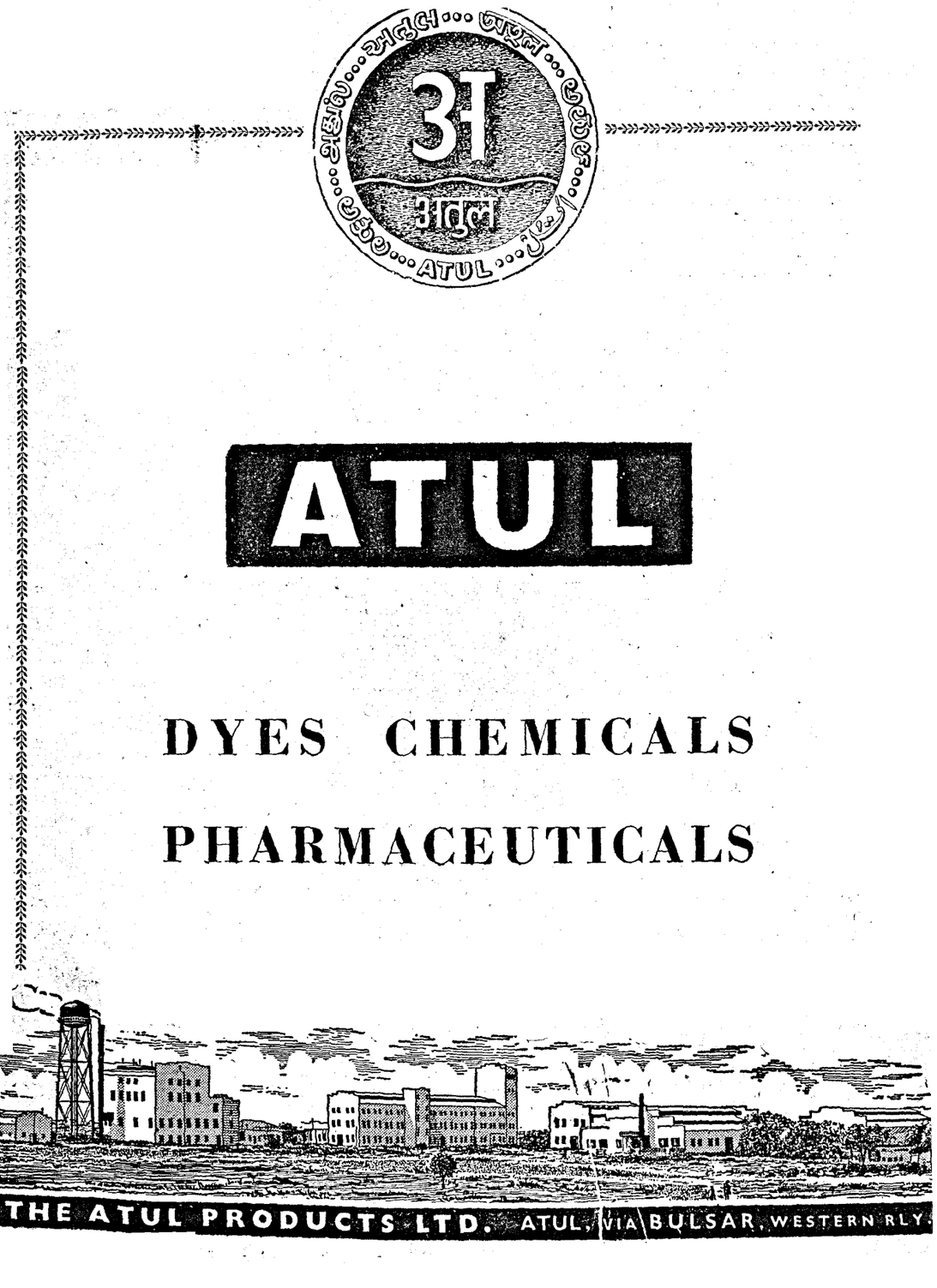
From this basic feature of a non-monetized economy, follow the other interesting features.*

A non-monetized sector is largely an unorganised sector. We are not here referring to organization in its broad sociological sense—custom may be an important factor in setting the pattern of social organisation. We mean by organisation economic organisation. This lack of organisation stems from the very inadequate development of social division of labour and the emergence of the related phenomenon of commodity-production. Market as an economic institution has therefore only a very limited scope. If market for commodities hardly exists, it would surely be out of the question to postulate a market for assets. Accumulation, under the circumstances, is not possible for to store things having no universally recognised common denominator and having no opportunity of exchanging negotiable assets (if there be any) against goods is not a meaningful economic activity.

A non-monetized economy, therefore, implies little or no capacity for accumulation and consequently, little or no possibility of changing the technique of production for initiating a rise in the level of productivity.

What happens when this non-monetized sector is placed vis-a-vis a money-economy? There is no doubt that money infiltrates into this sector. But this infiltration in itself is not significant for the dissolution of the non-monetized economy. If people start using money in the 'circulation sense', that does not lead to the gradual emergence of a really monetized economy. In most cases, it gives birth to an usurious economy, which clings like a parasite to a predominantly non-money economy. One can notice this phenomenon acutely in what are believed to be the non-monetized parts of our own economy. The fact of the matter is that money has no inner dynamic of its own so that we have an ever-expanding money economy unless perfect differentiation of economic functions. This imperfect functional differentiation in its turn is due to the prevalence of pre-capitalist relationships. As such, the notion of self-sufficiency in the meaningful sense is subsumed in our definition of non-monetization.

* There are some, however, who find the essence of a non-monetized economy in the notion of 'self-sufficiency'. But self-sufficiency in the economic sense arises out of the mere basic phenomenon of im-



money is utilized as money-capital in the *process of production itself*. That means unless the infiltration of money into a non-money economy is at the same time accompanied by the emergence of capitalist relationships, we get only a very partially monetized sector where only a small proportion of total output is exchanged against money.

The fact that we have such a wide non-monetized sector in India is at bottom due to the tardy development of capitalist relationships in this country. Non-monetization is only a subsidiary characteristic of pre-capitalist relationships. It is, of course, not suggested that for purposes of economic development, contraction of non-monetized sector or the emergence of a capitalist economy is either inevitable or desirable. Our discussion relates only to the implication of a non-monetized sector.

The above discussion has certain interesting implications. One particularly obvious policy implication is connected with the question of deficit spending. Creating new money need not necessarily lead to as high an increase in prices as may be expected on ordinary considerations since the ratio of the total value of final transactions in terms of money to the total national output is expected to rise. On this point, the Japanese experience during the late 19th century following the Meiji *restoration is quite relevant.*

Apart from this above all-too-apparent implication, we have some other interesting implications. They relate to the concept of national income and the use to be made of national income data.

The valuation of the total net output of the non-monetized sector raises all sorts of awkward questions. The current practice of accounting has its theoretical basis in the neo-classical approach to the economic problem, viz., the satisfaction of consumer's needs with scarce resources. From that point of view, there is no other logical way out but to include the output of the non-monetized sector in the total national output. But that does not solve any of the complicated questions that arise in this connection: How are we to ascertain the total output? How are we to 'net' it? Which set of prices are we to employ for converting the heterogeneous collection of items into a homogeneous mass? The general practice is to evaluate them at prices ruling in the monetised market-bound economy. But which set of prices: wholesale or retail?

Prof Kuznets suggests that they should be valued at retail prices, in *order that due account may be taken* of those services usually performed in peasant households, but which are customarily discharged in developed economies by specialised institutions. This suggestion may be quite significant for the problem of making detailed comparisons between industrial and pre-industrial economies. But it is difficult to see how it solves the basic problem of the meaningfulness of totals so arrived at as indications of economic welfare. This is the point that has been raised by Prof Frankel. On the basis of neo-classical reasoning, which provides the theoretical scaffolding to the current practice of calculating national income, it can hardly be denied that in applying the techniques of national income accounting to the non-monetized parts of the economy, there is generally a passage, not too legitimate, from one set of logical categories to another.

But the whole problem looks altogether different if our central quaesitum is economic growth. As we have already seen, the categories of accumulation fit awkwardly into the scheme of an economy where the characteristics of money are so diffuse. In this sector, the surplus of production above consumption, if there be any, is a **physical surplus** and not an **economic** surplus for the value categories are singularly inappropriate in this context. As such, the question of the productive *deployment of this surplus* does not arise. Now, if our purpose is to find out a concept of national income which may be used as an index of economic growth, we need consider only such sectors of the economy as employ reproducible Capital and as augment the total stock of reproducible Capital in the process of accumulation. So far as the non-monetized sector is concerned, it does not face the above test. As such, it cannot logically form a component of a growth-oriented national income total. Estimates of national income, like the G.N.P., etc, which attempt to include the non-monetized sector, stand on an altogether different conceptual footing from the approach here suggested.

Supposing, however, that the current practice is unobjectionable, it is easy to see that it makes models of economic growth based on postulated relationships between income, investment and savings extremely precarious. If one leaves out the savings question altogether, and concentrates merely on the investment —income relationships, one is dealing with an incomplete description of economic reality. Because in such models as these, the demand aspect of the question is totally ignored. If the economy is centrally planned, we *may have some justification* for assuming away the worries of a deficient or excessive effective demand but talking about a mixed economy, one realizes at every step the inadequacy of a model of economic development having no demand component.

For accommodating demand aspects, we have to introduce savings explicitly into the picture. But how stable is the savings—income relationship in an economy having such a wide non-monetized sector? In truth, the process of economic development implies in itself a varying coverage of the non-monetized sector. As such, it will automatically lead to discrepancies between the postulated savings-ratios and actual savings ratios. From the mathematical point of view, we may be in a position to employ some more forbidding techniques to take account of the situation but, in practice, the models reduce themselves to empty formalisms. To be on such grounds, we must be in a position to relate the changes in savings-ratio to changes in the nature and extent of the non-monetized sector. But in the nature of the case, it is difficult to establish any precise relationships. Should we then break up total savings into two components: monetized and non-monetized? This procedure is not meaningful either for the non-monetized sector is not accumulation-oriented, as we have seen.

The way out of the impasse appears to be in adopting a definition of national income that comprises only such sectors as are directly relevant from the point of view of economic development. Sectors which are remotely connected with the process of accumulation viz. the non-monetized sector, will be automatically left out. The result will be a loss in the comprehensiveness of the totals arrived at but this loss will be more than compensated by the greater accuracy of the relevant data as well as by the heightened meaningfulness of the economic magnitudes involved.



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Capital Output Ratio—Its Uses and Abuses

Arun Ghosh

The capital/output ratio can be used as a rough guide to the rate of growth that can be attained in an economy with a given rate of investment—and conversely, as an indicator of the savings necessary to attain a given rate of growth. But there is danger in attaching too much importance to it even in this limited context. The ratio holds good only in the long run; it tells us nothing about the investment in "human capital" required to bring about a certain rate of growth; and it hides the truth that in an emergency, a given amount of capital can yield far greater output than past relationships may indicate.

For determining investment priorities, however, the concept is of no use at all and for choosing between two rival technologies, it can only be one of the many criteria that have to be satisfied.

IT has been suggested by Dr Ashok Mitra that the capital/output ratio is determined principally by the level of wages and the productivity of labour*. In a Crusoe-Friday economy, where Crusoe sits and orders and "feeds" Friday, and the latter toils, Crusoe's investment may be identified with the wages (in kind) paid to Friday out of Crusoe's (past) savings. (Investment in the economy would be given by Friday's toil, valued at Friday's wage.) Likewise, the outlay on wages by the entrepreneur could be treated, in the modern setting, as the investment by the entrepreneur; and in a Kalecki-type model of the economy where entrepreneurs are the only savers—there being no savings out of wages paid to workers—one view of investment would be all outlays necessary to bring about production, total wage payments (including the wages part of the cost of intermediate goods) being the most important constituent of such outlays. In this view of investment, the use of machinery and equipment can be allowed for by adding to total wages paid, the replacement cost of capital consumed in the process of production. Given the capital equipment and employment, output would be determined by labour's dexterity, or labour productivity. Finally, since the depreciation of capital is likely to be of a small magnitude as compared to the outlay on wages, for all practical purposes the capital/output ratio would be given by the level of wages and the productivity of labour. Thus, one way to lower the capital/output ratio would be to lower wage rates.

Mitra's interpretation of the capital/output ratio is based on an "instant" view of capital; given certain fixed assets, production requires the application of labour; and for the economy as a whole, provision of wages in advance of the fruition of output may be taken to imply a corresponding saving out of current income, which alone makes possible the act of production.

The merit of Mitra's formulation is that it exposes the danger of identifying a higher capital/output ratio with greater capital intensity. Though under certain circumstances these two may well be associated, there is no warrant for the belief that of two processes, the relatively more labour intensive method necessarily has a lower capital/output ratio. The capital/output ratio obtaining for the two techniques will be given by the twin factors (a) the output accruing from the two methods of production, and (b) the sum total of savings—in Mitra's formulation, current savings—necessary in the community to produce the requisite amount of output.

While Mitra's formulation helps to remove this popular misconception, it falls into an opposite kind of error through, I believe, an attempt to seek an explanation of the observed "constancy" of the capital/output ratio in countries like the U S A where rapid increases in labour productivity have not brought about any reduction in the capital/output ratio in the long run, because of a simultaneous rise in real wage rates. This separate issue we must reserve for another occasion. The inherent weakness in Mitra's formulation of the concept of the capital/output ratio can be seen from the following extreme example.

Let 'X' be the total (replacement) value of capital in an economy and let 'Y' be the value of net output in that economy in a given year such that X = 3Y. Further, let the expected life-span of the fixed equipment be assumed to be 30 years, so that capital consumption during the year would be X/30. Further, let the total wage payments be taken as 2Y/3. On Mitra's view, therefore, the investment involved in producing an output of 'Y' would be given by 2Y/3 + X/30, or 2Y/3 + Y/10, or 23Y/30, giving a capital/output ratio of 0.77 : 1. On the other hand, under the simplifying assumptions made above—and without entering into an argument as to the definition of capital—the capital/output ratio has been defined as 3 : 1 in the first sentence of this paragraph.

How does this contradiction arise? Even if we accept, for the time being, Mitra's concept of capital and of investment it would be seen that Mitra compares—in terms of magnitudes—investment during any given period with the total net output in that period, which has been produced by labour in conjunction with the accumulated capital (savings) of the past, and not merely in conjunction with the savings (investment) of the current year. It will be conceded that in a period of depression net investment may well fall to zero or be even negative, but net output will be a positive magnitude. Mitra gets out of this difficulty by a twist of logic whereby wage payments are defined as investment, so that we get a fairly "even" series of the investment/output relationship; in any case, wage payments must be positive for output to be positive. But following Mitra's own logic, we may well derive the following absurd relationship between investment and output.

Value of gross output
— input of materials (incl. depreciation)
= net output
≡ all factor payments (including wages and remuneration to other factors necessary to bring about production)
= investment

Hence, investment ≡ net output, and capital/output ratio is always unity.

Mitra does not state this explicitly; but his thesis, whereby outlay = investment by a twist of his own logic, is obviously not intended to give a definitional equation of the economic system. This approach to

* Ashok Mitra: A note on the Capital/Output Ratio, The Economic Weekly, Annual Number, January 1956, Page 109.

the concept of capital/outlay ratio has, on the other hand, some special uses;* but the usefulness of this concept arises mostly from disproving a series of popularly accepted notions and beliefs, and not as a valid concept in itself.

At this stage, it may be useful to ask as to what really the capital/output ratio really connotes. There can be two ways in which the problem can be examined; from the strictly theoretical point of view, starting with a definition of capital and from the operational or measurement point of view. We will here adopt the latter method by reason of its greater simplicity.

Difficulties of Measuring Aggregate Capital

The value of existing stock of fixed capital and equipment—i.e. of durable replaceable capital—can be taken either as the gross (investment) value of existing capital less accumulated capital consumption, or as the replacement value of existing assets and equipment.** There may be differences in the value of physical assets as measured in the two ways noted above, arising out of changes in the price level. But even if an adjustment for price changes were to be made, in measuring the total value of the existing stock of physical assets, two difficulties would arise: the difficulty of relative price changes, and of a change in weights, in the valuation of total output; and more significantly, the lower valuation of existing physical assets in the event of a rise in real wage rates.

The first of the above two difficulties, i.e. a change in relative weights, is essentially a problem of measurement, and reflects the inadequacy of usual procedures of index number construction for deriving any "constant price" series. But the problem of lower valuation of capital in a period of rising real wage rates (or vice-versa) remains. (Indeed, this is one of the lessons which emerge from Mitra's analysis of the capital/output ratio.) Since durable assets have a long life, in a period of inflation the money value of existing physical assets tends to be understated. This can, of course, be corrected by allowing for price changes. But in a period of rising labour productivity (and rising real wage rates), the real value of existing physical assets—produced at a lower level of real wages—would get understated.

It is thus conceptually difficult to define, and operationally difficult to measure capital in the aggregate *sense; and hence, correspondingly, to* derive the average capital/output ratio. Furthermore, for purposes of projections or for planning, the average capital/output ratio has not much significance, especially because of distortions in past relationships *arising from valuation difficulties* noted earlier. An alternative formulation, which avoids the above difficulties is the marginal capital/output ratio, which relates the additions to output accruing from additional investments made from year to year.

Marginal Ratio

A number of different formulations are possible in respect of the marginal capital/output ratio. To begin with, in deriving the capital/output ratio, capital may be taken to connote not only fixed investments but also working capital required for production.* It is obvious that in computing the capital/output ratio, the requirements of working capital cannot be assumed away; but correspondingly, violent fluctuations in inventory holdings cannot also be included in computing the capital/output ratio, which has some significance only as an indicator of a long-term relationship. The remedy for this lies in taking the marginal capital/output ratio over a number of years, so that all cyclical and random fluctuations (in inventories as well as in output) may be evened out.

From the measurement point of view, it is easier to take marginal savings as giving the numerator, and output increases as the denominator. This procedure saves a number of awkward difficulties connected with the valuation of capital or its quantitative measurement, and allows for bad investments or investments abandoned before completion, as well as preliminary expenses on exploration, etc. But even this procedure does not allow for a number of difficulties inherent in any analysis of the marginal capital/output ratio.

Time Lag between Investment and Return

The first difficulty is connected with the roundaboutness of the process of production, and though apparently simple, makes for difficulties in interpreting the capital/output ratio. With varying lengths of the 'gestation' period of investment, the danger of simultaneous association of investment and output is manifest; what is not so obvious is that under conditions of competition—allowing for a certain degree of "lumpiness" of capital—the capital/output ratio, adjusted for the discounted value of output over the expected period of life of capital, should be equal for all investments. In computing the capital/output ratio, therefore, should allowance be made for the lag between investment and the accrual of output? If no allowance is made for this lag, investments maturing quickly would appear advantageous over investments which may, in the long run, be better. On the other hand, no computation of the capital/output ratio, after allowing for such lags, would have any meaning. Not only would the concept be vague, but the measurement of the capital/output ratio would be nearly impossible.*

Another difficulty—a relatively minor one—is that in an expanding economy, the capital/output ratio must always be rising. This, again, follows from the 'lag' between investment and the accruing output, so that in a period of expanding investment, the capital/output ratio will always tend to rise.

But the major difficulty in the measurement of the capital/output ratio—whether the average or the marginal concept be under considera-

* One may recall Keynes' treatment of all Government expenditure as investment, for the purpose of his multiplier analysis. That was useful for a given type of analysis; and obviously, it was not intended to imply that all Government outlay was to be treated as "investment" in every context.

** There have been attempts to link the gross value of output with gross investment (cf., for instance, **The Economic Bulletin for Asia and the Far East**, November 1955, p 26), but the precise significance of this relationship is not very clear.

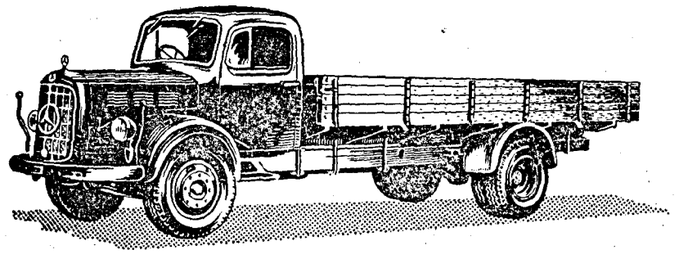
* This pertains not only to the derivation of the marginal capital/output ratio but also the average capital/output ratio; but in the latter instance, the importance of fluctuations in inventories—which depend to a considerable extent on speculative considerations — is minimised.

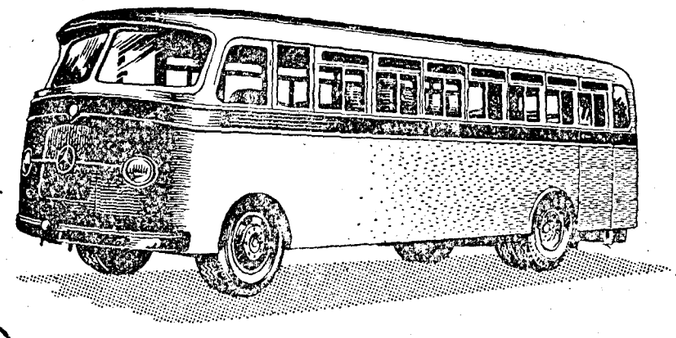
* Frequently, a capital/output-capacity ratio is recommended as a meaningful measure, in order to determine investment priorities. This can only relate to physical output capacity, and has some relevance in the limited context of planning the investment programme (with alternative types of equipment) in a single industry. But obviously, the concept has no further use either for the economy as a whole, or even for comparing sectoral capital/output ratios (which, as we will see later, mean very little themselves).

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tion—is that the cost of investment in 'training' etc. is seldom or never treated as part of investment for reasons of conceptual and of measurement difficulties. With increasing complexity of the process of production, labour has to acquire technical skill and technical knowledge; and the need to allow for the cost of training etc. as an overhead investment cost is admitted almost universally. But in practice such allowance is seldom made, if only because not all expenditure on education can (or should) be regarded as investment; and by the same token, expenditure on health, and indeed, even on nutritive foods, can well be regarded as "investment". (The danger of logical hair-splitting is that strictly in theory there can be no limit to the extent of such "splitting" of hairs until they are reduced to "electrons" or "protons".)

Use of the Concept

Where does all this lead us? We are still a long way from a satisfactory definition of the capital/output ratio, and we seem to be receding from the position where any sensible use can be made of this much boosted concept. And since all workable definitions appear to fail us, we may enquire whether, and to what extent, the concept of the capital/output ratio can be of use for policy making.

The concept of capital/output ratio was suddenly "discovered" after Harrod's exposition of his model of the growth of an economy; and the first use of the concept was to give the rate of growth that can be attained in an economy with a given rate of investment. Leontief extended this use by treating capital as an "input", in his input-output analysis, for deriving the structural relationship in any economy between output of different kinds. There have, of late, been some attempts to treat the capital/output ratio as a criterion for determining investment priorities. Finally, it is recommended as a criterion for the choice of different technologies for deriving a given output, as Mitra has done, for instance.

That the capital/output ratio can be used as a rough guide to the rate of growth that can be attained in an economy with a given rate of investment—and conversely, as an indicator of the savings necessary to attain a given rate of growth—few will deny. But as already observed earlier, there is danger in attaching too much importance to the capital/output ratio even in this limited context. The capital/output ratio holds good (as a constant) only in the long run; it tells us nothing about the investment in "human capital" required to bring about a certain rate of growth; and it hides the truth that in an emergency, a given amount of capital can yield far greater output than past relationships between investment and output may indicate. Factories can be worked on a second or third shift if necessary; the use of capital can be rationalised; and the same equipment can give significantly different outputs with different types of labour. Ashok Mitra's concept of "dexterity" as a factor in the capital/output ratio thus reappears as an incontrovertible factor in the equation.

How to measure the capital/output ratio even for the limited purpose indicated earlier? My own preference is to treat output increases as a function of the rate of saving. This has its limitations, as we have seen, but making allowances for cyclical variations, the above measure of the capital/output ratio would have the twin advantages of measurability and of practical significance in the context of changing prices and labour productivity. No adjustments are necessary for a comparison of the rate of savings with the rate of growth of the economy.

Investment Priorities

The use of the capital/output ratio as a criterion for determining investment priorities is, however, to put it mildly, not very correct. For the economy as a whole, the output accruing directly from any investment is quite unconnected with the total increase in output in the economy resulting from the investment; for a private investor, what is relevant is the discounted net return (profit) on his investment, for the entire period of life of the investment. This is so obvious that the point need not detain us any further.

Where a choice is necessary between two rival technologies, the capital/output ratio can be only one of many criteria for the choice of the best alternative. The choice of technology for promoting development, however, is a subject by itself, and quite a few readers of the **Economic Weekly** are at present exercised by the manifold aspects of this problem. Without delving any deeper into this subject, therefore, it may be well to sum up our conclusions on the notion of the capital/output ratio.

The function of capital is to raise labour productivity. But capital is only one of several elements—though undoubtedly a very important element—in raising labour productivity. There is use in abstracting capital from the other factors only as an analytical exercise; in planning for development, the capital/output ratio (as obtaining in the past) tells merely of the physical asset formation necessary for obtaining a given output; the concomitant expenditures on education, training, etc. which are equally necessary to obtain the given output are not indicated. This is generally recognised, but frequently forgotten when making ready comparisons. It may well be that in a given situation, expenditure for raising the level of technical skill, as well as expenditures that will increase general awareness, initiative and enterprise—howsoever these may be fostered—may be of greater benefit in raising the level of output in an economy, than the introduction of isolated pockets of highly mechanised industrial units. The fact that a few foreign investments have, in no country, raised the general level of industrial development, is proof of this.

The capital/output ratio is a useless concept in the determination of investment priorities; and hence, of little use in actual planning. Ashok Mitra's concept of the capital/output ratio is perhaps more useful in this connection than capital/output ratio as it is generally understood; but Mitra's concept is **not** an appropriate concept of the capital/output ratio either for a private investor or for the economy as a whole.

For practical purposes, a rough measure of the capital/output ratio is best derived from the savings coefficient. It is easy to calculate the statistical relationship between the rate of savings and the growth of national income—the former adjusted for external borrowing. Like many other simple correlations in statistics, the relationship may not give a correct structural equation of the economic system, but is good enough for prediction.

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Economic Growth and Sectoral Balance

Amlan Datta

The Second Five-Year Plan has shifted the emphasis from agriculture to industry. The need for greater attention to industry, and some attention to heavy industry, is beyond question. But industrial development will mean greater demand for food and raw materials from an expanding sector of the economy and a growing non-agricultural population.

Under the circumstances agriculture cannot be neglected without exposing the economy to serious shortages, culminating possibly in rising food prices which may lead to general inflation.

If planned investment is to be maintained in the face of inflation or increased imports, it may be necessary to have recourse not only to price control and rationing, but also to compulsory requisitioning of agricultural produce.

This, in its turn, may have serious political repercussions, jeopardising the professed democratic aims of the Indian Plan. It is against this background that the Prime Minister's studied stress on food output comes with a welcome ring.

THE problem of balanced growth is considered here under one special aspect, viz., the balance between different sectors, rather than different stages, of production in a growing economy.

It is common knowledge that in a developing economy there occurs a definite redistribution of the economically engaged population among the different sectors, so that an increasing proportion of the total labour force finds occupation in manufacture rather than in agriculture, and, at a later stage, in the services sector rather than in the other two. It will be noted that the word "labour force" is used here in a wider sense than "wage labour", the services sector containing a high proportion of independent or self-employed persons. Incidentally, this shows that beyond a certain point, the proportion of "wage labour" tends to decline in a growing economy, unlike what Marx thought.

There is a popular belief that the shift from agriculture to manufacture takes place because of the higher efficiency of labour in manufacture relatively to agriculture; and similarly for the shift to services. Reflection suggests that this could hardly be the whole explanation. Let us for simplicity consider a closed, but growing, economy, and concentrate chiefly on the shift from agriculture to manufacture. In such an economy, the shift of the labour force from agriculture to manufacture is only possible because, and to the extent that, demand for manufactured product rises even faster than increased physical productivity of labour in this field, or, to put it the other way round, because average labour productivity in agriculture rises faster than demand for agricultural produce. Thus in an important sense, it is not lack of labour efficiency in agriculture, but rather the increase of such efficiency, which lies at the basis of the shift from agriculture to manufacture. And similarly for the shift from manufacture to services.

Agricultural Revolution—A Precondition to Industrial Revolution

There are important advantages in looking at the problem from this point of view. It serves to emphasise the importance of "revolutionising" agriculture as a precondition of the "industrial revolution". An inefficient agricultural system is a drag on the industrial revolution.

Let us look into the matter a little more closely, still thinking in terms of a closed, self-sufficient, economy, working within the institutional framework of free markets. In an underdeveloped economy, the increased income resulting from additional investment is likely to be spent in large part on agricultural products, particularly food stuff. This is because the income elasticity of demand for food is likely to be high at a low standard of living. Similarly, the demand for textiles, and, therefore, the derived demand for cotton, will rise sharply. And similarly for certain other agricultural raw materials. On the other hand, the demand for services, which are more or less free of dependence on raw materials, is not likely to rise much at this stage. Now, starting with an industrially backward and agriculturally inefficient economy, with a large technological lag to be made up in both sectors, suppose that substantial investment is made in manufacture, without agriculture being reformed, and with the supplies of agricultural produce consequently inelastic.

Under the assumed conditions, the expansion of manufacture will be limited by two factors. In so far as agricultural produce is an input in relation to manufactured output, agricultural stagnation will act as a brake on industrial expansion, the more so the more difficult it is to find substitutes for agricultural products. There is also the problem of the sale of the manufactured output, arising from the lack of correspondence between the pattern of consumers' demand and the composition of the additional output. The investment in manufacture will create a certain amount of new income, representing the costs of the new manufactured output.

This new income will create additional demand of which only a part will fall on manufactured articles, the other part being divided between foodstuff and other non-manufactured commodities. In other words, the increased expenditure on manufactures will be less than their additional cost of production, thus preventing sale at a profitable price; while, on the other hand, the increased expenditure on foodstuff will tend to raise food prices, supply being inelastic in this field. The original investment in manufacture will, therefore, fail to start an expansionist process. On the other hand, if increased investment in agriculture accompanied the expansion of manufactured output, a part of the increased income originating in the agricultural sector would have been spent on industrial product, and balanced advance might have been possible*.

* The rise in agricultural prices relatively to industrial prices may change the relative elasticities of demand in the consumers' market. For the moment, however, we ignore this complication. In any case, inelasticity of supply of agricultural produce will limit industrial expansion by creating shortages of relevant inputs.

Pace of Development Conditioned by Agriculture

From this preliminary analysis certain conclusions follow. Distinguishing between successive phases in the development of an economy from an industrially backward stage, and concentrating attention chiefly on the characteristics of demand at each stage, it appears that in the early phase of economic development the pace of industrial development is importantly conditioned by the pace of increase in agricultural output, and, more particularly, the production of foodstuff. At a later stage, the increase in the demand for foodstuff slackens markedly, and the rate of increase of food production as such is no longer an important limiting factor on industrial expansion.

This simple formulation of sectoral balance is subject to certain qualifications which under certain circumstances may become very important. But before we turn to these qualifications, it is worthwhile insisting that the formulation even in this simple form is important enough. Our initial assumption of a closed economy is not wholly realistic, but it does not make our conclusion completely inapplicable to important segments of historical experience.

Experience of Western Europe

In explaining the divergent rates of industrial expansion of different Western countries prior to World War I reference is generally made to their unequal endowments in terms of natural resources, supply of entrepreneurial ability, and other factors. But not enough attention is always given to the state of agriculture as an important limiting factor. Yet this is important. And it is probable that some of the other factors, such as the supply of entrepreneurial ability, are imperfectly and distortedly understood when they are divorced from the environment in which a relative stagnation of agriculture forces them to function.

The point may be illustrated by comparing the relative positions of France, on the one hand, and Germany and the United States, on the other hand, before World War I, industrial expansion having been markedly less vigorous in France than in the other two countries. In Germany the yield of wheat per unit of land is estimated to have increased by nearly 60% over the three decades covering the last two of the nineteenth century and the opening one of the twentieth. There was also a small increase in acreage. In the US, total acreage under wheat production nearly trebled in fifty years, there was also an increase in yield per unit of land. In France, on the other hand, neither area under wheat cultivation nor yield per unit of land seems to hav increased much over the last four decades of the last century. Thus, in the United States we find a balanced growth of agriculture and industry, while in France agricultural stagnation, itself traceable partly to some institutional factors, seems to have operated both as a cause and an effect of lack of industrial dynamism. The fact that between 1860 and 1900, population grew very much less in France than in Germany or the U.S. must, indeed, be taken additionally into consideration in order to appreciate the difficulty of the French economy.

Development in India

Reference may also be made in this connection to one of the industrially backward countries, viz., India, to illustrate how agricultural stagnation may limit the possibilities of industrial expansion. Under British rule, there occurred a remarkable expansion of railways in India, particularly designed to connect the hinterland of raw materials with the ports. India differs in this respect from tropical Africa, for example, where lack of transport is often adduced as one of the principal causes of the very limited development of an exchange economy and, hence, of continued economic stagnation. As an acute observer of the Indian economic scene has observed. "The Indian case affords a dramatic example of the impact of a revolution in transport unaccompanied by a similar revolution in the means and methods of production" (H.B. Lamb: "India: A Colonial Setting" in Economic Development: Principles and Patterns, ed. Williamson and Buttrick). What British rule signally failed to accomplish, or, rather, what it never tried to accomplish, is to set Indian agriculture on a modern basis. As a result, the few industries set up in India had to function on the basis of a very limited domestic market, or else depend on foreign market.

Role of Foreign Market

This is a convenient point at which to introduce the role of foreign market in economic development. The dependence of a growing economy on foreign market is determined chiefly by its supply of resources and the pattern of its growth. Ordinarily, relatively slow growth of agriculture is accompanied either by a slow growth of manufacture, or, lacking a wide home market, rapidly developing manufacturing industries are compelled to seek an outlet for their products in the foreign market. John Stuart Mill criticised Adam Smith for illogically lending his support to the idea of foreign trade as a "vent for surplus". But Mill's criticism assumes away too many things. It assumes away the possibility of a country's industrialising itself more rapidly than what is strictly permitted by its current or possible rate of agricultural expansion, through dependence on foreign market for sale of "surplus" products. It should be quite obvious that the urge for selling abroad a surplus in this sense is quite distinct from the urge to build up a foreign surplus of which Joan Robinson speaks in her exposition of a "beggar-my-neighbour" policy. The first is an exercise in growth, of which the historically most significant examples come from comparatively self-sufficient, backward countries, breaking, for the first time, into the world market and transforming their domestic economies; the second is an attempt to "export" unemployment in a period of depression. Conceptually as well as functionally, the word "surplus" stands for two different things in the two contexts.

Japan's Need for Export Outlet

While some countries may expand their agriculture beyond what is strictly necessary to maintain their current growth of manufacture, and dispose of their surplus agricultural produce in the foreign market, other countries may feel compelled to seek a foreign outlet for their manufactured articles even after they have done all in their power to make their agriculture more efficient. To this second group will belong countries which are heavily populated, and desirous of rapid economic development. Japan is a case in point. Japan's bid for the world market has been so spectacular that it has caught universal attention. But there has also been much quiet work in developing agriculture. Thus, the yield of rice per unit of land increased by nearly fifty per cent in the thirty years preceding World War I. Agricultural production itself is estimated to have increased nearly threefold between 1873 and 1913. (G.C. Allen "A Short Eco-

There was not a year in which India did not drain the Roman Empire of a sum equivalent to about one and a half crore of rupees. Thus complained Pliny, in the first century A.D., of Rome's unequal trade with India.

Pliny's statement testifies to the superiority of India's industrial skill and commercial organisation which had given her practically a monopoly of the European market in a wide range of goods. In the succeeding centuries



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nomic History of Modern Japan", Appendix.)

Agricultural development is a desirable, even necessary, support for industrial development in more than one sense. Not only does it help to enlarge the domestic market for manufactured articles, but it is also a source from which labour and capital flow to industry. That a reorganised agriculture yields surplus labour to growing industry is a commonly noted phenomenon. Less noted until recently, is the fact that the extraction of surplus funds, whether in money or in kind, from the peasantry has been one of the traditional ways of supporting capital formation in the early phase of industrialisation. In the case of Japan, land tax formed one of the chief sources of revenue of the government in the early period of industrial development.

Pattern of Soviet Development

The USSR offers an interesting study in this respect. From the point of view of natural resources and population pressure, the USSR resembles the USA rather than Japan. The pattern of Soviet economic development has, however, been significantly different from that of the USA not only in institutional terms which are well known, but also in terms of the balance between agriculture and industry. Russia has been agriculturally self-sufficient since well before the Revolution. But what is remarkable here is the performance of her agriculture during the last three decades of extra-ordinarily rapid industrial development. Though agriculture has undergone during this period radical organisational changes, and though it has been mechanised so as to make it possible to draw away labour force to the growing industries, total grain output and livestock product show a distinctly disappointing record. (By contrast, the output of industrial crops has increased by a much higher proportion.) Over the forty years following 1913, total grain output in the USSR increased by not much more than a half—a performance which compares strikingly unfavourably with that in the USA or Japan over a comparable period. Partly, this may be due to soil conditions in Russia; but partly it is due also to Soviet economic policy. In the USSR, attention has centered chiefly on rapid industrialisation, and the rural economy has been exploited to feed the growing industries, an exploitation which was specially painful because agricultural productivity remained at a low level all the time. This, however, brings us back to one of our earlier questions: With a limited home market, how could the Soviet Union clear her increasing industrial output? In the case of the USSR, neither expanding consumers' demand nor foreign market provided the necessary outlet. The outlet has been found in what we may call the "government market" for capital goods. The main part of the industrial output has consisted of capital goods, and these have been directed by the State to the production of further capital goods, for mechanising agriculture, building up heavy industry, and strengthening defence, while the consumer's market has remained limited throughout. An alternative line of economic development in the USSR would have been, as suggested by Bukharin in the closing years of the 'twenties, to allow industrial expansion to be geared to the growth of agriculture, with greater attention paid to the increase of agricultural output, and with free relations of exchange between agriculture and industry; in short, something resembling the sectorally balanced growth that we have discussed earlier. With Bukharin's model, industry would still have been under state management, but the peasants would have been spared the methods of force used against them, consumer goods industries would presumably have received greater attention, while the rate of industrial expansion would have probably slowed down to some extent.

Scope for Improvement of Indian Agriculture

In the light of the above, some comments may be made on recent economic development in India. As has been noted earlier, Indian agriculture has been in a painful state of stagnation for a very long time. "Stagnation" is, indeed, a mild word here. As the Indian census of 1951 points out, since 1920 agricultural output in India has been lagging behind population growth. Under the circumstances, improvement of agriculture was on the order of the day when the First Five Year Plan was introduced. Between 1950-51 and 1954-55, a comparatively brief period of four years, the production of food grains showed a welcome increase of over thirty per cent (from 50 million to 65.8 million tons). While part of this increase was due to good monsoons, part must be accounted for by more solid improvements, such as, extension of irrigation, reclamation of uncultivated land, and introduction of better farming (e g Japanese type of rice cultivation). It is evident, nonetheless, that there still remains an enormous scope for further improvement of agriculture, and that with the present food production the Indian population can only be maintained at a very low dietary level. Also very important is improvement of the livestock to add value and variety to the Indian diet. The contrast between the diet of North West India and that in the North East and the South is an unmistakable pointer to the need for changes in this direction. Meanwhile India also requires to develop her industries to provide greater employment and to raise her national output. The Second Five Year Plan has shifted the emphasis from agriculture to industry. The need for greater attention to industry, and some attention to heavy industry, is beyond question. India has vast reserves of iron ore. There is no reason why these resources should not be properly developed, in order to meet growing home demand, and, ultimately, even to develop export. But industrial development will mean greater demand for food and raw materials from an expanding secondary sector of the economy and a growing non-agricultural population. Additional demand for foodstuff will also arise from the natural growth of population. Under the circumstances, agriculture cannot be neglected for some years to come without exposing the Indian economy unduly to serious shortages, culminating possibly in rising food prices, which in turn may lead to raising wages and general inflation. The alternative is increased imports of foodstuff and other agricultural products. In the face of an inflation or increased imports, planned investments will have to be cut down, or if the level of investments is to be maintained, it may be necessary to have recourse not only to price control and rationing of consumption, but also to compulsory requisitioning of agricultural produce, in some form or other. This in its turn may have serious political repercussions, jeopardising the professed democratic aims of the Indian Plan. It is in this background that the Prime Minister's studied stress on food output, while initiating in the Parliament the discussion on the Plan's principles, comes with a welcome ring.

The Choice of Technique

Joan Robinson

The dilemma of the choice of techniques is a real one and it is no good pretending that there is one obviously right answer to it. To weigh up the alternatives we need to know more, e g:

How much greater, for a given investment, the output of consumer goods would be if small scale industry is fostered, or how much additional investible funds can be extracted (for planned investment) if capitalist firms are allowed to re-equip?

Whether different kinds of investible resources are required for the different techniques?

The technique with the larger wage bill may be scattered all over the country and may not require further overcrowding of city slums. On the other hand the more mechanised technique fosters modern engineering and the technologist's outlook on life. Any one who has a prejudice for either side can find plenty of plausible arguments to support it.

IT is no wonder that the argument about small-scale industry and the choice of technique should be bewildering the readers of **Economic Weekly**, for the subject is one of very great complexity.* There is no ready-made answer to it in the existing corpus of economic doctrine. The kind of theory, based on the rate of interest and marginal products, to which Mr M N Ghosh refers, has been worked out (and not very satisfactorily, one must admit) for situations in which there is already full employment. The Soviet debate (which again is far from satisfactory) also assumes full employment in the economy as a whole and is concerned only with alternative schemes of investment for one particular bit of the whole national plan. Neither deals with the Indian case, of which the essential feature is the existence of a large (and probably growing) mass of surplus labour which requires to be equipped to make it productive. Moreover, when the analysis is properly set out it does not provide a simple knock-down answer, but leaves us in face of a political problem.

To sieze the question we must go back to the beginning. The Indian economy is very lop-sided, and lacks the capacity to produce capital goods in sufficient quantity to provide the rate of accumulation that is considered desirable. To get the economy into balance is going to be a long job and will require heavy investment in the investment good sector. Foreign-exchange earnings may be regarded as contributing to the capital-good sector, since they can be used to import machinery and technical know-how, but export markets are limited and are vulnerable to the vagaries of world trade and to political pressure. India has therefore decided to build up a capital-good sector of her own. For inescapable technical reasons the capital-good sector requires investment in schemes with a long gestation period and a high capital/output ratio. Moreover, to carry out the grand programme, it is necessary to plough back into the investment sector a large part of its own product as it emerges. (The first output of the new steel mills, should go into building steel mills.) Thus for a very long time to come a large number of workers (including those engaged in earning foreign exchange) must be supported by the rest of the economy, without contributing anything to their own sustenance. But an immediate increase in total consumption is urgently needed. It is therefore necessary to allocate a part of the investible resources at present available to increasing the output of consumer goods by schemes with a quick yield. How the allocation is made is a larger question than that at present under discussion and for the moment must be taken as given.

The argument about the choice of technique is concerned with the best way of disposing of the ration of investible resources allocated to the consumption good sector. Dr Rudra is, of course, quite right in pointing out that nothing can be settled by an example drawn from a particular industry, but Dr Raj's type of analysis can be applied if we take it to refer to the consumption-good sector as a whole, assuming that a well balanced mixture of schemes is arranged so that the flow of consumer goods emerging will be reasonably fitted to the demands of consumers.

A great deal of confusion has been imported into the discussion by calling techniques which require a higher ratio of capital to output "more advanced" instead of "more mechanised" or "more capital using". (The confusion is partly only verbal. Dr Raj talks about technological change, which implies new inventions, when he means an increase in the stock of equipment of types already known. Dr Rudra defines his terms quite clearly but the overtones of "advanced" are misleading in the sense that he uses the word.) Let us distinguish "superior" from "more mechanised" techniques. Technique A is superior to technique B if it yields a higher return, in the form of a future flow of product, net of depreciation, both per unit of labour and per unit of investment. We have a certain sum of money to invest (taking wages and prices as given). If project A promises a higher rate of net output than project B, and at the same time will require less labour to operate when it has been installed, then so much the better for A. To prefer B on the ground that it will offer more employment would be extremely hard to justify. Some people, however, do prefer B. The extra workers left free if A were installed (as compared to the case where B is installed) would require either to be equipped for production, or to be supported by some kind of dole, or they would remain as a reproach. For the politicians therefore B may seem to provide an easier line than A. Some people also prefer technically inferior methods of production for aesthetic or religious reasons. It is against this sort of view that the economic pundits are (somewhat confusedly) protesting when they argue against labour-

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See: April 7 and 14, K N Raj, "Small-Scale Industries: Problem of Technological Change".

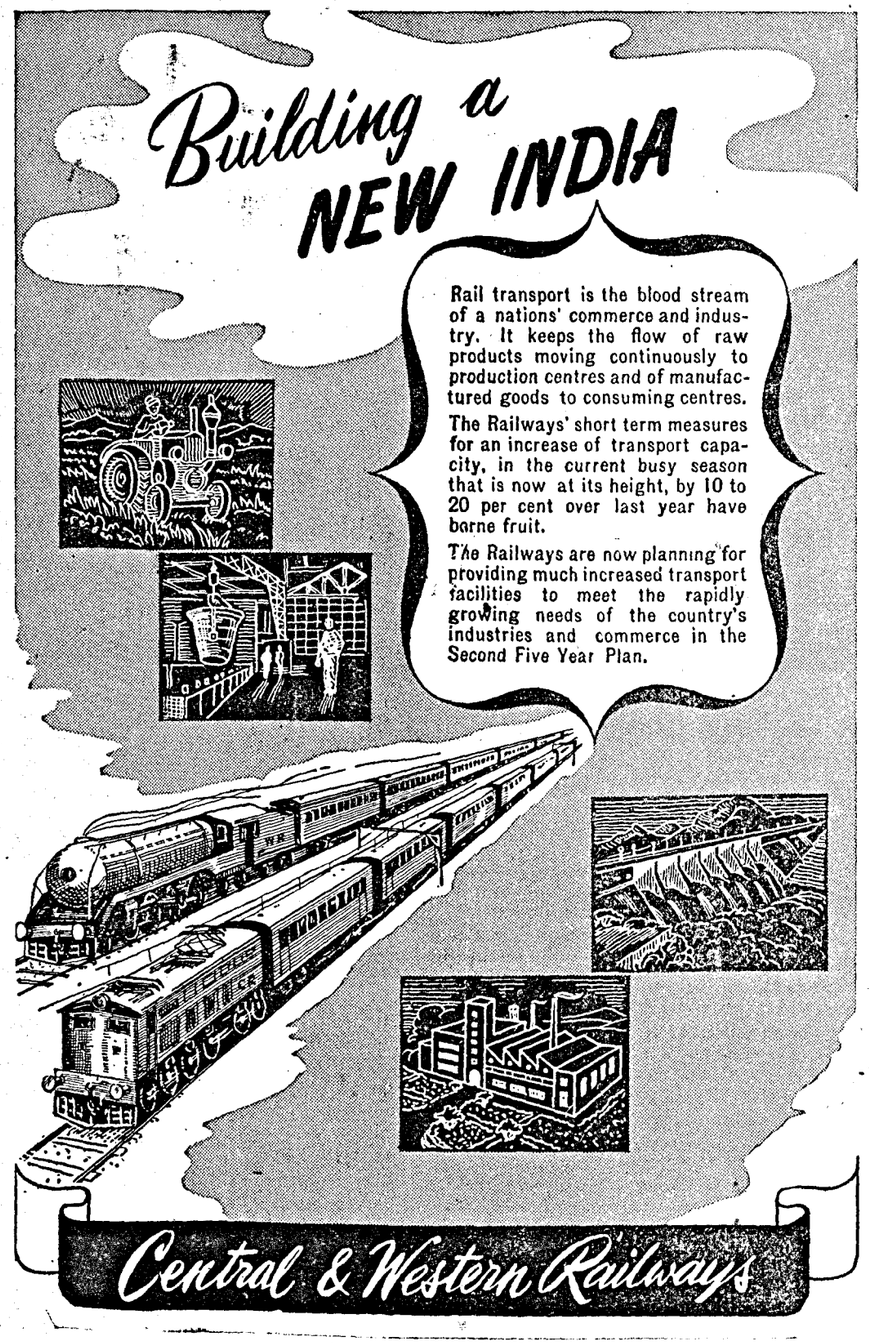
April 28, A Reader, afterwards called X. Letter to the Editor.

A Contributor, afterwards called Y. "Role of Small Industries: Economic Pundits Confuse".

May 5, K N Raj, X and Y Letters to the Editor.

May 12, M N Ghosh, "Choice of Technique".

A Rudra, "The Problem of Technological Choice".



using techniques. And so long as they stick to favouring techniques which are properly speaking **superior**, they have a very strong case. But it is precisely the pundits, with their conception of "the production function" and "factor endowment" who should be most ready to accept the idea that "more mechanised" is not the same thing as "superior" and that different degrees of mechanisation are appropriate in different circumstances. (In his reply to Y's chaff about the pundits, Dr Raj was putting on a cap that did not fit, for he does not fall into this confusion.)

The true problem, explored by Dr Raj and Dr Rudra, is to choose between a more mechanised technique, which requires a larger investment per unit of output with less labour to operate it, and a less mechanised technique which requires a smaller investment and more labour. In Dr Raj's example technique I (handlooms) is inferior to II (semi-automatic looms), and I drops out of the argument. Technique III (fully automatic looms) offers a smaller output for a given investment than II, and requires very much less labour. How should we choose between them?

On pure capitalist principles of profit maximisation, the choice of technique depends upon the relation of wages to prices. Given the expected prices for the product, a higher level of money wages favours III (which requires less labour to operate) and a lower level favours II. At some level of wages they both promise an equal profit on the investment. In a high-wage country, II has long since been out of the question, but in India it still may be as good an investment as III.

What light does the profit criterion throw on the question of which is the right choice for the nation? Dr Raj's main point is that there may be a bias in favour of III even if it is not more profitable than II. III is appropriate to be operated by capitalist firms (the assumed investment ration is put, say, into extension and modernisation of existing factories) while II is appropriate to scattered small scale concerns. III has organised interests to press for it, and plans already worked out. II requires help in marketing, finance, and organisation to be given to many small producers. It is the line of least resistance to give organised industry its lead. Moreover, within organised industry there is a bias in favour of mechanised techinques. Machines are more docile than men. The future is uncertain, and wages are more likely to rise than to fall. There is a certain snob value in the "latest thing", and the latest thing, being drawn from high-wage capitalist countries is highly mechanised. All this means that a more mechanised technique is preferred even when it is somewhat less profitable.

But to rely on these arguments is to miss the real issue. Dr Raj has fixed his example so that technique II is the most profitable (though it would not be so if it was obliged to pay the rate of wages that obtains for III). Here there is a clear case for II, and nothing more need be said.*

The interesting case to discuss, and surely the most general, is the one in which the wage rate is such that technique III promises a higher rate of profit on investment*. This is the situation which Dr Rudra presumably has in mind and his argument may be restated as follows:

If we put this year's ration of investment into III we shall have a smaller increment of output next year, but a larger increment of profit. This profit represents a surplus available for investment, so that next year's total investment can be greater. (Dr Rudra suggests that it can be used for labour-intensive land reclamation schemes, which are valuable in themselves and provide employment.)

The essence of the argument is that the smaller increment of output yields the larger increment of surplus. This is the central issue, though in actual cases it is always overlaid with confusing complications.

Now pause and consider what is really being said. Surely if there were a larger total output next year (if technique II were preferred) there must be a greater potential surplus —a greater excess of consumable goods over the bare subsistence of the population. For a private employer surplus is an excess over wages, but from the national point of view wages are just as much part of the product as profits.

The trouble is that technique II involves more employment (of wage workers or self-employed artisans) and the potential surplus cannot be extracted from the workers once it has come into their hands. With technique III the potential surplus is smaller but more of it is neatly collected in the form of profits and so can be easily tapped.

Here comes a question that no one seems to have raised during this discussion. Is it so easily tapped? How much of the profit will be transmitted abroad? How much will be distributed and consumed by the families of capitalists? How much will be invested by the firms to whom it accrues instead of going into the Plan? Everyone seems to equate profit with investible surplus, but this seems to me a rather dubious assumption. By choosing technique III rather than II, we are, to state the matter crudely, preferring profits to wages, and this can be justified only if the profits are put to better use than wages from a national point of view.

The dilemma of the choice of techniques is a real one and it is no good pretending that there is one obviously right answer to it. To weigh up the alternatives we need to know more. Can Dr Raj give us an estimate of how much greater, for a given investment, the output of consumer goods would be (allowing a reasonable interval for getting through teething troubles) if small scale industry is fostered, and can

* It can be seen in Dr Raj's example that the wage rate at which II and III are equally profitable is approximately Rs 1,380. At any higher wage, III is more profitable than II.

*The example can be re-arranged as follows:
Investment Rs. 160,000

Technique	I	II	III
Cost per loom Rs.	50	200	10,000
No. of looms	3,200	800	16
No. of workers	3,200	800	1
Wage rate Rs.	300	900	1,500
Value of product Rs	960,000	1,200,000	96,000
Wages Bills Rs	960,000	720,000	1,500
Gross Profit Rs	0	480,000	94,500

The investment is the initial cost of new looms, and to arrive at net profit on the investment it would be necessary to know the rate of amortisation of each type.

Dr Rudra tell us how much additional investible funds he expects to be extracted if capitalist firms are allowed to re-equip? It would be a great help to have even the sketchiest idea of the orders of magnitude involved.

Furthermore, it is relevant to know whether different kinds of investible resources are required for the different techniques. If III requires foreign exchange but II can be set up from local production, the initial investment ration might be more generous if II is chosen. (Even poor old I may score heavily on this point.) On the other hand investment in III may draw in foreign loans that would not otherwise be available.

Important but imponderable considerations also have to be remembered. The technique with the larger wages bill is fattening up more people and getting them into the swim of economic development. It may be scattered over the country and does not require further overcrowding of city slums. On the other hand the more mechanised technique strengthens the highly developed part of the economy and fosters modern engineering and the technologist's outlook on life. Anyone who has a prejudice for either side can find plenty of plausible arguments to support it.

It is obvious enough where political considerations come in, and there does not seem to be much hope that pure economic argument will be able to make head against the passions that it arouses.

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G. DODDS
Manager

Salient Features of the Plan

The Plan has been drawn up with four fundamental objectives:

(a) A sizeable increase in national income so as to raise the level of living in the country; (b) rapid industrialisation with particular emphasis on the development of basic and heavy industry; (c) a large expansion of employment opportunities; and (d) reduction of inequalities in wealth and income and a more even distribution of economic power.

THE object of planning in India is to implement the social and economic policy which is embodied in the Directive Principles of State Policy in the Constitution and which has been reflected recently in the enunciation of the Socialist Pattern of Society as the objective placed before the country. Implementing such a policy implies primarily the raising of living standards in the country and for this purpose the generation of a dynamism in the economy which will lift it to continually higher levels of material well-being and of intellectual and cultural achievements.

Standards of living in the country are very low. "There are large areas which are underdeveloped even in relation to the rest of the country and there are classes of the population which are almost untouched by modern progressive ideas and techniques." Since speed is, therefore, essential, the Commission stresses that, "for several plan periods to come, it is on the mobilisation of the effort rather than on the gains and returns arising therefrom that attention has to be concentrated."

Economic development is intended to expand the community's productive power and to provide the environment in which there is scope for the expression and application of diverse faculties and urges. But the task before an underdeveloped country is "not merely to get better results within the existing framework of economic and social institutions but to mould and refashion these so that they contribute effectively to the realisation of wider and deeper social values." These values are summed up in the phrase "socialist pattern of society."

The Approach

The Planning Commission has expounded this approach at some length. Essentially, it says, "this means that the basic criterion for determining the lines of advance must not be private profit but social gain, and that the pattern of development and the structure of socio-economic relations should be so planned that they result not only in appreciable increases in national income and employment but also in greater equality in incomes and wealth. Major decisions regarding production, distribution and investment — and in fact all significant socio-economic relationships—must be made by agencies informed by social purpose. The benefits of economic development must accrue more and more to the relatively less privileged classes of society and there should be a progressive reduction of the concentration of incomes, wealth and economic power. The problem is to create a milieu in which the small man who has so far had little opportunity of perceiving and participating in the immense possibilities of growth through organised effort is enabled to put in his best in the interests of a higher standard of life for himself and increased prosperity for the country."

Sphere of the State

It is the implementation of this policy in a situation in which large scale production and a unified control and allocation of resources in certain major lines of activity becomes essential because of the use of modern technology that makes necessary an increasing measure of economic activity by the State. The Commission insists that "in the rest of the economy conditions have to be created in which there is full scope for private initiative and enterprise either on an individual or on a co-operative basis."

There is an interesting analysis of the key factors in economic growth. These are the rate of growth of population, the proportion of the current income of the community devoted to capital formation, and the return by way of additional output on the investment thus undertaken. On the basis of various assumptions regarding these three the Planning Commission has presented a picture of the growth of the economy which it visualises during the next few Plans. In terms of this projection national income is likely to be doubled in 1967-68 and per capita incomes would be doubled by 1973-74.

The changes in national income, investment and consumption indicated in the Plan will also be accompanied by far-reaching changes in the pattern of economic activity. One of the principal areas in which such a change in pattern will be seen is the occupational structure in India. There has been no substantial change in the occupational distribution of labour over the last three or four decades. Agriculture and allied pursuits absorb about 70 per cent of the working force, mining and factory industry absorb only 2.6 per cent. Small enterprises including construction take up some 8 per cent, about 7 per cent of the working force is engaged in transport, communications and trade; public administration, professions and liberal arts and domestic services account for over 10 per cent.

This shows clearly that the secondary and tertiary sectors have not grown rapidly enough to make an impact on the primary sector. Since the net output per worker in agriculture and allied pursuits is at present barely one-fifth of that in mining and factory establishments and one-third of that in the trade and services sector, a change in the occupational pattern is essential even to increase the per capita national income. As the Planning Commission points out, "Development involves a transfer of a part of the working force from agriculture to secondary and tertiary activities, but this, in turn, presupposes an increase in the productivity in agriculture itself, if the food and raw material requirements of a developing economy are to be met."

Change in Occupational Pattern

The objective of policy from the long-term point of view should clearly be to keep to the minimum further increases in the working force in agriculture. In this sector, effort has to be concentrated on raising productivity and incomes rather than on increasing employment in terms of numbers. Similarly, the Commission concludes that there is little scope for increasing the working force in traditional small scale industries, which are already bur-

dened with excessive numbers. "The bulk of the new employment opportunities", the Commission says, "have therefore, to be found in mining and in modern industry, large-scale as well as small-scale, in construction and in tertiary occupations." While some increases in the labour force in agriculture cannot be prevented for some years, the object is to bring down the proportion of the agricultural labour force to 60 per cent by 1975-76. A four-fold increase in the numbers engaged in mining and factory establishments has to be brought about, and the investment pattern in the plans has to be adjusted to these requirements.

Fundamental Objectives

The Plan has been drawn up with four fundamental objectives:

(a) A sizeable increase in national income so as to raise the level of living in the country;

(b) rapid industrialisation with particular emphasis on the development of basic and heavy industries;

(c) a large expansion of employment opportunities; and

(d) reduction of inequalities in wealth and income and a more even distribution of economic power.

These objectives are inter-related. The achievement of a rapid increase in national income is dependent upon the expansion of the industrial base. The promotion of basic industries like steel, machine building, coal and heavy chemicals are therefore given primary importance under the Plan. The need for a solution of the problem of unemployment in the country complicates the position in this respect considerably. The provision of employment is a need in itself, it does not necessarily follow from the first two objectives. It is however necessary for the fulfilment of the fourth. That development should result in a diminution of economic and social inequalities and should be achieved through democratic means and processes is the basis underlying the approach to the Second Plan.

The fact that to some extent these objectives are contradictory has led the Planning Commission to indicate its view that "excessive emphasis on any of them may damage the economy and delay the realisation of the very objective which is being stressed." The limitation provided by the scarcity of resources is of course the fundamental feature of the present situation.

As the plan aims at laying the basis for rapid industrialisation in the future it lays considerable stress on heavy industries. As the Commission admits, however, investment in basic industries creates demands for consumer goods but it does not enlarge the supply of consumer goods in the short run; nor does it directly absorb any large quantities of labour. The utilization of labour for increasing supply of much needed consumer goods in a manner which minimizes the use of capital is therefore, an essential feature of the Plan. The Commission argues that though the cost of the product may be somewhat higher when labour intensive methods are used this may be justified by the need to absorb labour, which is an important objective in itself. It takes the view, however, that the sacrifice involved in consumption, which is inevitable while the economy is being strengthened at the base, will diminish as the economy expands. In the long run the community will get increasingly large returns.

The Plan is, therefore, claimed to be an employment oriented one. This implies, the Commission says "much more than determining the optimum

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scale of investment." The problem of employment, however, cannot be approached merely in overall terms. In its examination of the approach to the Plan the Commission stresses that the problem must be broken up in terms of sectors, regions and classes. Unfortunately this statement does not really find expression in the body of the Plan.

The Plan is expected to provide employment opportunities for the new entrants to the labour force and to relieve under-employment in agriculture and in village and small-scale industries.

It is admitted that "The Plan will not have a sufficient impact on the carry-over of employment of the earlier period." But since unemployment in an under-developed economy is only another aspect of the problem of development the Commission seems to be satisfied that it is taking steps in the right direction so as ultimately to achieve a solution of the problem.

At the same time the Plan stresses that improvements in productivity are the pre-condition for the rapid growth of employment over the long run. Over a period the Commission asserts "The volume of employment grows only as the supply of tools and equipment on the one hand and of the wage goods on which the incomes of the newly employed can be spent is expanded." It is in this context that the Commission makes what appear to be contradictory statements, though they need not necessarily be so. It urges on the one hand that "It is imperative that in a country with an abundant supply of manpower, labour intensive modes of production should receive preference all along the line." At the same time, it says that "It is nevertheless true that labour saving devices in particular lines are often a necessary condition for increasing employment opportunities in the system as a whole."

The aim of the Second Five-Year Plan is to bring about a 25 per cent increase in national income. During the First Five-Year Plan the national income rose from Rs. 9,110 crores to Rs. 10,800 crores which meant a rise in per capita income of 11 per cent from Rs. 253 to Rs. 281. During the next five years it is anticipated that the national income will rise from Rs. 10,800 crores to Rs. 13,480 crores, while per capita income will rise by 18 per cent from Rs. 281 to Rs. 330. All these figures are expressed in 1952-53 prices.

To achieve these targets, the Plan proposes a total developmental outlay in the public sector of Rs. 4,800 crores and an estimated investment of Rs. 2,400 crores in the private sector. Though the investment in the Second Plan will be more than double that in the First Plan, the rate of growth of national income will not be doubled during this period. This is partly explained by the shift in the pattern of investment which is considered to be necessary in order to lay the foundations of industrialisation in the country. The shift in emphasis can be seen in the Table on the next page in terms of the proportions which are proposed to be spent on different items in the Second Plan as compared to the First.

The most striking change is the increase in the share of industry and mining from 7.6 per cent of the total public sector outlay in the First Plan to 18.5 per cent in the Second Plan. The other sector which shows an increase is transport and communications, whose share is increased from 23.6 per cent to 28.9 per cent. Since in each case these are proportions of a much larger amount in the Second Plan, it is clear that there is a very substantial increase in the amounts to be invested in these sectors during the Second Plan. The high investment in transport and communications must in fact be considered as a concomitant of the substantial step up of the investment in the industrial sector and more particularly of the shift in the pattern of industrial investment. The transport component of heavy industries is very substantial indeed.

Corresponding to these increases in these two sectors, the other sectors show reductions. It should be clearly noted, however, that the absolute amounts to be spent in each sector are still higher than before. Agriculture and community development shows a fall from 15.1 per cent to 11.8 per cent, while irrigation and power shows a fall from 28.1 per cent to 19 per cent and social services from 22.6 to 19.7 per cent between the two plans.

The emphasis laid on industry and mining in the Second Plan is brought out still more clearly perhaps by a comparison of the absolute amounts, which show an increase from Rs. 179 to Rs. 890 crores. Apart from this, considerable investment is to take place in this sector on the part of private enterprise, the amount being Rs 575 crores not including some private investment in cottage and small-scale industries.

Of the total expenditure of Rs. 4,800 crores roughly Rs. 3,800 crores represents investment while Rs. 1000 crores is current developmental expenditure. It is this figure of Rs 3,800 crores of investment in the public sector that should in reality be compared with the private sector investment of Rs. 2,400 crores envisaged for the Second Plan. The investment in the private sector is thus to be stepped up from an estimated 1,600 crores to 2,400 crores. The total investment, public and private is to be raised from 3,100 crores in the First Plan to 6,200 crores in the Second.

The scheme of financing envisaged for the public sector outlay of Rs 4,800 crores shows that external aid, deficit financing and the gap to be covered by additional measures to raise domestic resources cover exactly half the total planned outlay. In other words, the budgetary resources that can be raised through taxation, borrowing and other receipts amount to Rs. 2,400 crores.

Rs. 350 crores has been estimated as the surplus from current revenues at 1955-56 rates of taxation. In making this estimate which covers both central and State governments, "provision has been made for only minimum increases in expenditure under non-developmental heads such as defence and administration." The maintenance expenditure on social services and similar developmental items at the level reached by the end of 1955-56 has also been allowed for since expenditure of this type has not been included in the Plan. The Commission stresses that should non-developmental expenditure go up, or should there be any significant loss of revenue on account of the adoption of social measures such as prohibition, there will have to be a corresponding effort simultaneously to raise further resources if this amount is to be obtained.

Additional taxation is expected to provide Rs 450 crores. In arriving at this figure "the recommendations of the Taxation Enquiry Commission have been taken into account." Borrowing from the public is expected to yield Rs. 700 crores as compared with the net absorption of securities by the market (including commercial banks) during the First Plan of Rs. 250 crores. Since Rs. 430

crores of loans mature during the period, gross borrowings over the period will have to be of the order of Rs. 1130 crores. The demand for funds by the private sector has also to be kept in mind in this connection and this is bound to be brisk in view of the private sector's investment programme in the Plan.

The Railway contribution is expected to be Rs 150 crores as compared to Rs 115 crores during the First Plan, while Rs 250 is expected to be obtained from Provident Funds and other deposit heads. The foreign aid of Rs 800 crores estimated under the Plan should be compared to Rs 200 utilised during the First Plan.

This picture is not very bright. That is why the Planning Commission admits that "the Second Five Year Plan will strain the financial resources of the country."

Looked at from another viewpoint also, the picture is equally depressing. Whereas the current developmental outlay in the public sector is Rs 1000 crores, the surplus from current revenues, plus the railway contribution together amount to only Rs 950 crores. "There is thus no public saving available," says the Planning Commission "for financing the investment outlay of Rs. 3800 crores; there is in fact a dissaving of Rs. 50 crores. The entire capital formation of Rs. 3800 crores—and a little more—will have to be financed by a draft on private savings." Allowing for the external aid and the drawing down of sterling balances by Rs. 200 crores, "the amount of current private savings within the economy to be channelled into public investment would work out at Rs. 2850 crores. Even if the gap is covered by public savings, the transfer of private savings to the public sector will have to be of the order of Rs 2450 crores.

The foreign exchange position is also likely to prove difficult during the Plan. The Commission makes a number of assumptions:

(a) That the terms of trade in the next five years will remain on an average, the same as they have been in 1955-56 (first nine months) and

(b) that inflationary pressures will be held firmly under control.

On these assumptions, exports are expected to rise from Rs 573 crores annually in 1956-57 to Rs 615 crores in 1960-61, while imports will rise substantially over the first four years, resulting in a negative trade sterling balances by Rs. 200 crores balance of about Rs 1375 crores over will cover a part of the gap. The the Plan period—or Rs 295 crores a balance of Rs. 900 crores remains to year on average. After allowing for be covered. If the Rs 800 crores of the surplus on invisibles, the deficit foreign aid to the public sector and on current account works out to a Rs 100 crores of private foreign total of Rs. 1,120 crores—or Rs. 224 capital envisaged in the Plan mate- crores a year. Drawing down of rialise, this gap will be covered.

Distribution of Plan Outlay

	First Plan		Second Plan	
	Rs crores	% of total	Rs crores	% of total
AGRICULTURE AND COMMUNITY DEVELOPMENT	357	15.1	568	11.8
Agriculture	241	10.2	341	7.1
Agriculture Programme	197	8.3	170	3.5
Animal Husbandry	22	1.0	56	1.1
Forests	10	0.4	47	1.0
Irrigation	384	16.3	381	17.9
Power	260	11.1	427	8.9
Flood control and other projects, investigations, etc.	17	0.7	105	2.2
INDUSTRY AND MINING	179	7.6	890	18.5
Large and Medium Industries	148	6.3	617	12.9
Mineral development	1	—	73	1.5
Village & Small Industries	30	1.3	200	4.1
TRANSPORT AND COMMUNICATIONS	557	23.6	1385	28.9
Railways	268	11.4	900	18.8
Roads	130	5.5	246	5.1
Road Transport	12	0.5	17	0.4
Ports & Harbours	34	1.4	45	0.9
Shipping	26	1.1	48	1.0
Inland Water Transport	—	—	3	0.1
Civil Air Transport	24	1.0	43	0.9
Other Transport	3	0.1	7	0.1
Posts & Telegraphs	50	2.2	63	1.3
Other Communications	5	0.2	4	1.3
Broadcasting	5	0.2	9	0.2
SOCIAL SERVICES	553	22.6	945	19.7
Education	164	7.0	307	6.4
Health	140	5.9	274	5.7
Housing	49	2.1	120	2.5
Welfare of backward classes	32	1.3	91	1.9
Social Welfare	5	0.2	29	0.6
Labour and Labour Welfare	7	0.3	29	0.6
Rehabilitation	7	0.3	29	0.6
Special schemes relating to educated unemployment	—	—	5	0.1
MISCELLANEOUS	69	3.0	99	2.1
TOTAL:	2556	100.0	4800	100.0

Labour Policy and Programme in the Plan

(From our Labour Corresspondent)

Labour has still not received the attention that it deserves. The chapter on labour contains mostly academic discussion and gratuitous advice to employers and workers with very few proposals for state action.

A socialist society is built up not solely on monetary incentives, but on ideas of service to society and the willingness on the part of society to recognise such service. This clearly absolves the state from monetary liabilities, except when the state itself is an employer. In an industrial democracy, matters are to be settled by the employers and the employees and the state remains the third party.

It is this benevelent and paternal state approach which pervades the Second Plan in the various suggestions made in the chapter on labour.

THE chapter on labour policy and programmes in the Second Plan reviews the progress achieved in the First Plan period, draws attention to existing problems in labour affairs and suggests measures to mitigate existing evils. While most of labour's rights have long been neglected, the First Plan had attempted to recognise them by giving certain assurances. Labour's response, it is stated, has been satisfactory on the whole. The success of the First Plan in the labour field is marked by such factors as improvement in industrial relations, working of the joint consultative machinery at various levels, increase in real earnings, extension of social security measures, planning of the Central Labour Institute, productivity studies, addition in housing etc. It is doubtful whether all these activities should really be attributed to the First Plan since most of them could have taken place even under normal circumstances. The review also admits that much remains to be done, especially in matters like covering the distance between the existing wage and a fair wage for labour.

On this inadequate basis, the labour policy of the Second Plan has been framed, though it has to be trimmed to fit in with the socialist pattern of society. A socialist society is built up not solely on monetary incentives, but on ideas of service to society and the willingness on the part of the society to recognise such service. This clearly absolves the state from monetary liabilities, except when the state itself is an employer. In an industrial democracy, matters are to be settled by the employers and the employees and the state remains the third party mainly to give advice, sometimes to provide the background atmosphere by enacting and enforcing legislation, and rarely to incur expenditure by setting up some machinery for some such purpose as settlement of disputes, employment service or welfare work. It is this benevolent and paternal state approach which pervades the Second Plan in the various suggestions made in the chapter on labour.

Trade Unions

Dealing with the trade unions, the Plan brings out the existing defects in our trade unionism, such as multiplicity of trade unions, political rivalries, lack of resources and disunity in the ranks of workers. The measures suggested to strengthen the trade union movement are reduction in the number of outsiders, recognition of representative unions under certain conditions and improvements in trade union finances.

The state approach to industrial relations can be clearly seen in the statement that industrial peace can best be achieved by the parties themselves and that labour legislation and enforcement machinery set up for its implementation can only provide a suitable framework in which employers and workers can function. The Plan cites some of the recent agreements between employers and employees in Ahmedabad, Bombay and Jamshedpur, on issues like bonus and workers' participation in management. These agreements, particularly the one in Jamshedpur, are no doubt healthy developments in labour matters. They are inadequate, however, to influence the large mass of employers and workers, without the active co-operation of the employers' and employees' organisations.

Measures for Industrial Peace

To achieve happy industrial relations, the Plan recommends such measures as undertaking studies in factors which have made for industrial harmony in establishments with a long tradition of peaceful working; avoidance of disputes at all levels, including the last stage of mutual negotiations, namely conciliation; adequate implementation and enforcement of awards and agreements; proper utilisation of joint consultative machinery (bipartite and tripartite); and increased association of labour with management. These are no doubt important methods. The complex problems of industrial relations arise, however, out of innumerable causes, direct and indirect, and hence all methods, which can eliminate or lessen these causes, can be said to be methods of industrial peace. Improvement of working and living conditions of workers, recognition of their status, welfare work, collective bargaining, legal enactment, profit sharing, and such other factors can also be described as methods of achieving industrial peace. Though the matter is mainly between the employer and his employees, the state can play an important role in the prevention and settlement of industrial disputes.

Recent acts of indiscipline and violence have naturally aroused concern and the Plan recommends that in return for recognition of the workers' claims to improve his economic and social status, he should put in hard and efficient work and avoid indiscipline at any cost. Existing provisions for penalising illegal strikes or lockouts have proved inadequate in practice and there have been instances of 'go-slow', 'pen-down' and 'stay-in-strikes'. Making them more stringent may, however, only strengthen the hands of the employers without in any way helping to establish industrial peace. This suggests that methods like enforcement of labour laws are of no use, if the worker is discontented. A contented labour force is a great asset to industrial peace and hence the need to improve the working and living conditions of workers.

The Plan relates wages to productivity. It asserts that improvement in wages, can result mainly from increased productivity. The worker can ask for higher wages,

only if and when he produces more. This is, to put it mildly, unfair. Increased income from higher productivity can be distributed in the form of bonus, profit-sharing and dividends. However, the worker's claim for a fair wage need not depend on the quantity produced, for which many other factors besides labour are responsible. The Plan, however, concentrates on increased productivity and suggests for this purpose such measures as better lay-out of plants, improvement in working conditions, training of workers and introduction of payment by results in areas where at present this principle does not apply.

Two more aspects of wage policy raised by the Plan are: (i)laying down of principles to bring wages into conformity with the expectations of the working class in the future pattern of society; and (ii) the settlement of wage disputes in the interim period. Methods suggested include undertaking of a wage census, appointment of a wage commission, revision of the present series of cost of living indices at different centres, setting up of a tripartite wage board and study of the principles relating to the settlement of bonus and profit-sharing disputes.

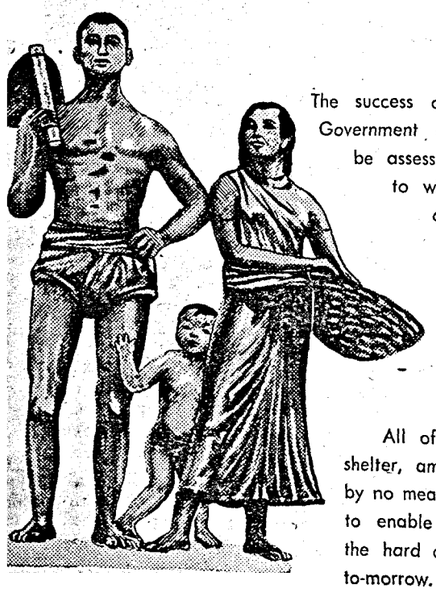
The recommendations of the Plan relating to social security are somewhat vague, in as much as they fail to give a clear picture of the proposed expansion. The possibility of having a unified and comprehensive scheme of social security is alluring, though actual experience of existing schemes in this field of social welfare creates apprehensions regarding their utility. The problem of rationalisation is of topical value and the Plan desires to have a broad policy on this vexed question.

The Plan suggests that certain groups of workers, such as the contract labour, agricultural labour and women workers, need special treatment, because of problems peculiar to them. It may be necessary to have intensive surveys in the problems of these categories of labour before suggestions for improving their conditions are made.

Despite the above, the Plan appears to fall short of the requirements of the country. There is, no doubt, however, that if these proposals are implemented in the proper spirit, much progress can be achieved. Active and willing co-operation of the two parties—the employers and the working classes —is an essential prerequisite for the success of the Plan. The maximum possible effort needs to be made to achieve this co-operation, which in itself should be an important objective.

The state has to bear an additional responsibility in its role as an employer. The public sector is growing and will grow further in future and the acid test for the state is to follow the advice it has so far generously given to employers in the spheres of trade unionism, wage policy, industrial relations, treatment of contract labour and women workers, etc. The Plan recommends that managements of public undertakings should not normally seek exemption from labour laws or ask for other concessions not available to the private sector. The existing practice however is different and Government undertakings try their best to get exemptions from the operation of labour laws, mainly on the ground that they are non-competitive and non-commercial in character. Employers in the public sector should serve as models to those in the private sector, by following diligently the various recommendations made by the state in the labour field.

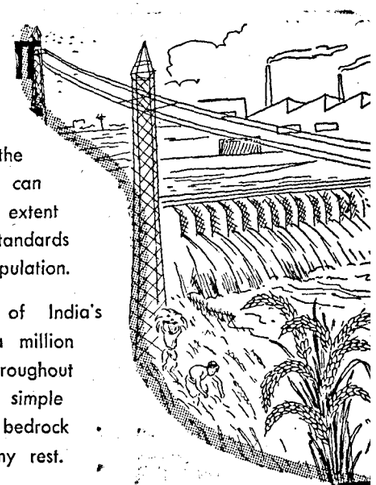
PLANS and the PEOPLE



The success of the current Five Year Plan of the Government of India and all plans to follow can be assessed, in the final analysis, only by the extent to which they serve to raise the living standards of the bulk of the country's vast population.

Perhaps as much as 75% of India's population live in the half a million or so of villages spread throughout the country, and these simple tillers of the soil form the bedrock on which India's life and economy rest.

All of them must be provided with adequate shelter, ample food, suitable clothes and, last but by no means least, *durable and comfortable footwear* to enable them to advance with confidence over the hard and stony path of exertion to a brighter to-morrow.



Bata

SHOEMAKERS TO THE NATIO

Grouse Against the Plan

All Industries North of Vindhya!

(From a Correspondent in the South)

Though CR's call for a merger of the southern States may not have aroused much enthusiasm, his warning against the danger of the South being swamped by the bigger States in the North has not gone unheeded.

The complaint is insistent and universal that the South has had a raw deal, that most of the industries are located north of the Vindhya range and that Delhi's pledge of ensuring parallel progress has not been honoured.

There is little evidence, however, of attempts at remedying the situation by self-help, through closer co-operation among the States in the South, even in the matter of major schemes and projects which are of common concern to all of them.

IN one of his recent public pronouncements, Shri Rajagopalachari had warned against the danger of the smaller linguistic States in the South being swamped, both politically and economically, by the bigger States in the North. This was one of his arguments in support of his case for the creation of a large multi-lingual State in the South.

But even those who oppose the Southern State idea, hold that the South has had a raw deal and will continue to be economically backward compared to the States of the North. Their case is not so much that the allocations for the South in the two Plans have not been proportional to the size or population of the area as that these allocations have not been sufficiently weighted to correct the backwardness of the region. They point out that while the Planning Commission and the National Development Council have always promised to see that there is parallel progress in all regions, with none lagging behind, little has been done to honour these pledges. They notice with dismay that practically every major industrial unit, especially all the foreign aided ones, that have come into being in the last two years, or are proposed to be set up, are to the north of the Vindhya range. What they want is the location of at least some of the new industries in the South.

Andhra, Madras, Mysore and Kerala, the four new political units that will come into being as a result of the reorganisation of States, will together have a population of about 100 million or one fourth of India's total population concentrated in an area (250,000 sq miles) which is about one fifth of India. In an essentially agricultural area, such density of population (which is as much as 1000 per sq mile in some parts) means an adverse man-land ratio. This excessive pressure on land can only be relieved if this surplus man-power is drawn into industries, large and small. But with the exception of Mysore there has been little industrial expansion in the South since 1947.

Lignite Project

True, this has been not due solely to neglect by the Centre. The other contributing factors have been the absence of a private sector capable of entering the industrial field in a big way and lack of coal, access to the coal fields of Bihar being rendered uneconomic by the rail bottleneck at Bezwada and high shipping freights. As a result, most of the major industrial units in the South are in the public sector and are of pre-independence origin; the Hindusthan Ship-yard at Vishakhapatnam and the Iron and Steel works at Bhadravati.

Much hope is now being pinned on the outcome of the pilot project at Neiveli. If the scheme is successful, the lignite mined there could provide the fuel needed by a whole host of industrial plants. But the Neiveli Project which would cost as much as a new steel mill (Rs 70 crores) is still in the exploratory stage. It has yet to be proved that the difficulty presented by the high pressure artesian springs that occur among the deposits can be overcome, and, that, after all these operations, the thermal power derived will be economical compared to coal from Bihar.

Steel Plant and Fertiliser Factory

Success at Neiveli would strengthen the case of the South for the location of one of the steel plants in the South (Salem with traces of iron deposits has been suggested as a possible site, off and on). There are also arguments for the location of a fertiliser factory nearby and the erection of an electrical plant in Avadi. Other industries suggested with less force have been an aluminium plant, a heavy machinery industry and a chemical industry.

As far as the location of an electrical machinery plant is concerned it can be stated that the South has a special claim. While it leads the rest of the country in hydro-electric development, it is at the same time handicapped in its rural electrification schemes by the lack of such accessories as transformers, for instance. The demand for electrical machinery is bound to grow further with the completion of the giant Tungabhadra and Machkund projects. It is a demand which would not remain static after the completion of these projects, as even then the generating capacity would only be 20 per cent of the region's potential.

The case for the location of a fertiliser factory in the South is just as strong because food production in the area, where land holdings are small compared to the North, can only make further advances through intensive cultivation: the use of scientific methods and above all by wider use of chemical manures which for many reasons is not very popular in the region today.

Inter-State Cooperation

Meanwhile inter-State cooperation is necessary in order to develop the full irrigation potential of the region which is estimated at 31 million acres. The inter-State cooperation will be found very fruitful in the matter of the use of waters of the many rivers (the Tungabhadra, the Krishna, the Cauveri and the Periyar) which flow through more than one State. In the absence of such cooperation many areas like the West Coast, which are deficit in food, will continue to remain so, especially as most of the water from the Western Ghats drain into the Arabian sea wastefully. This is equally true of electric power production in the area. Periodical power cuts in one area or the other, consequent on the failure of monsoons, can be obviated by the southern States establishing one big regional grid.

The foregoing has been an attempt not so much to highlight the grouses of the South as to examine what the South itself could do to improve its economy. Central aid to establish a steel plant in Salem or a fertiliser factory in Mysore cannot by itself raise the standard of living or relieve the unemployment situation appreciably. As the Second Plan allocations stand, today, Madras is unhappy because her Rs 400 crore plan has been pruned down to a more realistic Rs. 170 crore plan. Similarly, Mysore which has ambitious projects like the Bhadra and the Honnenerudu projects (the latter is expected, when completed, to be one of the largest single hydro-electric schemes in Asia) is peeved because, of the expected Central aid of Rs. 12 crores, there has been indication so far of only Rs. 3 crores forthcoming.

The decision of the Madras State to spend Rs. 35 crores in the first year of the Second Plan, may suggest that the final size of the State's plan can be of the order of Rs. 245 crores (on the basis of the calculation of the Planning Commission that the total outlay should be seven times the expenditure in the first year of the Plan). But the tameness of the budgets produced by the Finance Ministers of the other Southern States belie such expectations. On record is also the fact, for instance, that the funds realised through additional taxation by these States during the first four years of the First Plan were woefully behind targets: as against an expectation of Rs. 69 crores only Rs. 14 crores was raised.

When this is the record the only salvation for the Southern States would seem to lie in getting more out of the Plan with their limited resources by drastically cutting down all non-developmental expenditure, and avoiding overlapping through participating in the Plan as a region. And if the idea of a multi-lingual State is politically found unpalatable by some, there can at least be inter-State co-operation where major schemes and projects are involved.

Bank of Rajasthan

A SUBSTANTIAL increase of 34.2 per cent in the working funds and a net rise of Rs 64 lakhs in deposits marked the working of the Bank of Rajasthan Limited for the year 1955. The liquid resources of the bank consisting of Cash & Bank Balances, Investments and Bills have been further strengthened from Rs 182.45 lakhs to Rs 248.20 lakhs so that they now form 195.8 per cent of Demand Liabilities and 87.2 per cent of total liabilities as against 168.8 per cent and 86.2 per cent in 1954.

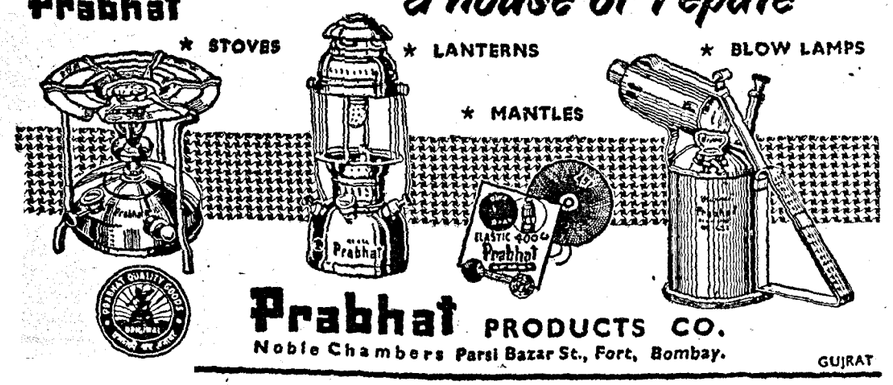
One feature of the bank's working to which the bank has drawn attention in its report suggests an intriguing situation. The average of the bank's advances for the year was only 30.4 per cent of the average deposits "while it should normally be atleast 50 per cent". Two reasons are given for this: (a) The losses suffered by the business community due to the fall in agricultural prices some time after the harvest made them chary of holding stocks and (b) The damage to the cotton and jowar crops, which arrested the growth of advances during the fourth quarter of the year.

Since such factors frequently affect the working of the bank and since it has substantial liquid resources, the report says 'your Directors are, therefore, thinking at an opportune time to open branches of the bank at big commercial centres of the country where surplus funds may be advantageously utilised, throughout the year". While this may no doubt be desirable from the immediate point of view of the bank, it would bring about a drain of funds from Rajasthan to the big commercial centres which is exactly what the Rural Credit Survey Committee had suggested should be avoided. Everything should be done to stimulate the utilisation of funds within the region.

In any case, the low level of advances which form the remunerative class of business was one of the factors responsible for the fall in the net profit of the bank by Rs 13,420. The other factor was the increasing costs arising out of the increase in the average interest paid on deposits from 1.68 per cent to 1.73 per cent and the increase in salary of the staff on account of the Award by 5.02 per cent as compared with the previous year. A provision of nearly Rs 25 thousand has been made for the Reserve Fund to raise it to Rs 3.5 lakhs. Dividend has been maintained at 3½ per cent per annum free of income tax.

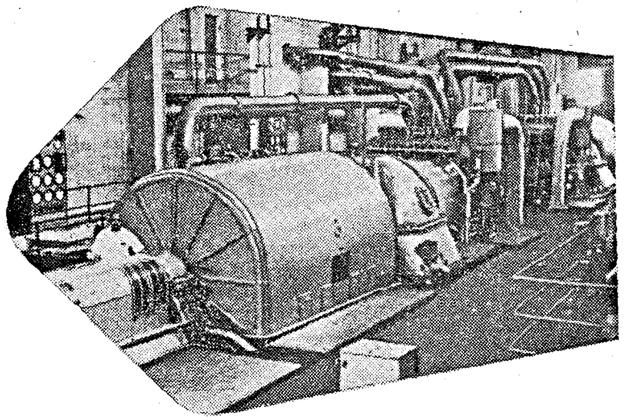
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Development of Design and Technique

In Handicrafts

Prabha Shah

Here is all the mystique of handicrafts as also a lot of hard commonsense based on years of experience in organising the Potters Industrial Co-operative at Dharavi, Bombay, which much to the annoyance of the organisers has now become a showpiece for the nation.

An account of the Prajapati Sahakari Utpadak Mandal, the Potters Industrial Co-operative, appeared in an earlier issue of this paper (see Progress of Pottery as a Handicraft, issue of March 10, 1956)

HANDICRAFTS have come to exercise an appeal of a sort, which may be termed 'fascination' over the leaders of fashion in particular and the upper strata as a point of reaction to the monotony of utilitarian machine made goods. The folk element in traditional handicrafts with its many local variations and rough, picturesque undertones, makes them look 'cute', 'interesting', 'unusual' and at times even 'exquisite' in the eyes of the cosmopolitan gentlefolk and art-lovers residing in cities and larger towns, who form the new democratic elite. Apart from this elite, even the common folk find interest in handicrafts because they vaguely sense an element of 'Indian'-ness in them, which accords well with the new 'Indian'-ness which they themselves have acquired as citizens of Independent India. This Indian quality, this indigenous character, is not a new aspect of handicrafts; but in the wake of Independence, it has found greater recognition. So, handicrafts have become a part of the new order of things. The great curiousity and interest shown by foreigners in the new Indian nation, and in things Indian has also helped.

Thus, apart from the general appeal of Swadeshi movement, which principally aims at self-sufficiency and larger employment, as pursued by the Khadi and Village Industries Board, handicrafts have stood out on their own and have an independent appeal. In the excitement caused by appreciation of Indian handicrafts at home and abroad (the latter is a subject of great fascination to many lovers of handicrafts who see in it a dollar-mine for this poor but ambitious nation), some individuals and bodies have been impelled to scour the country for specimens of handicrafts as also paper or block designs lying idle in craftsmen's homes. These processes, methods, designs etc. employed by old and present day craftsmen are being studied. Attempts are being made to revive old production units or set up new ones at various centres. These explorations have borne quite good and fruitful results and have helped to bring about a clearer understanding of the problems and the province of handicrafts. The State has also been inspired by all this excitement to shoulder responsibility for supporting this quite noble field of endeavour in addition to a general patronage of handicrafts. In the last few years there has been set up an All India Handicrafts' Board, functioning first under the Ministry of Commerce & Industries and now under the Ministry of Production of the Union Government, which is an advisory body made up of non-officials and officials, presided over by Smt. Kamaladevi Chattopadhyaya, to assist the Centre to formulate and execute schemes for aiding and reviving handicrafts in different centres.

Design Centres for Handicrafts

All this interest, exploration, study and effort have resulted in many activities in the nature of exhibitions, expositions, emporiums, export drives etc. to popularise handicrafts and market their products at home and abroad. But as these activities have widened, the need has been felt for more serious effort to place some of the basic Indian handicrafts on a sound footing, so that regular production of selected articles may take place in organised production units for steady supply to well-defined markets. A necessary preliminary to it is the development of design and technique in accordance with modern needs and technical knowledge. For this purpose, it is proposed to set up central and regional Design Centres.

The idea of these Design Centres, as far as I understand, appears to be as follows: It is proposed that a Design Centre will undertake, with the assistance of several artists and artisans (master-craftsmen), employed fulltime, to plan and execute designs and prepare sample-articles for a number of important crafts. These designs, with all necessary specifications, will then be passed on to practising artisans to enable them to undertake production of these selected products for the market. The team in charge of the Design Centre is supposed to appraise itself of uses and tastes favoured by a modern society, chiefly of city dwellers, and to direct the centre to do research in old and new designs and techniques in order to prepare good samples of well-designed articles in the workship, by a certain amount of experimentation where necessary. These samples, as mentioned above, are to be circulated among different production units in the country (some of which may be functioning while new ones may have to be started with the assistance of various State Governments). Both the All India Handicrafts' Board and the newly formed All India Handloom Board have plans, I believe, to set up such Design Centres in the near future.

Planned Production

The chief business (at least at the present stage) of the Design Centres will be to guide individual artisans or groups of them in undertaking the production of well-designed and well-specified articles for the modern market. The Design Centre will do the spade work by way of research and experiment in the preparation of designs and samples and the work of the practising craftsmen in the country at present will be cut out to executing such designs in planned production. They will be spared the initial hard toil of working out new designs or reorienting old ones and all the teamwork for study, research etc. which it involves. There is also the question of adequate building and equipment necessary for carrying out such work which requires considerable finance which the State can easily put in, but not the artisans, even in groups. It is not clear at present whether it will be the business of the Design Centres to design tools, implements and other equipment also for different crafts. Evidently they will have to furnish artisan-units with written instructions on any new methods or processes (worked out by the Design Centre) which may be involved in the production of the samples issued out by them.

The U P Industries' Department have had some designing of this kind carried out for them by the Lucknow School of Arts. They have after that circulated actual sample pieces amongst artisan-centres from whom they got production according to the sample and given specifications. Now this seems a way, and probably quite a good way, to improve and reorientate designs and the necessary technique in the field of handicrafts towards certain given ends. If efficiently conducted, such Design Centres may very well fulfil the need of supplying well-conceived 'beauty in utility' designs to artisan-groups to undertake profitable and even creditable production of handicrafts for a modern market. Even modern big industry is availing itself of Design Sections in its factories for some such purpose for its own large-scale production.

Design and Craft are One

It is true that at present the artisans and craftsmen are not in any way organised and have generally speaking no idea of what they have to do if their crafts are to survive. The Sreni or guild system of old with its tradition of apprenticeship is gone. There is neither organisation nor living tradition to harmonise and control the activities of artisans and guide them towards a creative end, though through long traditional usage some isolated groups are still carrying out beautiful work and talent is not entirely lacking even in the ordinary artisan groups who survive by catering to a demand which has not been quite supplanted by modern equivalents. But shorn of tradition, the work of artisans everywhere has tended to be a very tawdry and a slavish imitation of modern tinfoil things at their worst. Under these circumstances, it appears obvious that without new initiative injected from the outside, they cannot undertake the task of reorienting their designs to suit the requirements of the times in which they are living. Ignorant and unorganised as they are, they cannot be expected either to take the initiative or secure the resources on their own to meet this challenge. Also it appears quite reasonable that the State is the proper agency to undertake an effort of such large scope, demanding considerable expenditure.

Granted all these, yet the approach presented by the Design Centres, as they are currently conceived, is a fragmentary way of tackling handicrafts, whose nature is basic and complex and demands consonance with its creative spirit. A mass-scale industry is chiefly involved in manipulation for efficiency and therefore it can afford to fragment its processes into separate departments. But by their very nature, handicrafts are concurrent expressions of the potentiality of Man and Material and therefore in handicrafts, these processes must be related at the basic level. Development of design and technique cannot be attempted in isolation, even from the most aesthetic ends in view and in the best conceived plan of study and research.

Handicrafts by their very name emphasise the hands and their creative role. The development of design or technique cannot be attempted separately from the development of the artisan's mind and its capacity

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to understand the comprehensive task to which it sets itself. Though the artisan's understanding appears to be intuitive and impulsive when actively functioning yet it represents a stage of comprehension for him of his own personality and the 'personality' of the material which he handles and of the interdependence of the two. The artisan does not manipulate the material to a given end in the most efficient manner possible but he works to express, in however humble a manner, the potentialities of the material which he handles as the medium and through which he seeks an expression of himself. This dual bi-polar inter action of Man and Material is the very basis of the handicrafts. It therefore results in the simultaneous growth of design and technique as the related dimensions of creative expression and effective manipulation.

Tool—An Extension of the Hand

The tool for the craftsman is an extension of his own hand, his own active and responsive personality. It is unlike the machine which is an instrument of a set purpose, or concept of the mind, temporarily formulated for execution. In the same way design for the craftsman is an expression of his own desire and understanding in relation to the material he handles and at the same time a response to the desire and understanding of his fellow men, which he senses through his own. In that way, a handicraft becomes the effective expression of a community's experience and needs. The initiative must always remain, therefore, with the practising craftsman in dealing with design and technique in his craft. If he is not ready to exercise this initiative, he must be assisted and propelled towards exercising it. This, therefore, should be the task a Design Centre should set to itself, in order to release the artisan and craftsman communities from the bemused state of arrested growth in which they find themselves today.

The craftsman must necessarily possess a mobile personality within the limitations of his own individual faculties and the stage of development of the craft to which the community has reached; his is an organic development and so is that of his craftsmanship. If he has become immobilised, he must be helped once again to regain his mobility. This can be done by those who are more alive than he is to his craft, by those who may have better aesthetic appreciation of crafts. Artists, therefore, can help him as any other person with creative understanding and wide experience. But in essence it is he who is to be set back in the stream so that time and its spirit are assimilated by the artisan as a responsive and creative agent and craft once again becomes a living thing. If this is not done, an understanding of modern needs and modern techniques, as they are termed, will only be arbitrary, external criteria that would result in creating styles and fashions, which are brittle and will be set aside for the latest fancy or fad. That is how fashions change and decay in a most discontinuous manner. But crafts need a continuity of inspiration and expression even though very radical changes do occur in the patterns of expression, from the great conflicts of spirit and time in history.

Nothing Mystic in it

The last two paragraphs may appear to be an inebriate poetic digression, unsuited to the practical nature of the problem in hand. But it is not so. Experience shows that every basic problem has to be tackled on its own grounds, even in order to achieve the most practical and concrete results. The fact is that people here and elsewhere are turning to handicrafts because they appear as organic and intimate expressions of man's needs; because they are fresh and unregimented; because they bespeak the work of Man, the producer, confidently making things for Man, the consumer, who are both kinsmen and should know each other.

When the purely external fascination of handicrafts as cute, avantgarde things subsides as it must some day, then handicrafts can stand their ground only by fulfilling their own natural function. If they do not prepare to do so, they must give way to factory-made things, which are at least what they profess to be.

Design has three elements: form, texture and ornament which are closely related to one another and to the Material in hand. Technique, which is the effective manipulation of productive mechanism to carry out design on the material, consists of the tools, processes and the understanding of technical sequence i.e. maturity effected by proper observation of time-intervals in the manipulation of tools and processes. These two must therefore always be developed in such a way that the artisan who applies them remains mobile in his understanding and his creativity.

It follows, therefore, that the Design Centre has to be a Craft Centre. Where craftsmen and artists, who want to become craft-artists, will work together in the midst of an active craftsman community, whose productive activities must always remain compulsively in view while the team in the Craft Centre develops design. Of course designs have to be developed in close conjunction with techniques, assimilating all the characteristic achievements in the craft in hand as practised in the region of its origin and responding at the same time to the stimulus of new achievements effected in a larger or even an alien region.

Even though such a fundamental view of development seems to entail a tremendous expenditure of time, in practice it has been found that a workable basis is attained in a pretty short time and at considerably less expense than would be involved in conducting a Design Centre merely to supply good designs to artisans. Because the research and experiments are carried out from a working craftsman's angle, the problems at once resolve themselves into manageable proportions and appear in their proper perspective. At the same time, the effects which are to be achieved present a clear and concrete pattern of development, one leading out of another.

There is also another aspect to development of the elements of craftsmanship in this manner. When anything definite is achieved, it is easily intelligible to any interested member of the craftsmen's colony and acts as a natural stimulus to him. Also the practical transformation of effective research into actual production takes place very naturally and easily when practising craftsmen are around to carry it out. Sampling of markets is also easily done when those who maintain themselves by their craft are there to carry freshly designed and finished things to consumers who are daily approached anyway.

An experiment on these lines has been carried out successfully by the All-India Handicrafts' Board, who have set up a Craft Centre in the potters' colony at Dharavi, Bombay. The Potters' Industrial Co-operative at Dharavi work this centre themselves on behalf of the Board and with financial assistance from the Board. In two years, remarkable results have been achieved in all the branches of the development of the craft.

Men for the Second Plan

A C Chhatrapati

"Is it possible to prepare a Plan which would enable unemployment being liquidated in 10 years and which would also provide for a satisfactory increase in national income at the same time"?

This was the problem set for the Draft Plan Frame. But in the Second Five Year Plan, the target of 10 to 12 million jobs has been whittled down to a mere 8 million. If it is difficult to provide jobs for men who have none, it is even more difficult to get the right men for the jobs that are there.

AT a time when Government powers to regulate the economic life of the country are being increased enormously, the need for initiative, quick decisions and effective leadership by public administrators becomes imperative. It is doubtful whether a majority of civil servants accustomed to work according to the rigid rules and red tapism of Government office manuals can shake off their habits and make decisions to meet rapidly changing economic situations. The Organisation and Methods section can recommend measures for rapid disposal of files but it can do little to force the bureaucrats to show initiative and take decisions. On the contrary such mechanical controls on administrative efficiency encourage the technique of passing the buck on a large scale.

Since expenditure on training is considered a waste, private enterprise has with few exceptions, shown little interest in apprentice training programmes. Government should take the initiative and arrange such training schemes at private workshops with centralised theoretical training. The adaptation of secondary schools as sources of skilled labour also deserves active attention.

Formidable Task

The problem of administration, that is, provision of leadership, guidance and control, is formidable not only in terms of magnitude but also because the overwhelming proportion of the 8 million men whom the Plan seeks to employ will be educationally and culturally ill-equipped for the tasks to be assigned to them. The Administration which could not plan, organise and assemble resources to spend Rs 2400 crores in the First Plan will be required to gear up and spend Rs 4800 crores in the next five years. At the same time the emphasis on such varied tasks as basic industries and rejuvenation of cottage industries makes the administrative problem more complex and varied than in the past.

According to the Planning Commission the administrative tasks of the Plan involve (1) ensuring efficiency and integrity in administration, (2) building up administrative and technical cadres, (3) getting work done economically and efficiently, (4) training on large scale for meeting the requirements of industry, health, education etc. programmes and (5) organising rural economy—agriculture, co-operatives, cottage industries—on a more efficient basis. The Commission has described in the Plan the action taken by Government to end corruption, to improve administrative efficiency through the Organisation and Methods Division, to build up the strength of the IAS through special recruitment and to institute an industrial cadre. It has also described the proposals for training engineers and skilled labour and has emphasised the need for securing public co-operation in the successful implementation of the Plan.

The Commission has taken a narrow view of the administrative problem by confining attention only to the public sctor. Besides, its discussion of the measures for meeting these tasks is vague and superficial dealing only with the decisions of Government on various aspects of public administration. There is no reference to the problem of management in the private sector at all although the Plan seeks to achieve an integrated economic and social development of the whole country. This omission is particularly surprising in view of the critical references to poor management of private enterprises in the recent Parliamentary debates on the Companies and Insurance Nationalisation Acts.

The execution of the Second Plan will require men suitable for four principal categories of tasks: (1) managerial, (2) technical and supervisory, (3) skilled labour and (4) unskilled labour. To train and adopt the 8 million men for these purposes is a formidable task. Unskilled labour may not require training, but it will certainly require cultural adjustment to submit to rigorous disciplined work in factories and other organized activities like construction. The high rates of absenteeism in organised industries which both India and the Soviet Union experienced in the Thirties indicate that unemployment and poverty do not automatically ensure this adjustment.

Low standard of education and lack of training facilities will make the supply of administrative and technical personnel a more difficult task. Compulsory universal primary education and expansion of secondary education with multipurpose schools and other modifications to meet the future needs of the country must remain distant goals as resources are limited. The large body of educated unemployed does not make the problem of training managerial, supervisory and skilled personnel much easier as concepts of social status make for a preference for white collar jobs. The tragedy of it is that many of them are, by education or by aptitudes, entirely unsuitable for managerial and other administrative functions.

The Failure of Education

Education is for imparting information and developing creative ability, for training in problem-solution or application of principles to concrete situations and for transmitting culture or attitudes for responsible citizenship, appreciation of fine arts, etc. It is widely accepted that education in India fails to perform any function other than imparting information. The mode of examinations and the publication of guides on all subjects have made even book learning easy and less brain-taxing for students. Is it any wonder that India has a relatively poor record in inventions, innovations and original works in science and arts or that entrepreneurs and administrators in the public and private sectors prefer to tread the beaten path rather than show initiative, resourcefulness and adventurous spirit?

The present form of education served the purpose of the foreign rulers of India when the primary

requirement was to obtain a large number of clerical and subordinate administrative staff. The few able administrators required at the top levels could be obtained easily by selecting a few highly intelligent young men and training them through experience at various jobs. This method of recruiting public administrators is grossly inadequate when the activities of Government increase at a very rapid rate or when Government undertakes industrial and other economic activities which entail some special knowledge. Attempts are being made at present to mitigate the shortage of public administrators by special recruitment to the Indian Administrative Service and instituting an industrial cadre. These are only short term measures which do not increase the size of the pool of administrators but only rob the private enterprises of their experienced men for the benefit of the public sector.

The Scientific Management movement has proved that managers are made not born. To meet the enormous needs for managers it is not enough to start diploma courses in Business Management at four universities and an Administrative Staff College in Hyderabad. For the development of a scientific approach to management by the existing administrators there should be a regular systematic programme of conferences on the subject in all important towns where there are a sufficient number of public and business administrators. Again occasional visits of a Galbraith or Urwick are not enough, nor a few conferences at the Hyderabad Staff College once in a life time. To meet the long term needs of the country, it is evident that the system of education at the high school and university level will have to change. More attention should be paid to the development of students' creative ability and attitudes than to imparting information.

The Role of Universities

It is a pity that our universities pay so little attention to the performance of their role in the success of the Five Year Plans. At the instance of the All-India Technical Education Council, the universities in Delhi, Bombay, Calcutta and Madras started courses in Business Management. But there are yet no proposals to convert the existing commercial colleges into institutions which can supply the future industrial managers on a large scale. Commercial education in India at present with its emphasis on theory and lack of contact with the practical needs of the industry is insufficient for the purpose.

The universities can also show initiative in meeting the shortage of engineers and other technical personnel, which is likely to be as acute in the next five years as the shortage of steel and cement. To meet this shortage the universities can expedite teaching in the engineering institutions by having 3 terms of 16 weeks a year instead of only 2 terms. This will only reduce vacation periods and help students to finish the course in 2 instead of 3 years. Such techniques of increasing output of engineers were successfully used in the USA during World War II. Other steps such as permitting a sudent who fails in one subject to proceed further and to repeat only the subject in which he failed, may also be tried.

One thing is clear. The programme of rapid industrialisation will succeed only if long term measures are taken to adapt our human resources to the needs of an industrial society.

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How Not To Run State Undertakings

R P Iyer

The great debate is now on how to run the public sector of industry and whatever the form selected for it, public undertakings are going to be the dominant form of future economic organisation. But the Planning Commission has not yet made up its mind as to what this form is going to be. "Questions relating to the organisation of public enterprises are under constant review and greater experience is needed before a clear view as to the relative advantages of different forms of organisations emerge".

In this context, the Report of the Committee of Enquiry into the British Electric Supply Industry, which is now a State undertaking, would be both interesting and instructive. The Committee was firm that a nationalised industry can and should be run strictly as a commercial concern.

THE broad outline of the economic system under which the Second and successive Five Year Plans will be implemented has been formally defined by the Government of India in the Industrial Policy Resolution of April 30, 1956 which supersedes the earlier 1948 resolution on the same subject. This postulates an extension of the public sector and gives the warning that industrial undertakings in the private sector will necessarily have to fit into the framework of the social and economic policy of the State.

While there can be no compromise on the fundamentals laid down in the Industrial Policy Resolution, the "great debate" as to how the undertakings already in being, and to be created, in the public sector should be run is a subject which assumes growing interest.

Great Debate

Recently Parliament discussed a private Member's resolution calling for an investigation into the working of the public sector. The resolution fell through because it was felt that a roving commission charged with a general enquiry would serve no useful purpose. Nevertheless, the debate served the useful purpose of drawing attention to the fact that there is such a thing as the "forgotten public" whose interest has not received adequate consideration in the process of hailing and nursing the dominant economic organisation of the future—the public sector. Perhaps under more favourable circumstances in the future, enquiries by expert bodies on the working of specific segments of State and quasi-State industrial undertakings would evoke better response. In this context the very interesting report of the Committee of Enquiry into Electric Supply Industry (of which Sir Edwin Herbert was the Chairman) on the working of the U K Electric Supply Industry published in January, 1956, deserves careful study and its findings on how a nationalised industry should be run merit serious consideration. Although the Herbert Committee's enquiry covered only one industry (electricity generation and supply) the principles adumbrated in the report have much wider significance.

Historical Background

The committee was appointed in July 1954, "to enquire into the organisation and efficiency of the electricity supply industry in England and Wales in the light of its working under the Electricity Act, 1947, and to make recommendations".

Before discussing the basic recommendations of the report, it would be appropriate to make a brief reference to the historical background of Great Britain's socialised electric supply industry. Under the U K Electric Lighting Act of 1882, there came into being what are called "undertakings with authority to supply in a specific area". With progress in electric supply came the Electricity (Supply) Act of 1919 which provided for the setting up of a Supervisory Board known as the Electricity Commissioners, charged with the task of promoting, regulating and supervising the supply of electricity. In order to carry out their responsibilities, the Electricity Commissioners sought voluntary agreements between various undertakings so as to concentrate generation, through pooling and mutual use, in a relatively small number of efficient generating stations. The Commissioners had no powers to compel electricity undertakings and hence the progress of rationalisation was slow. This led to the creation of the Central Electricity Board under the Electricity (Supply) Act of 1926, on which was modelled the provisions regarding Electricity Boards in the Indian Electricity (Supply) Act, 1948.

The next stage was the enactment of the Electricity Act of 1947, nationalising the industry, under which the British Electricity Authority (since designated the U K Central Electricity Authority) superseded the Central Electricity Board on 1st April, 1948, took over the latter's functions as well as those of the Electricity Commissioners, and also absorbed some 560 authorised undertakings. The Central Electricity Authority was super-imposed over a secondary tier of Area Electricity Boards, 12 in number, and it is this two-tiered organisation which the Herbert Committee set out to examine critically.

Basic Recommendations

The Committee took the position that a nationalised industry can and should be run strictly as a commercial concern, as otherwise the industry "could be used as a device for implementing national policies and for transferring income from one section of the community to another without the burden of these policies being properly weighed in Parliament or by the Minister". The Committee was against preferences of any kind, either by areas or class of consumers. It did not favour subsidy in the form of financial reliance on Treasury guarantees. It dubbed historical cost accounting as unrealistic and thought accruals in the field of depreciation based on this cost as illusory. The Committee underlined that a nationalised industry should stand comparison to the best in the private sector, both in service to its customers and the well being of its staff.

A nationalised industry may succeed in passing the usual tests, and yet fail to give its customers as good or as cheap a service as it might under a different set up. This was the hard core of the problem that the Herbert Committee had to answer, and while it was unanimous in its report that the industry was not in any reasonable sense of the term inefficient, the Committee added the qualification that the "efficiency of the industry could be improved" and also that "it is in danger of losing efficiency partly for reasons beyond its control". This attitude is not only in keeping with the British national trait of under-statement;

applied to nationalised undertakings, it shows the British way of combining the best features of both the conservative and socialistic elements. In other words, the British may take some of their economic policies from their Labour Party, but they try to make most socialistic experiments work more efficiently by placing them in charge of hardheaded conservative businessmen. There may be some exaggeration in this generalisation, but the inference is difficult to resist that at bottom, this is the principle followed.

Disciplinary Force

Nationalised industries may be getting along without any breakdown of service or may not arouse widespread complaint or criticism. Some of them may be even expanding rapidly. Nevertheless, doubt will remain, in the absence of independent checks at least occasionally, whether they are doing as well as they should. In the case of an industry functioning under competitive conditions, the criterion of success is profits (by whatever name called) which permit continued expansion and attract equity capital. This implies working conditions satisfactory to both management and labour and performance which commands the confidence of the investor. The standards set for State undertakings should be such that they satisfy the criteria that are applied to commercial undertakings.

Even in the field of supplies to rural communities—on which subject sentiment plays a large part with all Governments, leading to jettisoning business standards—the Herbert Committee has come out with the recommendation that normal economic and commercial tests cannot be abandoned. This is certainly an impeccable standard and modification could be justified only where there is a definite national mandate to sustain uneconomic development. In other words, application of any policy which may impair the commercial responsibility of an undertaking should be considered only in rare cases.

Size of Undertakings

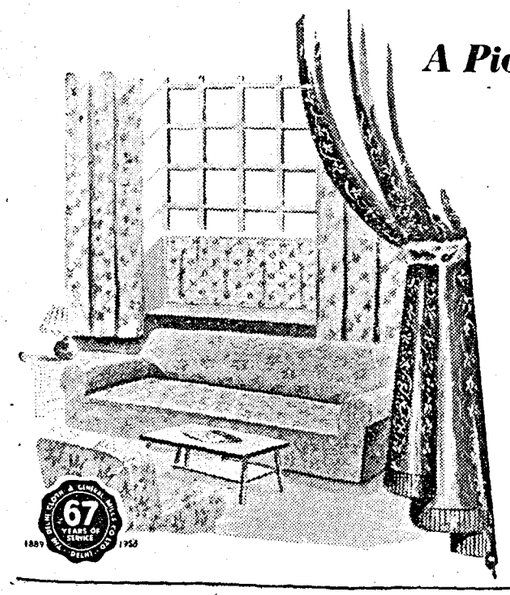
The working rule of the Committee that the size of a nationalised industrial undertaking should be no larger than what is necessary to achieve economic viability is of general application. This may sound paradoxical when applied to a nationalised industry. But, nevertheless, this is a necessary concession to reality, if commercial organisations are to function as economic units.

The need for retaining trained personnel already employed, and for attracting suitable personnel in the future, is yet another aspect of the problem which is typical. The need for reviewing conditions which might tend to cause well-qualified persons with the calibre of potential leaders turning away from any particular industry is ever present, from which stem the policy to so frame service conditions as to ensure a continuing flow of suitable men. Allied to this is to limit centralisation to the degree necessary to ensure policy control and to delegate authority to organs at the peripheries, so that they could be induced to shoulder responsibility.

Emphasis on Commercial Aspect

To sum up, in the working of nationalised undertakings, the emphasis should be on commercial aspect and on the running of the undertaking on business lines. The enthusiast for public ownership may demur: "How commercial can you be"? No better answer to this can be given than that given by the Indian Taxation Enquiry Commission which saw "no objection to pricing policies which aim, over a long period, at realising a surplus from the operation of the undertakings". While conceding that "public purpose rather than profit should be the guiding factor in the operation of a public undertaking", the Commission recommended unhesitatingly that "every effort should be made to place Government industrial undertakings on a sound financial basis so that losses are avoided and a reasonable return is secured as far and as soon as possible".

To ignore the implications of these remarks is to invite economic chaos, which will benefit no one in particular.



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Consumer Goods and Disposable Income

Do They Balance in the Second Plan?

A Rudra

The principle of commodity balance as applied to consumer goods means that the supply of consumer goods during a plan year must be equal to the demand for such goods arising from the income distribution resulting in that year from planned investment during that and preceding years. Has this principle been observed in the Second Five-Year Plan?

The Draft Outline as well as the final Plan are silent on the question how the targets for the production of consumer goods were arrived at.

The author attempts a statistical estimate of the demand for foodgrains likely to arise in the Plan period, from the data on family budgets in the third round of the National Sample Survey. The results suggest that the target has been fixed rather on the high side and this leads him to the conclusion that disposable income in the last Plan year may be made larger without any fear of foodgrains prices rising in consequence.

THE importance of ensuring commodity balances is beyond question; only recently we experienced the bad effects of falling agricultural prices and then, immediately after, prices have been shooting up, giving rise to widespread fears of inflation. This sort of price fluctuation is nothing but an indication that the problem of the commodity balance for consumer goods has not received due attention. The Second Five-Year Plan, both in the Draft and in the final version, is conspicuously silent as to how the targets were set for the consumer goods. Sometimes one gets the impression that some amount of money was set aside for a sector and specialists were asked to work out how much increase in production could be expected if that much money was spent. There are however references to consumer demand from time to time. Especially, in the case of food grains, it is stated that the rate of food grains consumption is expected to rise to 18.3 ounces per adult and the target of increasing production by 10 mn tons, it is indicated, was based on this calculation. Nothing is said, however, as to how the figure 18.3 oz is arrived at. As a matter of fact, it is indicated that some detailed calculations lie behind at least the food production targets. Thus, it is mentioned that the factors to be considered in this connection are

(1) increase in the total population;

(2) increase in the urban population;

(3) the need to improve per capita consumption;

(4) the need to counter possibilities of inflationary pressures resulting from the implementation of the Second Five-Year Plan; and

(5) effects on food consumption of increase in national income and changes in its distribution.

While we do not see how (4) differs from (5), we have to admit that if e all thes factors were incorporated in the calculation of all the consumer goods production targets, the Plan would indeed be balanced at least in this particular respect. One would only ask that the calculations be repeated for all the intervening years between 1955-56 and 1960-61.

Widely Differing Targets

One feels a bit doubtful however whether these factors were really taken into consideration quantitatively. For one thing, it follows from the very definition of a balanced plan that if one part of the plan is changed, all its other parts are affected. Yet, we find that food grains target has remained unchanged at 10 mn tons increase through all the vicissitudes suffered by the Plan in its eventful journey from the Frame stage to the Final stage; and then, only recently we have witnessed a most interesting triangular controversy between the Agricultural Ministry who wants the Plan target to be 8½ mn tons additional production, the Planning Commission, who wants it to be 10 mn tons and the Chairman and the Vice-Chairman of the Planning Commission, who want it to be 25 mn tons. Surely, no demand calculation could be behind these widely differing targets.

It will be pointed out that consumer demand is not the only thing that is to be taken into account in setting production targets; a part of the volume produced will be kept in stock and a part may be exported; and of course there can always be imports. In other words, the equality to be observed is not

Production = Consumption

but Production = Consumption + addition to (or — reduction from) stock + export (or — import). (1)

Production Potential Determines

If it be so, then it follows that a change in the production target does not necessarily imply a change in consumption target and vice versa. This is quite correct, but it only means that the planners in setting production targets must also keep in view all the three, namely, consumer demand, quantity to be exported or imported and to be stocked. If estimates for all these have been kept in view by the planners for all the chief consumer commodities, it has not been explicitly stated any where. On the other hand, if these calculations have not been made, then, whether the production targets are realised or not, there are bound to be unpredicted price changes and/or fluctuations in stocks, all of which are undesirable and inconsistent with the idea of planning. As a matter of fact, it seems more likely that in setting up the targets, what the planners actually took into account were the possibilities from the production point of view, as appears from the following passage about the food production targets:

> "These estimates are in the nature of first estimates derived from calculations of the production potential expected to be added as a result of various developmental programmes."

Difficulty of Predicting Demand

It must however be admitted that the task of the planners is exceedingly difficult. The statistics of production, consumption and stocks in India are faulty, especially with regard to food items. It is well known that the information available from independent sources about the four variables entering into the equality

(1) differ so much in their coverages, their modes of calculations, accuracy etc that the relation (1) can hardly ever be made to hold. Apart from that, the task of predicting consumer demands is itself a difficult one, especially in a developing economy.

As to this last, econometricians have tried two approaches; the time series approach and the family budget approach. The time series approach is to treat the problem in terms of multiple regression. Thus, the national consumption (say C) of a particular commodity, is supposed to depend on several other macro variables like the national income Y, prices of a few selected commodities p_1, p_2,... p_k etc. The job is to establish an approximate relation between the dependent variable, that is the volume of consumption and the 'independent' variables. Prediction therefore consists in inserting known or targetted values for these independent variables $Y, p_1, p_2 \ldots p_k$ etc and thus obtaining a value for the dependent variable C. Assuming prices to remain constant and ignoring all other factors, the relation boils down to one between the dependent variable C and the national income Y. It is often found empirically that C and Y are related in the following manner:

$$C = aY^b \qquad (2)$$

If this be so, it can be seen that if Y increases to Y/, C increases to C' such that $\frac{C'}{C} = \left(\frac{Y'}{Y}\right)^b$ (3)

If Y is greater than Y/ by α %, it can be seen that C/ is greater than C by roughly αb %. This formula is thus extremely convenient. When this relation holds, b is often called the income elasticity of the commodity.

This approach is not possible in India because of lack of adequate data. If the demand for a certain commodity is to be expressed as a function of the national income, prices of a number of commodities etc, parallel series of values of these variables will have to be there over a long period of time. These are however not available and hence it is impossible to say empirically whether such a relation as (2) holds in India or not.

But whether (2) holds or not, the convenient formula (3) can be made use of under certain assumptions and this result is reached through the family budget approach. This approach is as follows:

Let there be N consumption units in a community. They are broken up into a number of classes according to some variable X attached to each unit. (The unit may be a household or an individual or a number attached to an individual consumer according to some considerations, eg: adults getting 1.0, younger people getting 0.9, 0.8 etc according to age The variable X may be household income, per capita household income, per consumption unit household income etc.) For each class, the amount consumed of a particular commodity per consumer unit during a given period (called the 'basic period') is calculated. Let them be $C_1, C_2 \ldots C_k$. If the number of units in each class be $n_1 n_2 \ldots n_k$, then obviously, the total consumption of the commodity by the community during the base period is

$$\sum_{i=1}^{k} n_i c_i = C \qquad (4)$$

The quantities C_1 C_2 etc plotted against the average X values for the corresponding groups give a curve which may be called the demand curve for the given commodity.

If this demand curve, calculated on the basis of family budget data, for the 'base period' be such that one can assume it to remain unchanged for the period for which prediction is to be made, then prediction becomes possible if one knows the changed frequency distribution of the consumption units according to X during the second period. Thus, if there are now $n'_1, n'_2 \ldots n'k$ consumption units in the same classes as before as a result of population growth and planned income generation, the demand for the given commodity will be

$$\sum_{i=1}^{k} n'_i c_i = C' \qquad (5)$$

This indeed is a simple formula. The difficulty however is that one cannot know the values of $n'_1 n'_2 \ldots n'k$; one has to proceed on the basis of some statistical assumptions. One assumption often made is that the effect of the new income generation and of population growth is such that each class obtains an equal proportionate increase in its average value of X. Apart from being neutral as to changes in the degree of inequality, this assumption has a remarkable statistical advantage; it turns out that if, as is often found empirically to be true, the demand curve is reasonably well fitted by the equation $y = aX^b$ (6) then the difference C'–C equals approximately $C \alpha b$ where α% is the proportionate increase in the average value of X for the whole community.

When X stands for per capita income and the consumption unit is the individual person, we have, as when (2) holds, the simple and convenient formula:

proportionate increase in the per capita demand for the given commodity = proportional increase in the per capita national income x b (7) It is important to remember however that the formula (2) has nothing to do with formula (6). One deals with national income and national demand, the other with the individual person's income and the individual person's demand.

Experience shows that the formula (6) fits data well very often and that even if the mode of generation of new income differs somewhat from that postulated above, the formula (7) may hold true approximately. What is crucial however is the assumption that the demand curve remains unchanged between the two periods. The demand curve changes over time for several reasons; firstly, it is inevitably affected by price changes; then the very change in the frequency distribution from $n_1 n_2 \ldots n_k$ to $n/_1 n'_2 \ldots n'_k$ is likely to change the curve. Thus a consumption unit changing over from a group A to a group B as a result of new income generation may take some time before conforming to the average consumption pattern of he adopted groups. As to the effect of price changes, the family budget approach cannot take account of it. All that can be done is to predict for a period, assuming that the prices in that period will be the same as in the base period. This in itself may be made into a consideration as to the choice of a base period.

As to the other effects, all that can be done is to ensure the choice of the consumption units and the classifying variable X such that the average members of the different groups do not differ between themselves in consumption habits due to any other factor excepting differences in the values of X. Thus, if X be the total household income and the consumption unit the household, the units in the different groups are not comparable, for household size in India is very strongly correlated with household income. If

a household goes up from a lower income group to a higher income group, among the many reasons why it cannot be expected to conform to the average consumption pattern of that group is that it will have a smaller household size than the average household size of the group. Elasticities calculated on the basis of household income and household consumption may as a result be very much exaggerated and yield demand predictions erring seriously on the high side. From experience we find that a reasonable combination is to take as consumption units the individual consumers and as the classifying variable X the per capita income of the households to which they belong. At a time when saving does not behave as a function of income but is itself made into a target it is more appropriate to take as the classifying factor the total monthly or annual expenditure in place of income.

But whatever the choice of the unit of consumption and the classifying variable, the fact remains that the assumption that an individual moving over from one group to another will take over the group averages may go wrong by unpredictable amounts. Prediction in the family budget approach therefore always involves an uncertain margin of error.

Pattern of Family Budgets

In considering the consumer goods targets it is useful to have before our eyes, the relative importance of various components of the average family budget. We find the following picture from the report on the third round of the National Sample Survey:—

	% of total expenditure.
Food articles:	
Food grains	.. 36.8
Other than food grains	.. 26.4
Non-food articles:	
Intoxicants, tobacco, silk, ornaments, etc. non-essential items	.. 4.8
Clothings, bedding, furniture, fuel, light etc.	.. 15.5
Services:	
Education and health	.. 2.6
Housing	.. 1.5
Transport	.. 1.4
Other services	.. 4.1
Amusements, Ceremonials and tax	.. 6.9
Total	.. 100.0

Thus, the most important item of consumption, food, covers more than 60 per cent of the average family budget. This together with the other most important item of consumption, cotton textile, covers about 70 per cent. These two groups of commodities have therefore to be studied very systematically and thoroughly. The services group covers items about which studies, if made, will have to have a very different purpose. For in planning for house construction, education and health services, 'consumer demand' is hardly a useful concept. The investment in these fields will depend on very many factors, but certainly not on what might be the amounts being spent by consumers on them at present. Similar arguments are relevant with respect to the group 'intoxicants, tobacco etc.' After this we are then left with items covering about 8 per cent of the total national consumption. They include several items which are produced by very small industries and either planning for them is difficult (as in the case of furnitures) or information about their demand is meagre, so that it is difficult to make demand calculations for them. In so far as cal-

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culations are possible, they should always be done; for no production should take place wastefully. It can however be safely guessed that no such demand calculations are to be found behind commodities belonging to this group for which production targets have been set in the Plan e.g. sewing machines, hurricane lanterns, electric lamps, radio receivers, electric fans, matches etc.

We shall here concentrate only on the two chief items, food and clothings.

Target for Food Grains

The target for food grains is to increase production by 15 per cent over the 1955-56 level. As the national consumption is targetted to rise only by 20 per cent, it implies that elasticity (with respect to total consumption) of food grains consumption has got to be 0.75 if production is assumed to equal consumption both in 1955-56 and 1960-61. For, the population goes up by 6.5 per cent during the five years, so that the increase in the per capita total consumption is 12.8 per cent and increase in the per capita consumption of foodgrains is 8 per cent. This of course means, according to the formula (7), that the elasticity is about 0.75. But this is a fantastically high figure for food grains.

Experience suggest that the elasticty for foodgrains cannot be so high. It cannot exceed 0.3 or 0.4 for the whole of India; it is likely to be very much less for urban consumers. It is obvious that our calculations are not the same as the calculations of the Planning Commission. Perhaps the Commission has chosen a unit of consumption and a classifying variable different from ours. We have already noted that certain choices are likely to give very much exaggerated predictions.

Dangers of Prediction

It is our opinion that if indeed disposable income rises only by 20 per cent and the targets are realised, there is going to be over production of food grains. (This is not to say anything about shortages that may occur as a result of the targets not being reached, or artificially created by speculation, smuggling and other antisocial activities, etc.) We do not of course suggest that the production target should be lowered. We have already seen that predictions on the basis of family budget studies contain an uncertain margin of error and it is more so with respect to foodgrains. For example, unemployed workers getting an increase in income do not increase their expenditures on cereals and on cultural pursuits and others in a proportion conforming with the demand curve. Probably they increase their cereals consumption at a very much faster rate. It is always safe, therefore, to give some allowance to the prediction based on family budget studies. Yet the target appears to us to be on the high side; to put it in a more positive way, we suggest that the target of additional disposable income in 1960-61 could be made higher without fear of foodgrains prices rising.

Another disconcerting feature about the Plan is that there is no evidence that the agricultural planners are taking into account demand patterns of consumers in planning for the very long future. Thus, it is known that the demand curve for rice over income reaches an asymptote much earlier than that for wheat. This means that demand for rice will grow at a slower rate than for wheat. If this fact be not kept in mind right from now in crop planning, there is going to be serious imbalance in the grains market in the future: not necessarily a shortage of food grains, but a relative shortage of wheat and a relative superabundance of rice.

Non-Cereal Foods

In considering the other targets for food production also, we discover similar inconsistancies between the implied elasticities and what we think is reasonable. As for instance, it is targetted that the supply of vegetable oils for edible purposes (including Vanaspati) will go up from 1398 thousand tons to 1622 thousand tons, which means a per capita increase in consumption of 9 per cent. This implies an elasticity of about 0.70 which seems to be a bit of an under-estimate.

For sugar however about 40 per cent increase in total consumption or about 30 per cent increase in per capita consumption is targetted. This would mean an elasticity of more than 2.0! This seems to us to be quite off the mark, and there is likely to be overproduction if the target is realised.

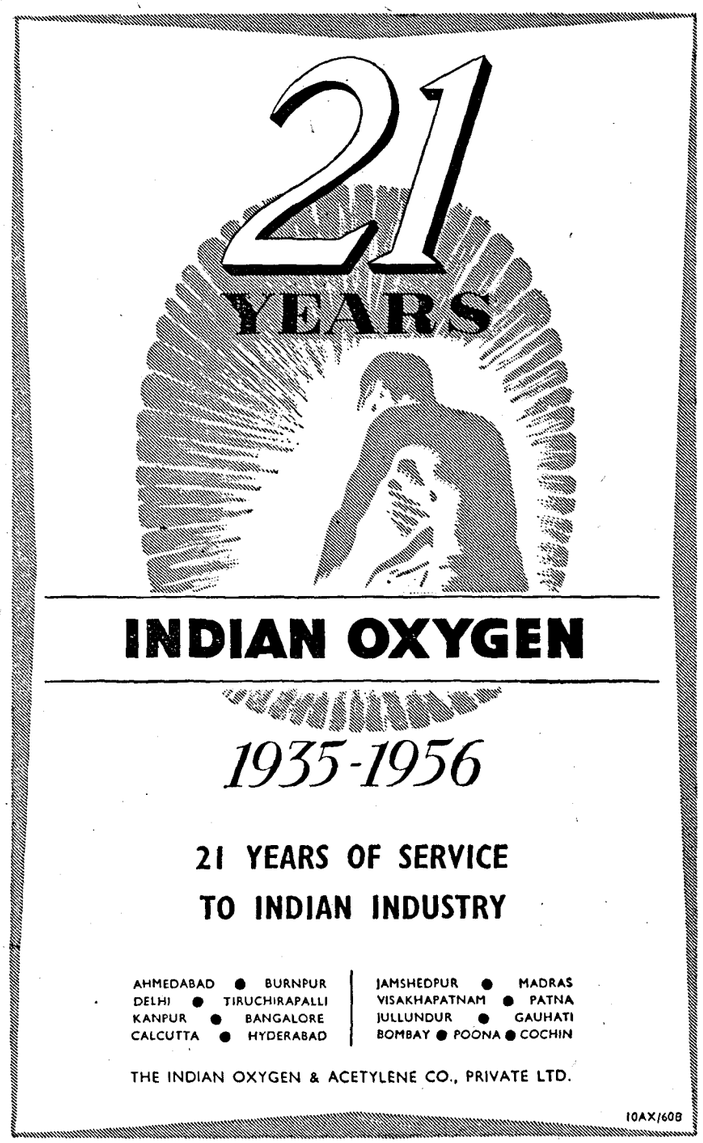
It is only for cotton textiles that it is explicitly stated how the target of production for 1960-61 was arrived at. The Kanungo Committee arrived at the target of 8500 million yds production for 1960-61 by assuming an elasticity of 1.25 referring to total national consumption. (This in our opinion is a reasonable estimate of the elasticity referring to per capita income.) It is however not made clear how population growth was taken into account.

Conclusion

A Government planning to undertake deficit financing on a grand scale should have at its disposal very detailed data about consumption habits of different classes of consumers. As the time series approach has to be ruled out in India, the family budget, with all its defects, has to be depended upon. It is necessary that detailed studies are undertaken and not only on all-India basis, but on the basis of much smaller communities of consumers. We think it important that studies be undertaken on the basis first of geographical regions and secondly of economic classes. The consumption habits of the working class in Bombay are likely to differ largely from that of the rent receivers of Bengal. If consumption targets are fixed for such relatively small and homogeneous communities on the basis of their consumption habits of and income flowing to them, and the national target is built up from them, the results are likely to be much more satisfactory.

Price Policy and Marketable Surplus

At least one classification is absolutely indispensable and that is between the agricultural and the non-agricultural population. The rate of development will depend to a very great extent not only on how much the agricultural population produces but more on how much they bring to the market. It is therefore important to know the consumption habits of the agricultural population as distinct from those of the nation as a whole. The agricultural population consumes very much more cereals than urban workers and it may not be all necessary for it from the point of view of nutrition, even after making allowance for the arduous manual labour that agriculturists have to do. This means that, increase in production is not the only way of increasing the supply of grains to the urban market. A suitable price policy can go a long way. But family budget studies, even based on different time periods and therefore different prices, cannot give adequate information on this point.



Agriculture in the Plan

(Contributed)

The year-to-year variations in our agricultural production are so wide, due to climatic conditions and changes in area under each crop, that comparison and conclusions about achievements of targets present serious difficulties.

It is only when the Planning Commission or the Ministry of Food and Agriculture is able to determine, with a reasonable degree of reliability, how much of the annual variation is due to climatic conditions and how much to agricultural improvements, that they will be in a position to set targets realistically.

The measures of land reform in the Plan and the improvements likely to follow from them are equally indeterminate. The Plan, however, appreciates the need for tying up credit with land reforms.

The price policy recommendations are more concerned with checking an inflationary rise than with the possibility of a sharp fall.

THE Government appears to be in doubt regarding the place which agriculture should occupy in the Second Five-Year Plan. The conference of State Ministers of Agriculture to be held in Mussoorie towards the end of this month to fix the targets of agricultural production will probably decide. Agriculture was given the pride of place in the First Five-Year Plan in which about 9.9 per cent of the total outlay was scheduled for Agricultural Programmes, Animal Husbandry, Forests, Fisheries and miscellaneous programmes other than co-operation. The Second Plan allots only 6.1 per cent of the total outlay for these programmes. Percentage outlay on co-operation has, however, been increased from 0.3 per cent in the 1st FYP to 1.0 per cent in the 2nd FYP. On the other hand, in respect of National Extension, Community Development, Village Panchayats and local development, the percentage of outlay allotted has been reduced from 4.9 to 4.7 per cent. Percentage of outlay in respect of irrigation has declined from 16.3 per cent in the 1st FYP to 7.9 per cent in the 2nd FYP.

On the other hand, the agricultural sector has been called upon to yield Rs 76 crores (land revenue Rs 37 crores; agricultural incometax Rs 12 crores; betterment levy Rs 16 crores and irrigation rates Rs 11 crores) out of Rs 225 crores to be raised through additional taxation.

It is noteworthy, however, that in respect of foodgrains, sugarcane and oilseeds, the percentage increase in production envisaged during the Second Plan is actually higher than that in the first. The relevant figures are given in the table.

This is, however, by no means final. The State Ministers of Agriculture would be considering in the forthcoming Conference the possibilities of stepping up the production targets to still higher levels.

Past Performance: Statistical Evidence

Instead of going by press communiques and handouts issued by the Government, it may be useful to examine carefully the performance of the agricultural sector in the recent past as a guide to the future. It is needless to repeat that the statistics are inadequate. But if the State can claim fulfilment of targets on the basis of these inadequate statistics, certainly one is entitled to examine this claim more carefully using the same statistics. The statistics for foodgrains production for the period 1920-21 to 1941-42 show that for the maximum percentage increase in production from one year to the immediate next was as high as 30 per cent ie in 1921-22 when production increased by 30 per cent over that in 1920-21. Similarly, the maximum percentage decline in production was recorded in 1923-24; the production during that year was more than 12 per cent below that of the previous year. Taking the recent statistics which are more reliable, it will be seen that production of foodgrains in 1953-54 increased over that in 1952-53 by 18 per cent, while that in 1950-51 was 7 per cent lower than in 1949-50.

Leaving aside the question of the reliability of these statistics, one salient point which emerges from the above examples is that the variations from year to year are so great, admittedly due to climatic conditions and violent changes in the area under each crop, that comparison of figures and conclusions about achievements of targets are fraught with serious difficulties. To put it bluntly, it is hard to convince oneself about the glorious achievements in the agricultural sector. Even in a country like USA, where agriculture is much less dependent on climate than that in India, year to year variation in gross farm production between 1919 and 1949 ranged from 1 per cent in the Pacific Region to 10 per cent in West South Central Region. An expert's guess is as good as that of a layman with regard to the average year to year variation in the gross farm production in India. Would it be unreasonable to assume that it may be anywhere between 5 to 15 per cent?

Increase in the Two Plans
(per cent)

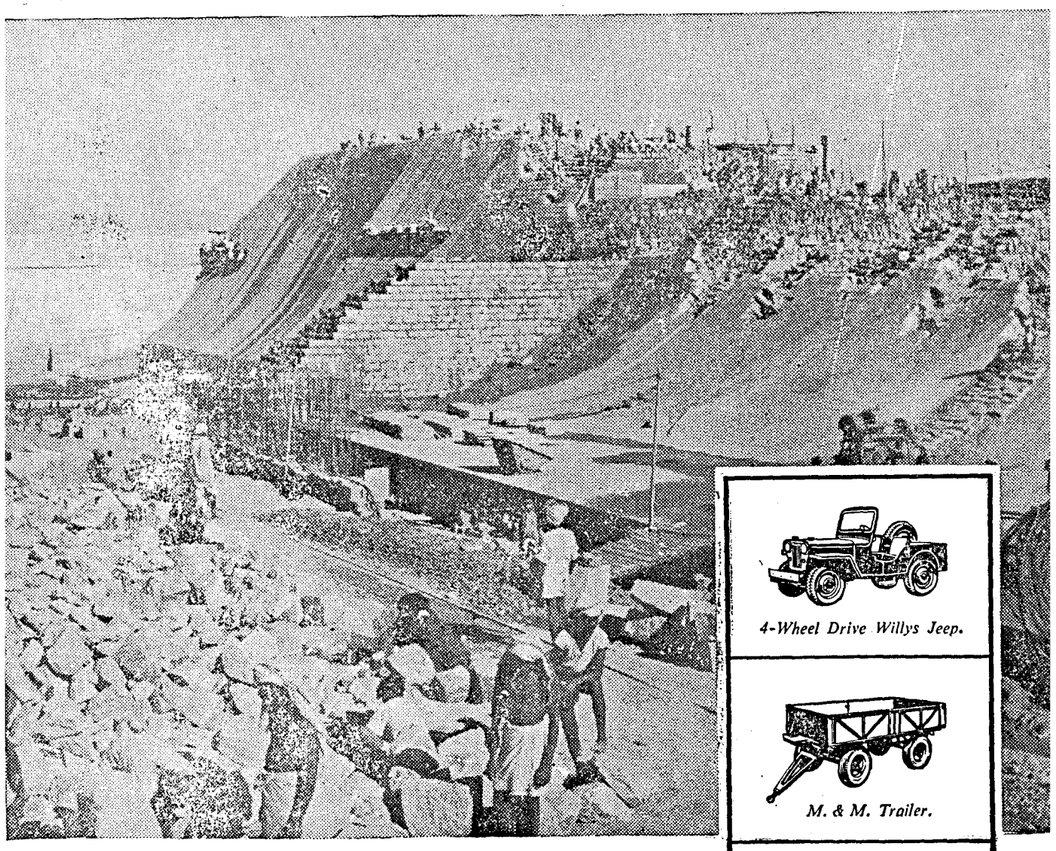
	In 1955-56 over the base year	In 1960-61 over 1955-56
Foodgrain	14	15
Cotton	45	31
Sugarcane (raw gur)	13	22
Oilseeds	8	27
Jute	64	25

This should not lead one to conclude that there has been very little increase in agricultural production in India during the 1st FYP. On the other hand, there is enough evidence to show that the trend in production is definitely on the upgrade. If this is so, then the next question is what is a reasonable guess about percentage increase in production from year to year?

No Trend Can be Forecast

We do not have comparable statistics for a reasonably long period to enable us to arrive at a fairly rough guess about the trend in production. The data for India, which are comparable, go only as far back as 1949-50. In USA, where more accurate data are available, the variation in production which can be ascribed to trend for a period of 40 years between 1919 and 1949, ranged from 3 per cent in one region to 0.8 per cent in another. This period, it should be noted, was marked by depression and absence of any active state effort to increase production. In fact the state efforts

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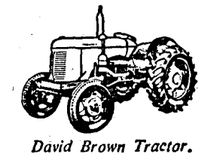
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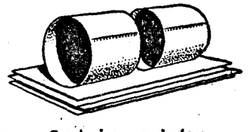
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were directed towards reducing production. It has also to be borne in mind that the average yield per acre was already high in USA, while in India we are only trying to step it up from its present miserably low level.

Let us now examine the available data for India. The increase in production in 1954-55 over that in the base year (which is 1949-50 for foodgrains and 1950-51 for other crops) was 19 per cent in the case of cereals, 32 per cent in the case of pulses, 21 per cent in the case of foodgrains (cereals and pulses), 20 per cent in the case of oilseeds, and 41 per cent in the case of cotton. The percentage decline in the case of sugarcane and jute was 14 per cent and 12 per cent, respectively; production of jute in 1955-56 is, however, much higher than that in 1954-55. This variation in production was observed over a period of 4 to 5 years. How much of this variation do we ascribe to climatic variations and how much to the trend towards increased production? It is only when the Planning Commission or the Ministry of Agriculture can answer this question that they would be in a position to set targets realistically for the Second Plan Period.

Divorce Between Use and Ownership

Doubts also arise while studying the chapter in the Second Five-Year Plan which deals with land reforms. Admittedly, the objectives and the methods of implementation have been more clearly defined in the Second Plan than in the First. The Planning Commission also claims justifiable pride about the progress achieved with regard to the abolition of intermediaries, though, the Plan admits that much remains to be done in some of the States. Conceding that abolition of intermediaries by itself does not prevent divorce between use and ownership of land, the Plan devotes considerable attention to the problems connected with the purchase of rights by tenants as well as with those of illegal eviction of tenants by landlords. Realising that one of the main reasons why tenants are unable to buy out landlords' rights is that they do not have a surplus from which to pay, the Plan recommends that the State Governments should take more energetic steps for bringing tenants in direct relationship with State. The Plan accordingly recommends that the State should accept responsibility for recovery of instalments of compensation payable by the tenant, besides the recovery of land revenue and ensure that the aggregate of the annual payment in the form of land revenue and the instalment of compensation and interest does not exceed the one-fourth or one-fifth of the produce.

The Plan, however, ignores one important point and that is the position of the tenant in the intervening period till final payment by him of the instalments towards the purchase price of land. During this period, the tenant has very little transferable rights in land and is bound to experience difficulties in getting necessary credit, not only for financing normal agricultural operation but also for financing development expenditure. In fact, according to the available reports, the anomalous position of Sirdars in U P—a hybrid product of land reforms by virtue of which the tenant deals directly with the State but still is not a full proprietor as he has not paid the purchase price—with no transferable rights has resulted in shrinkage of credit facilities so far as these tenants are concerned.

Credit with Land Reform

It is, however, gratifying to note that for the first time the Planning Commission has come round to appreciate the need for integrating credit with land reforms policy and has thus devoted a valuable section (Second Five Year Plan, pp 232 to 234) on the possible implications of land reforms on agricultural credit. Obviously, this is a lesson which the Planning Commission learnt from the difficulties experienced by Land Mortgage banks as a result of the recent amendment to the Bombay Agricultural Lands and Tenancy Act, by virtue of which all the tenants acquire special rights with effect from April 1, 1957. Hence the Plan recommends that state governments should be careful not to affect adversely the operations of co-operative institutions while framing land reform legislation. The Plan, however, fails to realise that unless proper credit facilities are provided for the tenant, the land reforms measures may themselves fail to fructify. It does not therefore recognise how imperative it is to give transferable rights to tenants whose status is comparable to that of Sirdars in U P. Though it is difficult to estimate the area which is likely to be cultivated by tenants of this type, it is perhaps not wrong to say that a very substantial portion of the total cultivating area would be cultivated by tenants of this type, even after the completion of land reforms. This is certainly the problem in the case of Sirdars in U P and those tenants in Bombay who would not have paid the final instalment towards the purchase price, in accordance with the recent 'Land to the Tillers' legislation in Bombay. A reader is bound to be disappointed if he is searching for a directive or recommendation from the Planning Commission on this distressing situation arising out of lack of transferable rights for the tenants.

Price Policy and Developments Abroad

Finally, a word about the price policy for the agricultural sector of the Indian economy during the second plan period. If one glances through the Memorandum submitted in 1955 by the Economics Division of the Finance Ministry, Government of India, one would find that the problem of falling agricultural prices was treated as very serious, and as one which needed to be tackled on a comprehensive scale. This Memorandum, it may be noted, was submitted in early 1955. Since then agricultural prices have continued to rise and Government has been forced to take measures for curbing inflationary trends. In fact at present the trend of thought among the officials and non-official circles appears to be more concerned with the problem of preventing inflation during the second plan period in view of the large "uncovered gap", than with the possibility of a sharp fall in agricultural prices. But considering the grave reports about the mounting surpluses in the U S A, and accumulation of stocks with other exporting countries, one is tempted to ask whether the Planning Commission is not being complacent about recent developments in the international agricultural produce markets. Countries like Australia and Canada are deeply concerned about the spectre of possible dumping of stocks with Commodity Credit Corporation by the United States. Are we to assume that the Indian economy is so well insulated against a slump in international commodity markets? No doubt Government is going to float the National Warehousing Corporation and build warehouses; these would be used for price-support-schemes in case the need arises. But a reader might well question whether the problem of a possible fall in prices has been given due thought by the Planning Commission.

Land Reform Proposals in the Second Five Year Plan

M L Dantwala

The experience of the First Five-Year Plan period clearly shows that the progress of land reforms in different parts of India is extremely uneven.

The plain fact is that the disparate progress is mainly the result of the varying strength of landed interests in Congress organisations of the region. The Planning Commission and the Central Committee for Land Reforms know this, but do not possess the frankness to admit it. Instead an attempt is made to hide and even encourage regional recalcitrance to fall in step with national policies under the pretext of "varying local conditions".

If the Government want the people to actively participate and co-operate in the task of national reconstruction, it will have to show greater honesty than is visible in the Planning Commission's chapter on Land Reforms.

FLEXIBILITY and convenience in regard to the immediate programme and an almost doctrinaire adherence to certain Utopian ideals for the ultimate, characterise the Planning Commission's proposals for land reforms as expounded in the Second Five Year Plan. It is considered natural that "while the direction may be clear, the pace and the precise content of land reform programmes have to be related closely to the conditions prevailing in each State". Even in the matter of definition of a technical term like family holding, the Commission has suggested that "the balance of convenience lies in favour of each State specifying according to the conditions of different regions, classes of soil, irrigation, etc., the area of land which may be declared to be a family holding".

It may be remembered that the concept of family holding is crucial to the issue of ceiling on individual holdings. A uniform income criterion suggested by the Committee of the Land Reforms Panel for determining the ceiling is rejected in favour of a more convenient and varying formula. Each State has been given "the discretion to decide whether the ceiling should apply to individual holdings or to holdings of families according to its social conditions and other relevant factors". The experience of the First Five-Year Plan period clearly shows that the progress of land reforms in different parts of India is extremely uneven. For example, under the tenancy legislation enacted during the last five years, reasonable rent varies from 16¼ per cent of the gross produce in Bombay to 60 per cent. for the Tanjore District of Madras. Provisions in regard to security of tenure, resumptions by landlords, right to purchase the leased land, vary from State to State so drastically that it is difficult to conclude that even the broad direction in the matter of land reforms is uniform, unless what is meant by 'clear direction' is no more than that the different States would be enacting some legislation some time which could be characterised as land reform. Does the Planning Commission want us to believe that a legislation which considers one-sixth of the gross produce as reasonable rent and another in which this level is as high as 60 per cent, or the one in which the subtenants have been given occupancy rights and another in which even the principal tenant can be evicted without much difficulty are progressing in the same direction? Can it be said that these divergencies reflect no more than the divergent regional agrarian conditions?

The Planning Commission has not thought it necessary to indicate the exact nature of regional variations which would justify the divergent 'pace and content' of land reforms in different States. The plain fact is that the disparate progress is mainly the result of the varying strength of landed interests in Congress organizations of the region. The Planning Commission and the Central Committee for Land Reforms know this, but do not possess the frankness to admit it. Instead an attempt is made to hide and even encourage regional recalcitrance to fall in step with national policies under the pretext of "varying local conditions". If the Government want the people to actively participate and co-operate in the task of national reconstruction, it will have to show greater honesty than is visible in the Planning Commission's chapter on Land Reforms.

Co-operative Village Management

As against this flexibility and regional convenience, the Planning Commission appear to be fairly convinced as to what should be the ultimate aim of land reforms. This ultimate objective has been expressed as Co-operative Village Management. While explaining the meaning and content of this ideal, it is stated that:

(1) Co-operative Village Management assumes that the ownership of land belongs to peasants.

(2) A distinction should be made between the unit of management and the unit of operation. Thus, even when a larger area or the village as a whole becomes the unit of management, for many years, the common unit of operation may be the peasant holding.

(3) Once the stage of Co-operative Village Management is reached, the distinction between those who have land and those who are landless will lose much of its significance. The resources of the village community derived from agriculture, trade and village industry will be employed in securing maximum increase in production and employment through action in the village as well as through co-operation in activities extending beyond the village. Such a village community will have an integrated social and economic structure and will be linked organically as a production and business unit with the economic life of the tehsil and the district. Thus, a rural economic structure is visualized in which agricultural production, village industries, processing industries, marketing and rural trade, are all

organised as co-operative activities.

It may appear somewhat cruel to dissect this picture of an idyllic community where land will belong not to the individual but to the community and all economic activities in agriculture, trade and industry will be co-operatively conducted. But as so much emphasis has been put on the direction as against pace and precise content, it is necessary to scrutinise this ultimate ideal and the road to it, a little more critically. We are told that during the transition to Co-operative Village Management, land in the village will be managed in three different ways. Firstly, there will be the individual farmers cultivating their own holdings. Secondly, there will be a group of farmers who pool their land voluntarily in their own interest into co-operative working units. Thirdly, there will be some land belonging to the village community as a whole. This will include, among others, lands whose ownership or management is entrusted to the village on the application of the ceiling on agricultural holdings. Thus within the scheme of land management in each village, there will be an individual sector, a voluntary co-operative sector, and a community sector. The aim would be to enlarge the co-operative sector until the management of the entire land in the village becomes the co-operative responsibility of the community. In other words, quantitative changes will become qualitative and the expanding co-operative sector will become a community sector in which, as euphimistically stated, the distinction between those who own land and those who do not will tend to disappear.

Ownership, Management and Operation

Thus there are three distinct aspects of land policy: (1) ownership, this will be of the individual peasant; (2) management, which will be entrusted to the village; (3) operation, which may be either individual or co-operative. As far as the aspect of management is concerned, it is quite clear that the ultimate objective is to vest it in the village community. In the matter of ownership, the exact implications of the ideal are, however, not clear. For, while we are told that Co-operative Village Management assumes that the ownership of land belongs to the peasant, it is also stated that once the stage of Co-operative Village Management is reached, the distinction between those who have land and those who are landless will lose its significance and the management of the entire land in the village will become the co-operative responsibility of the community. Does this mean that the right of management will be so overpowering that it will make the right of ownership nugatory? What will happen to the distinction between the unit of management and the unit of operation when the ultimate ideal is reached, is conveniently left unclarified. Presumably that too will disappear.

For the last few years, one of the principal objectives of our land reforms was to eliminate the dichotomy between ownership, operation and management. For, we believed that both in the interest of productive efficiency and social justice, best results would be achieved when those who manage the land also own it and vice versa. One can understand that under a socialistic pattern of society, the rights of ownership cannot be absolute and must be subject to social control and conform to social policy. But an arrangement under which land belongs to the peasant, but is managed by the village (Panchayat), would be no better than a variant of Soviet collectivisation of agriculture.

Clearer Policy Necessary

From the above it would be evident a clearer statement of policy is necessary unless of course the Planning Commission believes that it is enough for the distant to be enchanting. Firstly, it is necessary to make up our mind as to whether under the ultimate ideal land will belong to the tiller, who will be free to manage and operate it within the frame-work of overall social and economic policy or whether the land will belong to the village or the village community and also managed by it. Phrases like "co-operative management" and "integrated social and economic structure" are no doubt ennobling, but do not carry much meaning unless concretely defined; especially when one's concern is with planning rather than with sermons. Secondly, even if it is necessary to entrust the overall management of agrarian policy to the village community, it is absolutely essential to clearly define the respective rights of the individual and of the community. For, in actual practice rights entrusted to the village community will be exercised by a representative body like the Village Panchayats, subject to all the frailties of an elective institution. The possibility of the distortion of an ideal in the process of institutional implementation must not be a thing unknown to the Planning Commission. Under the Soviet collectives also, land belongs to the community and the M T S provide the needed integration. Is that the ideal we are aiming at?

It may be argued that since authority of management is vested in a democratic and decentralized institution like the village Panchayat, there may not be any conflict between the interest of the individual and that of the village community. Decentralization of authority is undoubtedly a big step in the direction of establishing a democratic society. But it should never be forgotton that in the ultimate analysis, the strength of democracy will lie not so much in institutions however decentralized and benevolent, but in the free individual managing his own affairs in conformity with the values of a democratic socialist society.

Gramdan is Different

Support is sought for the ideal of Co-operative Village Management from the Gramdan Movement. However, in doing so a fundamental distinction between the two is ignored. As the very word indicates, Gramdan rests on an act of voluntary surrender of ownership rights, a process which involves acceptance of an entirely new set of values. The Community Sector of the Planning Commission, on the other hand, will be brought into existence by a process of acquisition, with legal sanctions. Besides, resort will be taken to such administrative aids as preferential treatment in the matter of credit and supplies. This very process will add to the power and authority of State organs, inevitably contracting the orbit of individual freedom. Curtailment of individual freedom is justified only in the interest of a demonstrable social purpose, such as elimination of inefficiency, inequality or exploitation. If an individual is guilty of none of these, any attempt to push him into community ownership and management cannot be interpreted as anything but inspired by doctrinaire attachments.

Perhaps the Planning Commission has sought to compensate for the weakness of the immediate programme by a vision of a highly moral agrarian society. Ironically both contain seeds which may yield a crop of weeds which will be difficult to uproot.

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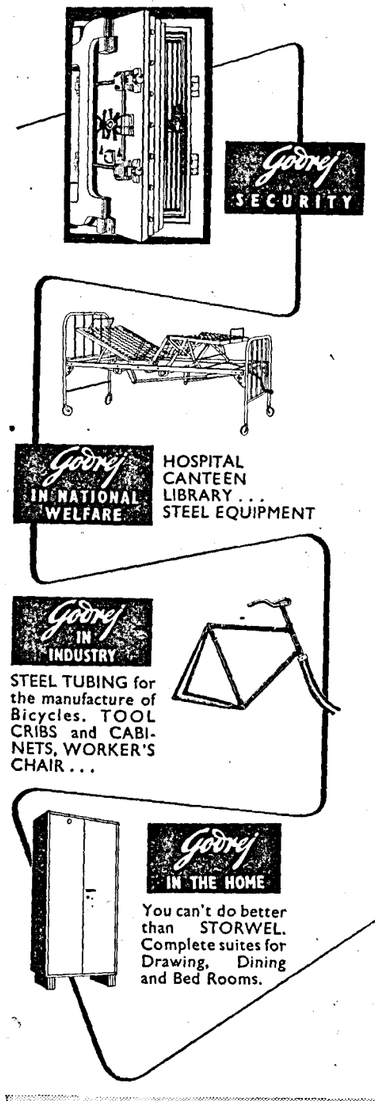
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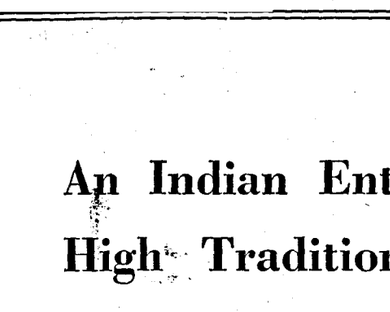
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Agricultural Targets in the Second Plan

P Ramanand Rao

Measures adopted during the First Plan are not likely to have contributed an increase of more than 5 per cent in the production of foodgrains. Considering the measures proposed during the Second Plan, therefore, it appears unlikely that the estimated 15.4 per cent increase in output of foodgrains will be achieved. In fact the last two years of the Plan have already shown a declining trend in foodgrain production, while output of major commercial crops has actually fallen below the 1950-51 output.

Thus our agricultural targets are in danger of remaining unrealised in the absence of adequate economic measures and effective changes in the agrarian social structure.

AGRICULTURE was in a pitiable state when the First Five Year Plan was launched. There was an acute shortage of food grains and to meet the chronic food deficit, the major portion of our valuable foreign exchange was regularly being drained out. Naturally, the primary objective of the First Plan was to stabilise agriculture and to achieve self-sufficiency in food. Accordingly, the major part of our First Plan outlay went to agriculture, the targets of additional production set being as shown in Table I below.

According to official statistics, the foodgrains target was over-fulfilled two years ahead of schedule and the oilseeds production exceeded the target by nearly 3 per cent by 1954-55. A detailed analysis of foodgrains production shows that during 1954-55 cereal production was up by 20 per cent and pulses recorded an increase of 31 per cent. In some crops like jowar, maize, etc, the increase was as much as 75 per cent whereas the output of gram increased by nearly 50 per cent. It is not yet clear as to what were the factors that led to such a large rise in production. Official quarters attribute it to developmental measures like the Grow More Food campaign, increased irrigation, supply of fertilisers, manures and improved seeds, land reclamation, National Extension Service and Community Development Projects etc, besides favourable monsoons. The actual achievements of these factors in their respective fields do not appear adequate to account for the increase in food production as claimed.

Irrigation and Agricultural Production

It can be seen from Table II below that the rise in agricultural production and the increase in the area under irrigation have during this period behaved more or less independently. If, for example, we take two pre-Plan years we find that while the net irrigated area during 1947-48 and 1948-49 remained more or less unchanged the production of cereals during the same period fell by 3.5 million tons or 8.7 per cent. On the other hand, output in 1952-53 increased by 6.4 million tons, an increase of 14.9 per cent over the previous year, without any substantial increase in the area under irrigation. No doubt during 1953-54 the net irrigated area rose by 12 per cent and the production also went up by 8.7 million tons or 17.6 per cent over the previous year. But that this was no more than a coincidence would be confirmed by the fact that while in 1954-55, the production fell by 2.6 million tons or 4.7 per cent the net irrigated area actually went up by 4.5 million acres or 7.7 per cent.

Similar absence of correlation or correspondence between the two are also seen in the case of other crops, such as cotton, sugar and jute, pulses etc. The production of jute fell from 4.6 million bales in 1951-52 to 3.1 million bales in 1954-55, a fall of 4.6 per cent as against the Plan target of 5.37 million bales by 1955-56. Similarly, the output of sugarcane in terms of raw sugar fell from 6.0 million tons in 1951-52 to 5.0 million tons in 1954-55 with the Plan target being 6.32 million tons.

It is well known that rainfall has been particularly favourable during the last few years and we can unhesitatingly attribute a part of the large increase in agricultural output to this natural factor. It may not be too far off the mark to attribute up to 10 per cent of the increase in foodgrains to the good monsoons. But the remaining 16 per cent in 1953-54 and 12 per cent in 1954-55 still remains to be accounted for. The increase according to the official version is over 5 per cent per year, which to say the least, appears rather surprising. When

TABLE I
Agricultural Targets in the First Plan

Commodity	Targeted Production	Additional production	Percentage increase
Foodgrains (mn tons)	61.6	7.6	14
Sugarcane (Gur) (mn tons)	6.3	0.7	12
Major oilseeds (mn tons)	5.5	0.4	8
Cotton (mn bales)	4.2	1.3	42
Jute (mn bales)	5.4	2.1	63

TABLE II
Significant Agricultural Statistics

	1947-48	48-49	49-50	50-51	51-52	52-53	53-54	54-55	55-56
Net irrigated area (mn acres)	46.6	46.8	49.9	51.3	51.4	51.7	58.0	62.5	67*
Cereal (mn tons)	39.8	43.3	46.0	41.7	42.8	49.2	57.9	55.3	—
Pulses (mn tons)	—	—	8.0	8.2	8.2	9.0	10.2	10.4	—
Sugarcane (mn tons)	5.8	4.8	4.9	5.6	6.0	5.0	4.4	5.5	—
Cotton (mn bales)	2.1	1.7	2.6	2.9	3.1	3.2	3.9	4.2	—
Jute (mn bales)	1.6	2.0	3.0	3.2	4.6	4.5	3.1	3.1	—
Groundnut (mn tons)	3.4	2.9	3.3	3.4	3.1	2.8	3.5	3.8	—
Consumption of Ammonium Sulphate (mn tons)	—	—	.276	.295	.276	.427	.500	.60	—
Superphosphate (mn tons)	—	—	NA	.043	.029	.034	.080	.10	—

post-war Japan increased her agricultural output at the rate of 2 per cent per year, this was considered very high. This became possible due to special and stringent measures taken by the State. In our case the nature and working of State drives during the First Plan period were not very different from the pre-Plan years. What is more, most of the schemes have hardly crossed the experimental stage. Therefore it may be that what is assumed to be an increase in agricultural production is really something else altogether.

Food Statistics

It is accepted all over that food statistics in India in the past suffered from a considerable degree of underestimation. This was further aggravated by incomplete reporting and coverage which was set right only very recently. Further, estimates of food production in many of the States till recently were based on the old out-dated method, viz the "condition factor". It is only after decontrol that the food estimates all over the country began to be based on the results of crop cutting surveys. This may well explain the surprisingly high rate of increase in the agricultural sector.*

It is a striking feature of the situation that the important commercial crops like jute and sugarcane failed to make any progress. As against the target of increase by 63 per cent for jute and 12 per cent for sugar, the actual output during 1954-55 was lower even than 1950-51 by 4 per cent and 1.2 per cent respectively.

Taking all these factors into consideration it would be nearer the truth to say that besides the increase that took place on account of the two successive good monsoons, measures adopted during the Plan period could be estimated to have contributed an increase of only about 5 per cent in the case of foodgrains output.

However, even with this improvement in production, India is still short of food grains to feed the people at a reasonable standard of balanced nutrition. Table III shows the foodgrain requirements of the country at the end of the Second Five Year Plan.

Table III
Cereals and Pulses Required at the end of the Second Plan

	(million tons)
Cereals at 16 oz. per diem per capita	57.4
Pulses at 3 oz per diem per capita	10.8
Total	78.2

The target of production of foodgrains for 1960-61 is as shown below,

	(million tons)
Increase in Production	10.0
Total Production	75.0
Percentage Increase	15.4

Thus the food targets of the Second Plan present us with a paradoxical situation. As shown above the total requirements of foodgrains (cereals and pulses) by the end of the Second Plan on the basis of 16 oz and 3 oz respectively will be 78.2 million tons as against the envisaged Plan production of 75 million tons. And yet, it appears doubtful whether even the planned target is capable of being fulfilled, in view of the poor results shown by the schemes and programmes during the First Five Year Plan period and equally inadequate measures proposed in the Second.

It may not be out of place to mention here the fact that during the last year of the First Plan period itself, we found a reversal of the trend in agricultural production. After the record production of 68 million tons of food grains in 1953-54, the production declined by 2.3 million tons to 65.8 million tons in 1954-55 and estimated production in 1955-56 shows a further decline of 0.8 million tons. This, further confirms our doubts regarding the effectiveness of the measures adopted in the field of agricultural production.

Contributions of Different Schemes

Table IV gives a breakdown of the contribution expected by the Planning Commission to be made by investment in different developmental schemes to the increase in production. The planners seem to have ignored the experience of the First Plan that it is not the investment allocations but appropriate and effective measures conducive to real development which are likely to yield actual increases in production. The table shows that minor and major irrigation projects and schemes are expected to yield 4.2 million tons. As has already been shown, the actual achievements of irrigation projects and schemes have not been substantial during the First Plan period and there is certainly nothing to warrant any greater level of effectiveness for irrigation during the Second Plan period.

The estimated consumption of fertilisers during 1955-56 was 0.7 million tons and the additional consumption target envisaged during the Second Plan is 1.5 million tons. For the planned target of 2.5 million tons of additional foodgrains from fertilisers we would require 1.25 million tons of fertilisers, leaving a mere 0.25 million tons of fertilisers for the commercial crops. But the planned targets for commercial crops would require, in view of the higher targets planned, much larger quantities of fertiliser. It should be remembered that the commercial crops like tea, coffee, sugarcane etc. require higher per acre dosage of fertilisers than food crops. In any case the residue of 0.25 million tons of fertilisers would be altogether inadequate to meet their requirements. Either the commercial crop producers like tea and coffee plantations will, with their better financial position, secure their requirements of fertilisers while foodgrains production would have to go short, or if the food crops are assured requisite quantities of fertilisers and manures at reasonable prices through rational distribution, the targets of commercial crops would suffer, causing loss of foreign exchange.

Improved Seeds

On what grounds, improved seeds are expected to contribute one million tons of additional foodgrains

Table IV
Anticipated Increases in Production from Investment under Different Heads

	(million tons)
Major irrigation	2.4
Minor irrigation	1.8
Manures and fertilisers	2.5
Improved seeds	1.0
Land Reclamation and land development	0.8
Increased use of improved techniques including application of soil conservation methods and more economic use of water	1.5
TOTAL	10.0

* This is, of course, flatly denied by the Ministry of Food and Agriculture, which asserts that the "statistical increase" resulting from expansion of reporting areas and crop-cutting surveys, largely antedates the First Five Year Plan. —Ed.

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it is difficult to see. I am not aware of any new scheme to produce sufficient quantities of improved seeds. It is well known that as it is, improved seeds are in short supply. In the absence of even a target or programme of organised production of improved seeds, in addition to what is being already or is likely to be produced in the existing State agricultural farms, it is unrealistic to expect an increase in foodgrain production of one million tons on account of improved seeds.

Land reclamation and land development measures are expected to realise an additional output of 0.8 million tons of foodgrains. During the First Plan period on an average 6 lakh acres per year are said to have been reclaimed or rendered fit for cultivation by the Central and State tractor organisations, thereby producing 75,000 tons of additional foodgrains. If the rate of reclamation revealed by the First Plan is any index of the capacity of the land reclamation and deep ploughing machinery in hand, one could assert without any fear of contradiction that the target of 0.8 million tons of foodgrain on this account would be very difficult to realise. Only doubling of this capacity could render the target realisable and for this there seems to be no provision in the Plan.

Further, 1.5 million tons of additional foodgrains are expected to result from increased use of improved techniques, including application of soil conservation methods and more economic use of water. It must be noted that the contribution of some of these measures like improved techniques and more economic use of water would probably have been already covered under the figures of improved seeds and additional irrigation facilities. Moreover, programmes like soil conservation methods, improved techniques and economic use of water are measures, that are likely to yield concrete results only after a long period of persistent effort. They are not likely to yield increased output to a substantial extent during the next Plan period. What the Departments of Agriculture in all the States failed to achieve in fifty years, they cannot be expected to accomplish within a bare five year period.

The output targets of commercial crops (Table V) also seem to be rather on the high side. The First Plan targets in some crops were not only unfulfilled, but the output as shown above has actually recorded a decline as compared with 1950-51 output.

One cannot help feeling that the expectations of the Plan from the National Extension Service, the Grow More Food Campaign and similar programmes are unlikely to be realised. The extent of improvement due to these schemes during the First Plan has not yet been properly assessed. In the absence of such an evaluation and in view of the continuing social and economic distress of the rural population, one may be excused the thought that such expectations are bound to end in disappointment. For, it should be noted that the Plan provides for no definite measures for radical reforms which would bring about a real change in the conditions of the tillers. The problem of fair wages for agricultural labour, reorganisation of rural credit etc are very inadequately dealt with. Hopes about co-operative programmes without necessary social and economic measures are also unlikely to be fulfilled.

Price Movements

In a market economy, foodgrains production is governed by the movement of prices. During the First Plan period, declining prices created problems in the mid-Plan years, causing untold loss and misery to millions of peasant families. This may have also been responsible, to a certain extent, for the subsequent fall in agricultural production. The absence of a stable and vigilant price policy assuring the mass of peasantry a stable income and their own requirements of industrial products at reasonable prices is bound to cause agricultural output to fluctuate widely. However, we are now witnessing a rising trend in foodgrain prices. It needs no mention that this rise in prices in no way benefits the mass of the peasants, being in the main the result of speculation by the big grain traders and businessmen. These high prices only result in a state of insecurity and instability in the countryside where the peasant finds prices of manufactured goods rising at the same time (as is already the case) further ruining his economy and in the end adversely affecting agricultural production itself.

Thus our agricultural targets are in danger of remaining unrealised in the absence of adequate economic measures and effective changes in the agrarian social structure. There is no doubt that if such measures and reforms are undertaken and the Plan is supplemented by appropriate schemes and operational measures, not only would the Plan target be realised but even the target of 40 per cent increase considered necessary in order to secure Rs 400 crores worth of exportable agricultural surplus would become a feasable proposition.

TABLE V

Targets for Commercial Crops

	Target of additional production	Estimated production	Percentage increase
Oil seeds (mn tons)	1.5	7.0	27.3
Sugar cane (gur) (mn tons)	1.6	7.4	27.6
Cotton (mn bales)	1.3	5.5	31.0
Jute (mn bales)	1.0	5.0	25.0



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Agricultural Output in the First Plan

Wilfred Malenbaum

Areas of great variability in a few concentrated regions, introduce most of the irregularity in the Indian output pattern.

If Bihar and Bombay are excluded, it appears that there has been a reasonably steady upward movement in India during the past six years, of which 40 per cent was due to the steady upward movement in acreage, the residual to increases in yield per acre.

THE expansion of agricultural output in India over the past five years or so has been of basic significance to the entire economy. Agriculture provided about one-half the total national income in 1950-51. With an increase of 20 per cent in its index of physical output, agriculture contributed directly to the overall national income growth of 17 or 18 per cent. Additional contributions came indirectly, through the effects of the increased agricultural output upon the farmers and upon the occupations and services dependent upon them. India is still predominantly an agricultural area; her welfare is the welfare of the rural people.

The recorded expansion in agricultural output exceeded the expectations of the Government of India in the First Five Year Plan. For the foodgrains alone, output was 45 per cent above the target. The increase achieved has served to modify the views of many persons with respect to the elasticity of supply in the agriculture of less-industrialised countries. Roughly equivalent levels of expansion are now anticipted for the Second Plan. It has been recognised of course that "favourable monsoons", particularly in 1953-54, played an important role in the increase. Indeed the Planning Commission itself, in its **Report on Progress** through 1953-54, suggested that only about one-half of the increase in recorded output could be attributed to the inputs during the First Plan and the preceding periods. Actually, no one has yet presented a convincing set of relationships between the additional output (or even half of it) and the changes in irrigation, in seeding, in manuring or in other farm management practices. The need for such analysis is clear, both for current planning in India and for a more complete understanding of the developments of the past.

The difficulties in the way of conclusive analysis are great. There are areas of uncertainty about some parts of the output and acreage totals, arising in part from differences in state procedures over the period since 1949-50. There is almost no systematic information for India, for states or for districts, on such input factors as manuring, seeding, farm methods, etc. Moreover, in a personalised activity like farming, the role of the attitude of the producer may well be fundamental. In a period of years after independence, after decisions on land reform legislation and after it became clear that government in India really believed in improving the well-being and security of the man on the land, the effects of the psychological factors must be taken into account. But in this field, there is only limited methodology for permitting careful weighing of the pertinent factors and their contributions.

The present note scarcely represents an answer to the problem. However, the crude calculations made do suggest that the problem may yield results for a more systematic effort. At the minimum, the note may elicit further examination of the problem. The discussion here is confined to the foodgrains and pulses—the most important Indian crops. During the period, these utilised about 80 per cent of India's cropped area.

The 22 per cent increase in foodgrain (and pulse) output was accompanied by a gradual increase in the area sown to these crops. Through land reclamation and irrigation, India had by 1954-55 augmented her acreage above that of 1949-50 by about 25 million acres, of which some 16 million went into foodgrains, an increase of almost 7 per cent in grain acreage. These acreage increases were gradual over the period, and thus suggest a rather steady expansion in the agricultural base.* Production changes corresponded fairly well with acreage shifts through 1952-53. In the next two years, there were significant increases in yields per acre. Of the total increment in output in these two years as against 1949-50, roughly 30 per cent can be attributed to the increase in acreage and 70 per cent to the increased yield per acre.

This general pattern for the nation as a whole seems to hold for four of the six regions into which Indian agricultural statistics tend to be grouped. Except for East India (West Bengal, Bihar, Orissa, Assam, Tripura, Manipur) and to a somewhat lesser extent for West India (Bombay, Saurashtra and Kutch), production seems to follow acreage changes; in the last few years, yield increases were of particular importance in explaining output.

However, too much cannot be made of the homogeneity of these regions. In a large country, with such marked temperature and rainfall variations, significant differences in foodgrain cropping patterns and in annual yield variations for any single crop are to be expected even within (relatively large) regions of the country. A rough indication of this heterogeneity is given in the accompanying tables. Table I shows the width of the

* There was a small decline in acreage in 1950/51 and a further decline in acreage in 1951/52.

TABLE I

Range in Regional Yields of Foodgrain per Acre

(Tons/Acre)

	Lowest	All-India Average	Highest	Range Amount	Range Ratio to average
1949-50	.163 (W)	.220	.277 (S)	.114	51.8
1950-51	.142 („)	.208	.277 (N)	.135	64.9
1951-52	.122 („)	.214	.264 (S)	.142	66.4
1952-53	.123 („)	.239	.283 (N)	.160	67.0
1953-54	.171 („)	.262	.316 (S)	.145	55.5
1954-55	.188 („)	.252	.340 (S)	.152	60.3

range in regional yields per acre for each of the years.

West India is consistently the low-yield region, while North and South India are usually at the other end of the yield range. Within each region, however, there is also significant year to year variation, as is shown in Table II. There are two extremes of variations (at least as measured by the total range as a ratio of the average yield over the six years.) North India (Uttar Pradesh)has both the smallest measure of variation and reasonably regular trend movement. West India (essentially Bombay) on the other hand has great irregularity and wide range of variation. East India, the other region with an irregular yield movement, can be divided into two components. Bihar, with about half of the foodgrain acreage of the region, tends to have lower yields and large yield variability (43.5 per cent). The remaining part of the region (Manipur, Tripura, Assam, Orissa, West Bengal) shows of course much less variability, and a somewhat more regular trend in annual yields.

Against this (approximate) background, the data for two States—Bombay and Bihar—might therefore be treated separately. Their degree of yield irregularity, and the relative width of the year to year range in yields suggests the possibility that climatic conditions play a more important part in their basic agriculture than they do elsewhere in India.*

Less Variable Regions

Table III brings together relevant acreage, production and yield statistics for all India and for India without the two states of Bihar and Bombay.† Consideration of the data without these two states improves the regularity of acreage and yield patterns. In particular, yield levels for residual India are both higher and more consistent. Variability (again measured by the range of yearly observations) is reduced from 23.6 per cent to 17.2 per cent. There is now an essentially upward movement in yield over the entire period.

It might appropriately be asked how dependent is this residual pattern upon significant balancing out of acreage and output movements in other states which taken alone might well yield irregular agriculture patterns. Such compensatory movements obviously take place and are of importance for the specific levels obtained for the acreage and yields in any residual India. For present purposes, specific states were selected where output or acreage variations have been marked. Thus, the tremendous expansions in acreage and production in Rajasthan and Hyderabad have been noted by the Planning Commission itself.* Notable too are the developments in Madras and Madhya Pradesh. If these states are removed—individually or collectively, the patterns of acreage and yield movements do not change appreciably. Thus, the average yield is increased somewhat, and variability is reduced further to 15.1 per cent. These data apply to a residual India from which six major producing areas have been eliminated. With only 45 per cent of the total acreage in foodstuffs, and 51 per cent of the output, acreage and yield movement reflect the more regular pattern obtained by eliminating only Bihar and Bombay.

The following conclusions may be drawn for residual India, i e excluding Bihar and Bombay:

1. There has been a reasonably steady upward movement in output of foodgrains in India throughout the past six years.

2. Of a total expansion of some 29 per cent—some 40 per cent was due to the steady upward movement in acreage, the residual to increases in yield per acre.

3. The expansion through 1954-55 does not reflect any particular and concentrated benefit of favourable monsoon in 1952|53 or 1953|54. The upward movement in yields is gradual.

For All-India, it can be concluded that:

Areas of great variability, in a few concentrated regions, introduce most of the irregularity in the Indian output pattern.

There remains: 1. need for further analysis of change in the variable area (Bombay and Bihar). 2. need to explain the upward pattern in yield for residual India. What input factors were responsible?

* See **Progress Report**, 1953/54.

TABLE II

Regional Variations in Yield per Acre

Region	Average Yield 1949-50—1954-55	Range in Yields: Amount	Range in Yields: Percentage of average	General characterisation of historical yields
South	.289	.080	27.7	Gradual decline, then marked upward
North	.288	.032	11.0	Gradual upward, throughout
East	.272	.071	26.3	Gradual upward but irregular
Northwest	.212	.066	31.1	Marked upward
Central	.180	.057	31.7	Marked upward
West	.152	.066	43.4	Gradual upward but irregular

Table III

Acreage and Yield Variations

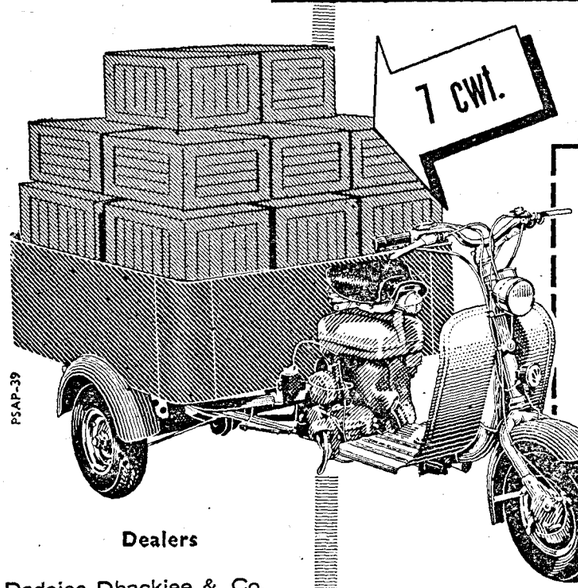
	India			India minus Bihar and Bombay		
	Prod	Acreage	Yield	Prod	Acreage	Yield
1949-50	54.0	245.3	.220	42.5	188.3	.247
1950-51	50.0	240.5	.208	41.6	189.2	.249
1951-52	51.1	239.5	.214	42.4	188.3	.246
1952-53	57.5	250.8	.239	47.9	198.8	.258
1953-54	65.4	259.5	.262	53.8	208.1	.278
1954-55	65.8	262.8	.252	55.2	212.4	.281

* One would expect greater variability the smaller the geographic area. It is unlikely that this explains the observed patterns in Bihar and Bombay since each state has a foodgrain acreage of about the size of other regions—South and Northwest India.

† In 1949/50-1951/52, these two states accounted for about 22 per cent of the total acreage in foodgrains and pulses. In 1952/53-1954/55 the acreage declined to (a bit less than) 20 per cent. Production-wise, the corresponding ratios are 18.5 & 16.8 per cent.

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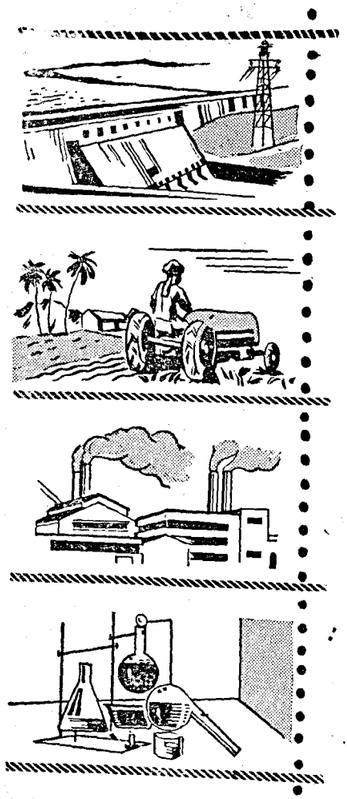
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Official Papers

Working of Community Projects and NES

Evelyn Wood

It is an odd fact that most of the admiration for the Community Projects and National Extension Service, and for the Programme Evaluation Organisation as their determined critic, comes from foreigners.

Yet a spell of living among village people should convince any one that here, if nowhere else, a new life is beginning for India, perhaps for the whole civilized world.

A GOVERNMENT which supports critical organs with the duty of probing into its own activities is demonstrably in good health. The Programme Evaluation Organisation (P E O) was the first such organ; now, at rather a less official level, comes Industrial Management Unit for Research and Planning (IMRUP). More power to these elbows at the sides of Government! May they keep acutely angular! The Directorship of the P E O has changed. But this Third Annual Report* is no less critical than its predecessors. Further, it is published at a time when the whole of the Extension Service as a rural development mechanism seems to be in a critical state. The last session of the Lok Sabha discussed Community Development and the National Extension Service at great length; and the ministerial response laid the responsibility for further examination and recommendations squarely on the shoulders of the P E O. This is an honour: to be regarded officially as a permanent Commission of constructive investigation, and the P E O will have to work hard to keep earning such an accolade.

This report gives every indication of the P E O's continued ability to evaluate, within the very broad frame of reference given; and no less of its fertility in constructive suggestions. The N E S has growing pains, and these are duly examined, suggestions for palliative treatment being made, even if no radical therapy can now be defined.

The C P A
may have started the right way,
but the N E S
has got itself into a bit of a mess.
Don't let's have the P E O
saying, in 1961, "I told you so!"

There is this danger that the P E O's excellent, constructive advice may go unregarded. There are ominous signs of this. For example, to meet the problem of field-records, the P E O designed a form of report to simplify and standardize cumulative news of what happens in the villages. It seems that the Extension field-workers just won't use the P E O's system.

Extension is a Two-Way Channel

There seems to be a growing realization in the P E O that plans and programmes cannot just be made for village folk and planted by Extension workers. There is constant need for criticism of the programmes by all sorts of village people. This is why the "First Reactions" Report of the P E O was so valuable; and it may therefore be hoped that some of the further studies, which are listed in Appendix I of this Report (pp 63-66) may indicate more of the changing needs and values of village people, besides their negative reactions to Community and Extension programmes worked out for them by non-villagers.

Records by field-workers are vitally necessary for this very reason of logging the changing attitudes and abilities of village folk. The special features of the Community Projects tended to mask the needs and values of ordinary people in the villages. As this P E O's Report now recognizes (not in as many words, of course!), the amenities which account for the additional finances of C P's over N E S Blocks are actually so much bribery to get people in the villages to work together on an official programme.

Section II on pp 13-14 of the Report opens up the whole question of tapping the villagers's practical knowledge. This is a pregnant suggestion. It might have been considered that farmers know how to farm, and that all the gram sevaks who are briefly trained in agriculture can offer is a few new tricks of this trade, for simple and controlled experiment by the village-farmers, and in their own conditions. But here the P E O slips up. On pp 40-41, it is seriously proposed that selected cultivators should have the benefit of "comprehensive advice" from agriculture-trained gram sevaks, who will teach the farmers scientific farming. Well! . . I have seen a gram sevak try this on with a Kannadiga Gowda, and I must say I blushed for the poor boy!

On the other hand the P E O points out that Block Development Officers (B D O's) are mostly revenue men, and suggests that there is no function which they can serve so efficiently as that of being "area specialists". This is a really magnificent concept; if it is adopted, it can really lodge Extension as a permanent, constructive service in rural India. But the advice can only be fruitful if the Block Development Officer sticks to the same Block for many years. And a tested vocation for the work is also required. How many official Extension workers have such a vocation—comparable to that of a Buddhist Bikkhu—or would even be permitted to think about it? Aren't they just shoved out into the rural development field, without being asked whether they want to go and work for and with village people, or not?

Jungle of Development Agencies

There are more topics under Extension between villagers and better educated people to-day. It was possible to start off the Community Projects with a few, crude targets. That won't satisfy village people any longer. We have advanced in complexity. This Report reflects the complexity, and it inevitably reads rather confusedly in attempting to deal with values in the many fields of activity which are now involved.

The attempt to bring other agencies besides the Extension Service into the tally of input in the rural development field is new this year, and much to be commended. But, besides the "regular", old established Departments of Agriculture,

* **Evaluation Report on Working of Community Projects and N E S blocks**—2 volumes: Main & Summary, 230 & 17 pp Programme Evaluation Organization of the Planning Commission, April, 1956.

Public Works, Health and Education, there are other development agencies at work to-day which are less noticed by the PEO. For example, the Central Social Welfare Board (which does get a mention) cuts across most of the fields of work of all the others, and with scant reference to or collaboration with them. In the field of rural industry, the All India Khadi and Village Industries Board, now under the Ministry of Production; the All India Handicrafts Board; and the Handloom Organization of the Ministry of Commerce and Industries all offer panditry and some funds to rural industry. Should not the NES be the channel? Is it?

Panchayats are at last allowed to come under criticism. On pp 18-19 the PEO raises for the first time the radical difference between the statutory and the traditional panchayat. Hitherto, it has always been assumed that the statutory panchayat is referred to; and it is refreshing to see an official publication so forthright about the defects of these very unproven institutions.

With the acceptance of the BDO as the "area specialist 2" for his Development Block, it seems odd that the PEO should question, on p 22, "to what extent" other development agencies should accept that their "activities will be channelled through the project or block agency". Surely no proper question can arise on this principle? Certainly all official bodies concerned with rural development—and, let us hope, all unofficial bodies seeking to promote or implement change in the villages —should at least keep the BDO fully informed of their operations and results. If not, chaos and resentment in the minds of village folk are the most likely outcome of un-coordinated effort.

The PEO's championship of the gram sevak as a man much put upon by his seniors, who is diverted unconstructively from his primary, educational function, runs from pp 22-25. These pages should be compulsory reading for all secretariat personnel, from Ministers downwards, in so far as such desk-experts are concerned with rural development.

Conclusion

Although this PEO's report is not obsessed with certain a priori "improvements" which village folk "must" accept, as were the two previous Reports, this third year's review is packed full of constructive ideas. The confused handling of tabulated material and the comments thereon is probably unavoidable. I would guess that there is never enough time to work on the presentation of the collected data. I would also guess that the preoccupation with such physical data as crowd the tables is not at all a PEO vice; in fact, the comments on such preoccupations in the body of the Report suggest that the PEO is fighting the battle of the real objectives of the Extension movement against those bureaucrats (of whom many are, despite themselves, in the field) who feel the need for concrete economic objectives instead of the Planning Commission's magnificent concept. This was quoted in extenso at the beginning of the Second Year's PEO's Report; it does not need repeating in this review.

It is not the fault of the PEO that the writers of the Report appear to have bitten off more technical matter than they can chew. This indigestion is common to the whole of the rural development organization of governments in India. As such, the PEO rightly sees the complaint as one for systematic treatment.

If many of the statements made in the body of the report—and, more particularly, in the Summary of 17 pages—appear too sweeping, too generalized, it must be realised that the human canvas of this picture is the biggest ever yet attempted. The changes in mind, heart and detailed behaviour of three hundred million people are being depicted. Moreover, these people probably vary as individuals and as groups more than any other contiguous block of the same size, anywhere in the world. One must admire the courage of the development staff in tackling this immense task, and no less the PEO for its equal courage and greater detachment in forming a critical analysis of the new movement, as it grows in scope and complexity.

It is an odd fact that most of the admiration for the CPA and its children, the Community Projects and NES; and for the PEO as their determined critic, comes from foreigners. Indians are only too accustomed to destructive comment on what goes on in the villages. Yet a spell of living among village people should convince anyone that here, if nowhere else, a new life is beginning for India, perhaps for the whole civilized world.

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Organisation and Management of Public Enterprises: Bangalore Symposium

Y S Pandit

The formation of the Industrial Management Research Unit for Planning means that the problem of industrial management and organisation in the State sector is now recognised. The progress of the unit and its work would, therefore, be watched with great interest.

From the studies and discussions of the unit the State enterprises would no doubt derive considerable benefit. But these studies and discussions would be useful even to the private sector of industry to which the knowledge may not be denied.

The utility of the work of the IMRUP would enhance if selected persons from private industry are associated with it and invited for discussion. Instead of relying wholly on the experience of the executives of State enterprises, it would be beneficial to draw on the experience of the private sector of industry as well.

SINCE the State has now set the socialistic pattern of development as its objective, it is obvious that its administrative responsibilities would rapidly increase. The field of these responsibilities which has already extended far beyond 'bread and butter' adminstration would also become diverse in character. It will cover all the important aspects of economic activity such as transport, communications, trade and industry. In order to carry out these activities efficiently it is imperative that the State should devote serious attention to the problems of management. The success of the activities which the State would be undertaking would be determined to a large extent on its capacity to work out suitable organisations, select and train proper personnel and evolve correct procedures for the working of the organisations. The object should be to provide adequate checks wherever they are needed without hampering the progress of operations in any way.

Management Problems

The establishment of an Industrial Management Research Unit for Planning by the Indian Statistical Institute since 1st of April is not, therefore, a moment too soon. Under the Second Five Year Plan a large proportion of the investment in the State sector is to be made in important basic industries. The management problems, which are likely to become conspicuous almost immediately and continue to acquire greater prominence in future, as the socialistic pattern of development takes a concrete shape, would naturally be confined to the field of industry.

Broadly speaking, the IMRUP will be concerned with three groups of industrial management problems.

First, it will study and report on the organisational structure most suited for the State enterprises.

Secondly, it will formulate methods for the optimum utilisation of resources through the use of modern management tools such as work-study, statistical quality control and incentive.

Thirdly, the unit will engage itself in examining the various problems relating to industrial planning such as the economics of location, mechanisation, nature of industrial relationship, relative efficiency of techniques, technological ratios etc. and generally provide technical intelligence necessary for perspective planning.

The symposium was the first organised activity of the Industrial and Management Research Unit for Planning. It was designed to find out in consultation with the top executives of State Enterprises and others interested in the subject the type of specific problems which the unit should take up for study and to explore the ways in which the facilities offered by the unit could be made use of by the State enterprises. Along with Prof J K Galbraith and Mr John Strachey who were on a visit to the Indian Statistical Institute, and the Secretary to the Ministry of Production, some top executives of the State enterprises located in Bangalore where the unit is established and where the symposium was held, participated in the proceedings. A paper on public organisation prepared by Prof Galbraith formed the basis of discussion.

On going through the proceedings of the symposium one finds that the purpose for which the symposium was arranged was more than fulfilled. A variety of interesting topics having a vital and urgent bearing on the efficient and successful management of State enterprises were thrown up. But more than that, the symposium provided a golden opportunity to the top executives of State enterprises to compare notes in an academic atmosphere and to voice their opinion without inhibition of any kind. The proceedings of the symposium in which all the participants freely narrated their experiences and expressed their views, as reproduced in the mimeographed report, are, therefore, very informative so far as the working of the State enterprises is concerned.

Allied or Multi-Purpose Corporation ?

It is an index of the frankness with which opinions were expressed and matters under consideration examined, that although on the topics to be taken up for detailed study by the IMRUP there was general agreemnt on the issues that were discussed the views expressed revealed interesting differences. For instance, Prof Galbraith had suggested that the State should undertake the promotion and management of industrial enterprises through multi-purpose corporations like the Zaibatsu in Japan and the General Motors Corporation and the Tennessee Valley Authority in the USA. The argument in support of the multi-purpose corporation was that an existing organization managing one enterprise, if it undertakes the promotion of another enterprise whether in the same line or different, would be in a position to take the innumerable decisions necessary in the formative period of an industrial undertaking quickly and with confidence, and

economise in the use of the available managerial talent and technical personnel.

While the idea behind Prof Galbraith's suggestion was generally accepted, there was a strong current of opinion that instead of being multi-purpose, the organisation should be allied-purpose in the sense of managing and promoting units in the same industry. There was, however, a view expressed and stoutly defended that what matters is not so much the type of organisation as the personnel.

> "The form of an organisation is not one hundredth as important as the persons in it. You can put a good man in a bad set-up, he would probably pull the whole thing through. Whereas you put a bad one in a fine set-up, he won't pull through".

Regarding the autonomy of Corporations it was revealed that in one case at least the autonomy was given but it had not reached the Corporation. Further, it was more difficult to get a decision after autonomy than before because the part-time directors had no time to make up their minds. "Unless you have fulltime directors, who are devoted to it you just do not get a quick decision."

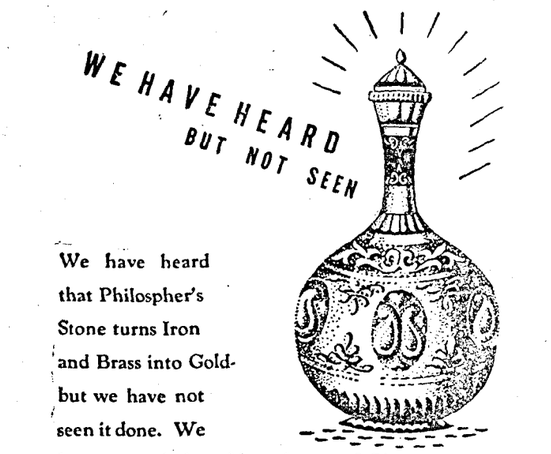
Similarly, in regard to the scope of industrial engineering in the State enterprises, it was held that the technique of industrial engineering should be made use of from the very start when promoting an undertaking. However, it was strongly argued by some that industrial engineering holds scope when an enterprise has grown old and inefficient, and that, since the State enterprises which were all new "had no time to grow inefficient" industrial engineering had no use for them.

Labour-Management Relations

In respect of labour-management relations it was observed that the State enterprises offered a great opportunity as the working of these enterprises was motivated differently from that of the private industries. An interesting experience of how workers in a Posts & Telegraphs factory were persuaded to increase production, agree to shift working and introduce a number of economies merely by talking things over with them was narrated. One of the participants who had experience of both the private and the State sectors remarked that according to his experience human relationship in the private sector was better than in the State sector but surprisingly no comment was made on this observation.

When the issue of the workers' participation in management from the point of view of the scope it offered to the IMRUP for carrying out specific studies, was under consideration, references were made approvingly to the practice prevailing in Yugoslavia and Russia. It was also mentioned that the Board of Directors of the State enterprises in India include Labour representatives. No light was thrown on the result of this association but in some cases the Managing Directors are reported to have reacted very strongly when the suggestion of workers' participation was put to them.

The formation of the IMRUP means that the problem of industrial management and organisation in the State sector is now recognised. The progress of the unit and its work would, therefore, be watched with great interest. From the studies and discussions of the unit the State enterprises would no doubt derive considerable benefit. But these studies and discussions would be useful even to the private sector of industry to which the knowledge may not be denied. The utility of the work of the IMRUP would enhance if selected persons from private industry are associated with it and invited for discussion. Instead of relying wholly on the experience of the executives of State enterprises it would be beneficial to draw on the experience of the private sector of industry as well.



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The Agricultural Labour Enquiry

Reflections on Concepts and Methods

Daniel Thorner

The following critique of the Agricultural Labour Enquiry forms part of an analysis of agrarian statistics and agricultural labourers in India which the author is preparing for the Inter-University Study Project on Labour Problems in Economic Development.

Dr Daniel Thorner is the author of The Agrarian Prospect in India: Five Lectures on Land Reforms, which the Delhi University Press is publishing in July for the Delhi School of Economics.

AGRICULTURAL workers form the most disadvantaged economic group in India today. Their wages are typically low; conditions of work are often onerous; and employment frequently irregular. The level of living which their earnings permit is very meagre. Their daily lives, as it were, reflect the problems of under-development, underemployment, and "surplus" population which figure so prominently in current national and international discussion. Prior to 1947, such concern as the Government of India had evinced in the labour field was focussed on urban workers, particularly those organized into strong or militant unions. In the years since the attainment of independence, Government has shown heightened awareness that the agricultural labourers constitute the largest single section of the national labour force. Accordingly, the Ministry of Labour of the Central Government in 1949 took the important step of sponsoring a nationwide Agricultural Labour Enquiry, the results of which now lie before us*.

The total published output is indeed substantial; if we include the general summary and the supplementary volume of wage statistics, there are eleven volumes totalling nearly 3000 pages, and furnishing 900 tables and numerous charts. Shri V V Giri, then India's Minister of Labour, wrote proudly in 1954:

> "This is the first and the largest socio-economic enquiry of its kind conducted in Asia along the lines laid down by international bodies, like the ILO and the UN and according to the scientific principles of sampling under expert technical guidance." (**Foreword** to Vol I of **Report on Intensive Survey**)

The **Enquiry** covered some 800 sample villages, each in three phases: (1) a broad questionnaire about the village as a whole (General Survey); (2) a second questionnaire that was answered by every family resident in the village, 104,000 families (General Family Survey); and (3) a detailed questionnaire answered by 11,000 families, roughly one out of each three families of agricultural labourers. (Intensive Family Survey).

This large-scale operation was preceded by a series of two dozen odd pilot surveys of individual villages in various parts of the country. Eight of these have been published as separate pamphlets. The main **Reports** present some discussion of the difficulties encountered and indicate those which were considered to be solved and those which continued to offer trouble. As a whole the **Enquiry** has an impressive appearance and has already been quoted in widely scattered quarters—to mention two examples, in publications by an economist of the United Nations Economic Commission for Europe and by an Academician of the Social Sciences Division of the National Academy of the U S S R. Five articles summarizing the **Enquiry's** principal statistical findings appeared in this journal in the latter half of 1955 (**Economic Weekly** issues for August 6, August 13, September 3, September 10, and October 1, 1955).

The Directors of the Enquiry themselves felt enough confidence in their results not only to issue them for the 800 villages studied, but to project them on a State by State basis for India's 27 Part "A", Part "B", and Part "C" States; to calculate further estimates for the six zones proposed in the General Population *Census of 1951*—North, East, South, West, Central and North-West India —and finally to provide All-India figures. Thus we now have in print tables which purport to give nationwide estimates for the number of "attached" labourers and for "casual" labourers; the number of labourers with land and the number of landless labourers; size and number of cultivation units; employment and unemployment of agricultural labourers; average daily wages and total national wages bill (for agricultural labourers); income, expenditure, indebtedness and variation in economic levels of living.

In the years ahead, these tables are likely to be used extensively. It may therefore be worthwhile to take a closer look at the basic concepts embodied in the three questionnaires and at the methods by which the principal data have been collected and assembled.

Agricultural Worker: Casual and Attached

The term "agricultural worker" as used in the Enquiry includes "all those who work in the fields for wages". (**Agricultural Wages in India** Vol I, p 1). The Instructions issued in connection with the second stage, the General Family Survey, amplify this definition. Investigators are to take as an agricultural worker "a person who reports that he or she is engaged in agricultural operations as a hired labourer for wages for 50 per cent or more of the total number of days worked by him or her during the previous year". An agricultural labour family is defined as "one in which either the head of the family or 50% or more of the earners report agricultural labour as their main occupation". (**Rural Man-**

* Government of India, Ministry of Labour, **Agricultural Labour Enquiry:**

Agricultural Wages in India. Delhi, 1952. Two Volumes. Pp 417 and 172 Rs 6/8 and 6/10.

Agricultural Labour: How They Work and Live. Delhi 1952. Pp 137 Rs 3/8.

Rural Man Power and Occupational Structure: Delhi, 1954. Pp 530 Rs 10/-.

Report on Intensive Survey of Agricultural Labour: Delhi, 1955 Seven volumes.

Vol. I—**All India** Pp 305 and "hhhh." Rs 7.
Vol. II—**North India.** Pp 118 Rs 2/12.
Vol. III—**East India** Pp 321 Rs 5/12.
Vol. IV—**South India** Pp 232 Rs 5/12.
Vol. V—**West India** Pp 172 Rs 3/12.
Vol. VI—**Central India** Pp 266 Rs 5/12.
Vol. VII—**North West India** Pp 306 Rs 6/8.

Power and Occupational Structure, p. 449.)

Agricultural labourers are then divided into two categories: "attached" and "casual". It should be emphasized that this is the most fundamental distinction in the Enquiry. In each of the three stages the field investigators were required to record certain data separately for these two types of workers. The "Instructions" accompanying the General Village Questionnaire (the first phase) provide that separate wage quotations be collected "for purely 'casual' labourers who are paid at the market rates and for 'attached' labourers who, whenever required by their master, have to work for him and are not ordinarily free to seek employment elsewhere". **(Agricultural Wages in India.** Vol 1, p. 400) This definition takes into account only two aspects of the conditions of employment, viz., rate of pay and freedom to seek alternative work.

A second set of definitions is to be found in a footnote to the report of the final phase of the Enquiry, although we are not informed whether it was ever issued to the investigators. Attached workers "are more or less in continuous employment and are under some sort of contract with employers during the period of employment", while casual workers are "workers other than attached. They are employed from time to time according to exigencies of work". **(Report on Intensive Survey of Agricultural Labour,** Vol I, p 21) Two additional features, then, are indicated for the identification of "attached" workers: continuity of employment and the existence of a contract.

Many other possible criteria appear in the descriptions of the various kinds of farm labour noted in each of the States in the General Village Survey. **(Agricultural Wages in India,** Vol I). In most cases the difference between "casual" and "attached" workers is stated initially in terms of the period for which a man is engaged and whether or not he receives daily wages. Thus we find that in Assam attached workers "were employed and paid on a monthly, quarterly, half-yearly or annual basis", while casual workers "were employed on daily wages for short periods during busy seasons". In Madras attached workers "were engaged for the whole year or during the busy season for a period of three to six months", casual workers being "engaged either on time or on piece rates". In PEPSU, "casual workers were paid on a daily basis while attached workers were generally employed for longer periods on yearly, half-yearly or monthly agreements". **(Agricultural Wages in India,** Vol I, pp. 55, 114, and 247. Cf for Punjab, Uttar Pradesh, and West Bengal, pp 151, 165, and 182, respectively). In the case of Bihar, on the other hand, "a striking feature of agricultural employment .... was the payment of daily wages both to casual and attached workers". Similarly, in the Rayalaseema area of what is now Andhra, "some of the attached workers got daily wages even though the contract of employment was annual". (Op cit, pp 68 and 120)

What is the evidence that a worker has agreed to serve on an "attached" basis? In Punjab, "contracts for annual employment, generally reduced to writing, were made in the month of **Jeth** (mid-May to mid-June)." In Assam the contract of employment "was often an oral understanding." In Hyderabad, "there were very few written agreements between attached workers and their employers; the agreement was usually oral and was renewed every year if the employer was satisfied with the work". (Op cit, 151, 55, 200)

"Concessions" to Attached Labourers

In every State, we read of "concessions" to attached labourers. Perhaps the most common of these was a loan or an interest-free advance. In Bihar, "an attached worker was usually advanced a sum of Rs 50 to Rs 100 at the beginning of the year and unless and until he returned the sum, he was not permitted to leave his employer". In the Mayurbhanj district of Orissa, employers were able by means of an interest-free advance to ensure that labourers would work for them on any day required by the employers with the understanding that they would be paid on a par with casual labourers for the days on which they worked. In Uttar Pradesh it is noted that the workers usually remain attached to the same employers for successive years, "the reason being that employers generally advance loans varying from Rs 200 to Rs 400 per annum to the attached workers and also gave them a plot of land (generally 2 bighas) either on a nominal basis or free of rent". (Op cit, pp 68, 136, and 166). Land allotments of this type, sometimes with temporary permission to use the employer's implements and/or draught animals for ploughing, are very widely reported for attached workers. Sometimes the land allotment was given on a cropshare basis. House sites or other provisions for accommodation were frequently supplied for attached workers, but often for casual workers as well. This was also true for perquisites such as meals, clothing, footwear, and bedding.

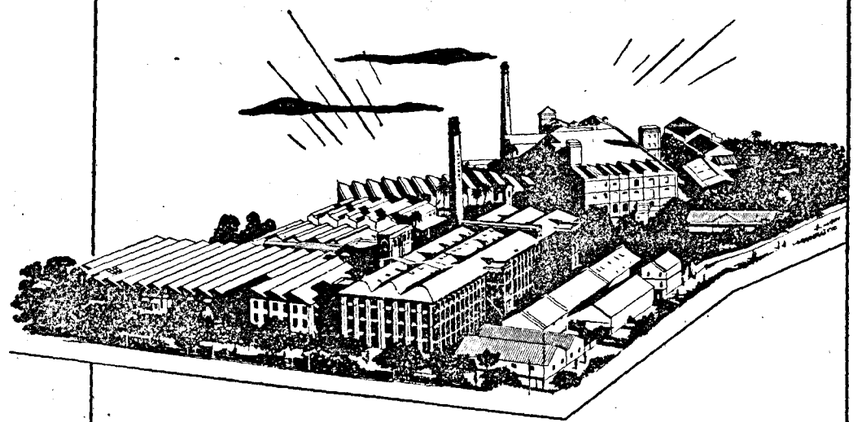
In some areas attached workers were required to work longer hours than other employees. In Bihar, "they had to render customary services such as household work or running errands". In Madhya Pradesh they "also looked after the employers' cattle and [were required] to do non-agricultural work as well if so desired". In Travancore-Cochin, "the attached workers in most cases worked from morning till night and did all kinds of domestic services". (Op cit pp 69, 99, 285).

Freedom to Seek Other Work

Let us return for a moment to the question raised in the original definition of the degree of freedom to seek other work. We have already noted for Bihar, Orissa, and Uttar Pradesh that in effect the workers were tied down by loans which they could scarcely hope to repay. Similar cases are cited for Mysore and West Bengal (Op cit pp 183 and 236). Quite the opposite would seem to be the lot of attached workers in Saurashtra. Although employed on a yearly basis, "the workers were free to terminate their employment at their will. They received free food, clothing, footwear, bedding and accommodation in addition to an annual cash wage; but they did not normally take loans or wage advances, nor was it customary to allot rent-free land to the workers. (Op cit p 275.)

Clearly very many factors have to be considered in setting up meaningful categories to cover this bewildering variety of relationships. We have to deal with periods of employment ranging from a day to a lifetime, with conditions all the way from full freedom to near-serfdom, with payment in regular cash wages as well as traditional harvest shares plus perquisites in kind, with formal written contracts and with oral understandings, with debt-bondage and with tie-in land allotments. In the context of Indian agriculture, the term "attached labourer" has a connotation of unfreedom. There is

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no doubt that such a category of especially disadvantaged workers exists, and it would probably be feasible to draw up a set of criteria by which it could be decided whether labourers fall into this class. Certainly no single test such as liberty to take up another job, steady employment or the existence of a contract will suffice to separate out the genuinely "attached" workers. When a labourer is described as not "free to seek employment elsewhere," it may simply be the case that he has freely agreed to remain in a particular job. On the other hand a labourer committed to a particular employer by reason of debt or land-allotment may be employed only "from time to time according to exigencies of work". Thus an attached worker may be employed on a casual basis while a completely free worker may be employed continuously on a long-term contract.

Apart from such workers as can, all things taken together, be classified as "unfree' or "bound" or "attached" (whether for a long or short period), there would appear to be several types of relatively free labourers. These would include regular, indeed, even permanent, workers; and migratory or transient workers; labourers who do a full season's work and those who find employment only at peak periods. To construct proper rubrics under which to separate out these various short and long-term workers with differing degrees of job mobility and a wide variation in bargaining strength would admittedly be a difficult task. It is a task the Agricultural Labour Enquiry has declined.

Rather than abandoning the terms "attached" and "casual" after they had proved in practice to be mutually non-exclusive catch-alls for non-homogeneous groups, the Enquiry adopted a somewhat disingenuous expedient. The terms have remained unalterable, while the specific content and meaning have been left vague, to be filled in at the State and local level.

The profoundly unfortunate consequences of this lack of clarity show up most vividly in the treatment of South India: Madras (including Andhra) Mysore, and Travancore-Cochin. This area is the home of India's heaviest concentration of agricultural labourers. About half of the rural families in the 124 villages studied in Madras (including Andhra), Mysore, and Travancore-Cochin in the General Family Survey were recorded as agricultural labour families. In the final phase of the Enquiry 2,184 of the agricultural labour families in these three States were selected for intensive study. Only 28 of these 2,184 families were classified as belonging to the group of "attached" workers. On the basis of these 28 cases, we are given percentages of "attached" workers as 1.4 for Madras, 1.6 for Mysore (six families), and 0.0% for Travancore-Cochin. **(Report on Intensive Survey of Agricultural Labour,** Vol IV, pp 15, 76, and 122.)

Such figures for the proportion of "attached" labourers in this region are ridiculously small. One of the most striking features of the South Indian rural scene is the large number of farm servants who work year after year if not generation after generation for the same families of landowners. Frequently they are bound to their masters by deep-rooted traditions of mutual obligations and responsibilities. They render a variety of customary services and receive a variety of customary payments and perquisites. The names of such labourers are legion: **Padiyals, Pannaiyals, Pulayas, Paleru, Jita,** etc, etc. The first phase of the **Enquiry,** the General Village Survey, gave considerable detail on the **Pannaiyals** of Travancore. The chapter on Travancore-Cochin, in fact, refers to a series of tripartite conferences among employers, workers and the State Government to settle the wages and conditions of employment of "attached" workers. It was decided in 1948 to set up a standing Industrial Relations Committee with a view to eliminating friction between these workers and their employers. **(Agricultural Wages in India** Vol I, p 286.)

The failure of the Intensive Family Survey to find more than an insignificant handful of such families in its entire South India sample is particularly surprising since the report of the General Village Survey described a considerable number of different types of "attached" labourers for this region. "Attached" workers were found at this first phase of the **Enquiry** in each of the seven zones of Madras, in 17 of the 24 sample villages of Mysore, in half the sample villages of Travancore, and in all the Cochin sample villages.

The conclusion would seem inescapable that a sizable number of the agricultural labour families in Madras, Mysore and Travancore-Cochin whom the Intensive Family Survey has classified under "casual" belong, in any sensible interpretation of the Enquiry's categories, under "attached." If this is so, it follows that the proportion of "attached" workers calculated for the country as a whole (on the basis of the data for Madras and the other States) is seriously underestimated. It also follows that the secondary tables comparing days worked, annual income, expenditure, etc, for "casual" and "attached" workers rest on a defective base, since the averages attributed to "casual" labourers undoubtedly refer to a mixed group made up of both "casual" and "attached".

By contrast with Madras, very high percentages of "attached" labourers are reported for Punjab and especially, PEPSU. Among these "attached" workers are included several distinct groups of cultivators who receive as their principal income a share of the crop in kind. The **Sanjhis,** for example, worked on a kind of "partner" or "helper" basis with the **biswedars,** a type of big proprietor. The **Sanjhi** cultivated lands of the **biswedar** with the use of the latter's bullocks and implements. When the crop was harvested the **Sanjhi,** according to the **Enquiry,** gave a one-fourth share to the **biswedar;** and also gave him two other minor payments. For his part, the **Sanjhi** kept the rest of the produce; he was responsible for paying one-half of the land revenue and irrigation charges.

In the instructions to investigators on how to classify **Bataidars, Bargadars, Adhiars,** and other cropsharers, these cultivators are described as "very closely akin to tenants." It is pointed out that "they share the produce along with the owner or tenants," their share being usually "half or one-third." All such families are to be listed "under the sub-head 'cultivating tenants.'" **(Rural Manpower and Occupational Structure,** p 450.) Had this rule been applied to Punjab-PEPSU, the **Sanjhis** and some other cropsharers would have been excluded from the category of agricultural labourers and classified as tenants.

LABOURERS' FAMILY BUDGETS

I shall not burden this review with any detailed comment on the figures presented in regard to the "family budgets" of the 11,000 labourers' families intensively surveyed. Serious questions about the procedures employed were raised in this journal by Professor V M Dandekar of the Gokhale Institute of Politics and Economics, Poona, when he reviewed the Enquiry's pilot village study in Bihar.* In dealing with the "receipts" side of these family budgets Prof Dandekar observed that the Enquiry's questionnaires required the entering of figures for annual net income from land owned, land taken on rent, land obtained free of rent, and household occupations other than farming. "This is too much to expect", he commented, "both from the investigator and the respondent. Net income is too complicated a concept and the reported figures would have little meaning unless its contents were precisely defined. Secondly, even after precise definitions, it does not seem possible mentally to arrive at figures of net incomes. Thirdly, in an integrated and particularly subsistence family economy, net income separately of land owned, of land taken on rent, of land obtained free of rent and of household occupations other than farming are inconceivable. Therefore, it must be emphatically pointed out that all figures appearing on the receipts side of this schedule against the items mentioned above, can be no better than meaningless guesses mostly of the investigators. It should be noted that matters would not improve substantially, even if the same schedule is filled for every month rather than once in a year." (The use of this schedule on a monthly rather than on an annual basis was precisely what was done for the year 1950-51 in the **Intensive Family Survey.**) Prof Dandekar's conclusion is that "the kind of family budget attempted in this enquiry is in many parts meaningless; in others the reported figures are unlikely to be anything better than plausible guesses . . . ." The final reports of the Enquiry as now issued furnish no grounds for greater confidence in this aspect of the investigation than that expressed by Prof Dandekar.

The procedures of the Enquiry with regard to employment, unemployment, and wages are no more satisfying than those with regard to family budgets. With regard to unemployment, we are told, for example, that "data on the number of days during which the agricultural adult male labourers were fully unemployed were collected month to month for a period of one year. In doing so, only those labourers were taken into account in any month who reported wage-paid employment for at least one day in that month." The Enquiry goes on to assert that it has "firm" data on those workers who did report wage unemployment every month (84 per cent of all labourers) but that "in regard to the rest, forming only 16 per cent who did not work for wages even for a single day in any month, no data could be collected on the days they were self-employed and the days on which they were unemployed." The Enquiry therefore resorted to the **assumption** "that such men were self-employed and unemployed in equal proportion . . . ."

The difficulty involved in comparing the rate of compensation of "attached" and "casual" labourers was dealt with in an unusual fashion. To give the results first, in the words of the **Enquiry:** "The computed daily wage of the attached labourer was less than that of the casual labourer in all the zones and States of the Indian Union. This was perhaps the price which the attached labourer had to pay for the security of employment and stability of income during all agricultural seasons." For the wages of casual workers the computation is stated to have been direct—all payments in cash and kind for the various types of agricultural work were recorded, including customary "perquisites" like cloth, clothing, meals, beverages, etc. The latter were "evaluated in cash in terms of the ruling retail prices." From these data, average wage rates were obtained by weighting them by the number of man-days worked.

The procedure with regard to those workers listed as "attached" was quite different. "The methods of remuneration and employment contracts for attached workers," the **Enquiry** states, "were of such a bewildering variety that the wage rates could not be suitably tabulated." To solve this problem the **Enquiry** resorted to the following expedient: "The computed daily wage of attached adult male labourers has been obtained by deducting the wages earned by adult male casual workers from those earned by all adult male agricultural labourers and dividing the figure so obtained by the man days worked by attached adult male labourers." (Sic ! ! !)

One is reminded of the old story about a shepherd who was asked how he would get the number of sheep in a particular pasture. "It's easy," he replied, "you takes the number of feet and you divides by four."

Where data on exactly the same subjects have been collected at two different stages of the survey, the tables given in the separate volumes exhibit wide variations. Two quite different sets of figures for average daily wages of operations such as ploughing and harvesting are provided by the General Village Survey **(Agricultural Wages in India**—Vol II, p 5) and the Intensive Family Survey, **(Report on Intensive Survey of Agricultural Labour**—Vol I, p 61.) No serious attempt is made to explain or reconcile these discrepancies. In part, these may be due to the fact that the data obtained from the three questionnaires relate variously to 1948-49, 1949-50, and 1950-51. In many tables, data from more than one questionnaire are intermixed. Although there is no explicit discussion of this problem, the fact is that the **Enquiry** used not one but three base years.

The principal data of the Enquiry, what one might call the structural data, show even more astonishing discrepancies. One would certainly have expected that for a given State the relative number of "attached" and "casual" labourers would remain roughly the same from 1948 to 1951, particularly when the data were collected in the self-same villages on the basis of the same "Instructions" and under the same State Supervisor. The table on the next page presents for five States parallel figures from different phases of the Enquiry for the percentages of attached labour families to total agricultural labour families, and the percentages of attached workers to all agricultural workers. It is impossible to discover any consistent relationship within either of these two sets of figures.

For the purpose of a study of agricultural labour in India, the State of prime significance is Madras. It seems particularly unfortunate that at the second stage of the **Enquiry** it was decided for this State alone "to investigate only one out of every two families" in the sample villages. In the end the General Family Questionnaire was filled up for roughly

* **Report on an Enquiry into the Conditions of Agricultural Labourers in Village Dorwan, Bihar State** (New Delhi, Government of India Press, 1951)—**Economic Weekly,** Vol III (September 15 and 29, 1951), Pp 897-99 and 946-49. Professor Dandekar's general criticisms of the **Agricultural Labour Enquiry,** given in the earlier of these articles, remain quite apposite today.

three-fifths of the families in the State's 84 sample villages. (One may note in passing that this important fact is mentioned only among the introductory notes to the volume, **Rural Man-Power and Occupational Structure**, p 2. No other reference to this drastic reduction is to be found, either in the chapter in this same volume on Madras or in the State-by-State Tables at the end of the volume, although the returns from the 60 per cent sample appear under such captions as "Total Population", "Total Number of Families," etc.)

Of the agricultural labour families already listed in the General Family Survey the number in each village selected for the Intensive Family Survey was stated to be "generally 50 per cent." (**Report on Intensive Survey of Agricultural Labour,** Vol I, p 2.) For the country as a whole the final count of families actually included in the Intensive Survey worked out to about one-third of the total agricultural labour families in the sample villages. In Madras the fraction was much smaller. Only 1,535 families of the 8,232 agricultural labour families listed in the General Family Survey were treated in the Intensive Family Survey. But these 8,232 families represented only two-thirds of the 12,447 agricultural labour families found in those 84 villages in the original General Village Survey. In this way the Intensive Family Survey's sample of 1,535 families for Madras ended up as one out of every eight agricultural labour families in the sample villages. It must be said that the most important State for the purposes of this **Enquiry** received the minimum of intensive study.

In the introductions to the various volumes and in the sections on methodology, numerous claims are made for the reliability and precision of the data on the ground that the Survey utilized advanced statistical techniques. The design of the **Enquiry** is described as "a stratified two-stage random sampling—the village being the primary or first stage unit and the agricultural labour family the second stage or ultimate unit." (**Report on Intensive Survey of Agricultural Labour,** Vol I, page 2.) India was divided into 77 "homogeneous" zones on the basis of "broad agricultural and economic considerations"; the number of villages to be allocated to each zone was then calculated on the basis of equal weightage to number of villages and total rural population. The villages were then selected at random with equal probability and without replacement. For the final stage of the **Enquiry**, the required number of families were selected from the list of agricultural labour families prepared during the earlier phase. Once again they were chosen at random, with equal probability and without replacement, the sampling fraction being uniform within each zone.

In practice the delineation of zones was a highly arbitrary operation. The first decision was that each one of the 27 Class A, B and C States should be treated as a separate unit; thus such tiny enclaves as Ajmer, Bilaspur, Coorg, Delhi, Kutch and Tripura automatically qualified as "zones". The Punjab, with a population of twelve and a half million and an area of 37,000 square miles, including plains and hills, irrigated and dry tracts was also treated as a single zone. Its little neighbour State of PEPSU, which has a population and area only one-third of this size and which is situated within the borders of the Punjab, was divided into six zones. By contrast Marathwada and Telegana, the two zones into which Hyderabad was divided, each display a wide variety of geographical, agronomic, economic and social features. To treat this array of disparate and internally variegated areas as a grid of homogeneous cells is statistically impermissible.

The decision to use random sampling for the selection of the families for Intensive Survey from those which had already been categorized in the course of the General Family Survey as "agricultural labour families" is difficult to understand. The returns to the General Family Questionnaire included a great deal of information about these agricultural labour families: whether they were landless or had land, and, if so, on what terms, whether "casual" or "attached", number of earning members, subsidiary occupations of earning members, possession of work animals and ploughs etc. On the basis of these data it would have been possible to construct a stratified representative sampling of the required size in terms of one or more important variates. For example, the Intensive Sample in each village might have been selected so that the proportion of landed and landless families chosen was the same as in the total number

Proportion of "Attached" Labour to all Agricultural Labour by Families and by Workers.

State	Percentage of "Attached" Labour Families to Total Agricultural Labour Families		Percentage of "Attached" Workers to all Agricultural Workers	
	According to General Family Survey[1]	According to Intensive Family Survey[2]	According to General Village Survey[3]	According to Intensive Family Survey[4]
Assam	25.2	11.2	6.2	10.4
Bihar	28.8	1.3	22.4	0.6
Madhya Pradesh	18.0	26.5	13.6	15.8
Madras	5.7	1.4	7.6	3.4
Punjab	34.7	52.7	23.5	50.8

[1] Calculated from Appendix VI, Table 1, "Percentage distribution of different categories of families in terms of the total number of rural families in the different States." **Rural Manpower and Occupational Structure,** pp 504-05.

[2] **Reports of the Intensive Family Survey**: Vol III, pp 205 and 49, Vol VI, p 41; Vol IV, p 61; Vol VII, p 89.

[3] **Agricultural Wages in India,** Vol I, p 31.

[4] **The Intensive Family Survey** reports that practically all "attached" workers in Assam, Bihar, Madhya Pradesh and Punjab, as in most other States, are adult males. The figures for male attached workers in those four States have been taken, accordingly, to represent all attached workers. The figures for these attached workers and for all "casual" workers in those States—which have been drawn upon to calculate the percentages given above—come from the **Reports of the Intensive Family Survey:** Vol III, pp 206-07 and 50-51; Vol VI, pp 42-43; and Vol VII, pp 90-91. The figure of 3.4 per cent for Madras, which reports a significant number of children working as "attached" labourers, comes from the **Intensive Family Survey,** Vol IV, p 29.

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of agricultural labour families in that village.

The ruination of the Enquiry, in fact, may be said to be due to an obsession with the theoretical virtues of random sampling, coupled with an indifference to the formidable problems involved in its application. The published volumes contain several discussions of possible sampling errors, questions of bias, and co-efficients of variation. Nothing is said about the possibilities of non-sampling error inherent in any enquiry conducted by the question survey method. The extent of non-sampling error for a study of this type depends upon whether the designers of the enquiry have formulated with sufficient clarity the concepts about which they wished to gather data; whether the questionnaires and other schedules were properly understood by the field investigators; whether the respondents interviewed by the investigators understood the particular questions put to them; whether the questions posed were such as could be answered verbally with any reasonable degree of accuracy; and, lastly, whether the questions were such that the villagers would be willing to give, or would feel safe in giving, correct information. The plain fact is that in agrarian enquiries in complex economies and societies like that of India the non-sampling errors are likely to be many, many times larger than the error of sampling.

At this stage of our knowledge it would appear that one of the research methods most difficult to apply to the study of India's involved landlord-peasant-labourer relationships is the nation-wide sample survey. In these matters the truth yields itself very slowly, and requires to be sought first in more traditional ways. The problems of analysis, the definition of concepts, the preparation of tentative notions and hypotheses capable of being put fruitfully to empirical testing, all these require patient and systematic work, possibly for some years still to come. To rush in with large-scale sample surveys is simply to waste time and throw away money. The longer the questionnaire, the larger the number of investigators, the more elaborate the scale of operations as a whole, the greater the extent of non-sampling error.

In 1949, when the Agricultural Labour Enquiry was launched, it would have been advisable to keep down the size of the investigation. A dozen or two research officers possessed of commonsense, training, and some insight into the rural scene would perhaps have been enough. These could have been posted to the various regions of India and allowed 18 to 24 months for analyzing the agricultural labour relations characteristic of those areas. They could have been instructed to test part of the information given to them verbally on such items as harvest shares, amount of grain consumed daily, and number of hours worked in a day, by measuring, weighing, and counting for themselves.

To the extent that the General Village Survey included descriptive work, it has produced useful results. The non-quantitative sections of the first volume of the Enquiry (**Agricultural Wages in India**, Vol I) furnish for each State a thumb-nail sketch of its characteristic employer-labourer relationships. Although brief, these accounts provide much interesting information on division of labour, types of payment, the various demands upon labour in the course of the agricultural year, the terms in the local languages for types of labourers, types of services, perquisites, payments, cropshares, etc. The collection and publication of these qualitative data is the most valuable service of the **Enquiry.**

The parts of the **Enquiry** that are likely to attract the greatest attention, however, are the Tables and the sweeping quantitative generalizations made up from them. The trouble is that in our statistical age the temptation to use any tables, no matter how compiled is well nigh irresistible. The more tables, the greater the temptation. One is seduced into believing that no matter how shaky may be the basis of any individual figure, an average or other arithmetical product of a large number of such figures must yield an approximation to the true position. Reflection will show that no amount of manipulation can make more out of the figures than was originally put into them. If the basic categories confuse the essential distinctions, it matters little how many cases fall under each head. Thus if it is not clear what constitutes an attached worker, it does not matter whether the **Agricultural Labour Enquiry** says that in a given State there are 1.3 per cent or 78 per cent of them. An average of such figures, weighted or unweighted, is even less worthy of attention than the original figures themselves.

In the preface to each volume of the Intensive Family Survey we are told that:

> "In the design of the survey, analysis and presentation of data, the recommendations of the ILO in their monograph "Family Living Studies" and that of the UN Statistical Sub-Commission on Sampling were kept in view to the extent possible. The enquiry was conducted in close collaboration with the State Governments and under the technical guidance of the Departmental Committee of Statisticians and Economists. It is hoped, therefore, that the results as also the methods and techniques adopted would be of value not only to the Government and public in India but also to countries in similar stage of economic and social evolution and to international agencies like the ILO and the *United Nations.*"

These surveys may indeed prove valuable to other countries if they serve as an object lesson in how not to conduct agrarian enquiries.

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A Policy for Cotton Textiles

R K Hazari

Basically, there appear to be two main causes of the differences over the Cotton Textile Programme :

1) *The level of the capita consumption expected in* 1960; *and*

2) *Value judgements with reference to the decentralised sector and the relative emphasis on the goals of employment and price stability.*

In a controversy of this nature, it is practically impossible to avoid bias but where the choice is between the treatment of a chronic malady and the prevention of an acute disease, the latter should have priority.

In short, price stability is more important under the Second Plan with its inflationary potential than uncertain and costly remedies for diminishing rural under-employment.

THOUGH the Second Plan has been before the public for quite some time now, the Government as a whole still appears to have what may be described at best as an open mind in the matter of textile policy. The draft outline had stated in February that

> "The output targets for mill yarn and mill cloth are at present under consideration and final conclusions have not yet been reached."

The final version of the Plan does not go any further when it says that

> "Overall targets for cloth and yarn production have been envisaged at 8,500 million yards and 1,950 million lbs respectively by 1960-61.
>
> A firm allocation of this output as between the mills and the decentralised sector (powerlooms and handlooms for cloth and Ambar-Charkha for yarn) has yet to be made."

The Plan confirms, however, that

> "the spindleage already installed and licensed for installation is sufficient to produce 1950 million lbs of yarn."

In between and since, a number of conflicting statements have been made by different Ministers of the Central Government. This article is devoted to the rationalisation of these statements as well as other opinions expressed on this subject. One approaches this task with some hesitation since events and policies are moving rather rapidly these days and what is said here may be obsolete by the time it appears in print. The subject, however, is so important and the controversy on it so keen that it is difficult to resist the temptation of risking a plunge. The factual background of the present situation may be briefly recapitulated before we proceed to arguments.

Table I presents the relevant statistics about cloth production, exports and per capita availability since 1950, the first year of the Planning age.

It will be seen that per capita availability of cloth has gone up by nearly 60 per cent since 1950, a part of the improvement being attributable to the reduction in exports. Each of the three sectors of the cotton textile industry has contributed to this increase, though the present author has reasons to believe that handloom production is over-estimated in these statistics. As against a per capita availability of about 16 yards of cloth in 1955, the target for 1960-61 suggested by the Kanungo Report, the Khadi Board's programme and even the Second Plan (Draft Outline as well as the final version) is 18 yards. Together with an export target of 1,000 million yards, this would require a total cloth production of 8,500 million yards in 1960-61. To meet this expected increase in consumption of about 1,700 million yards, broadly speaking, three different lines of action have been proposed by various schools of thought, and one of these is explicitely of the view that the target of 18 yards per capita is unduly low and that, therefore, the increase in production required would be of an order greater than 1,700 million yards.

Khadi Board Proposal

One line proposed by the Khadi Board, and one with which Shri Nanda, the Minister of Planning, is in complete sympathy, is to peg mill cloth production at 5,000 million yards and powerloom cloth production at 200 million yards (incidentally these figures are lower than those quoted in Table I, the discrepancy being particularly obvious in the case of the latter) and also to restrict the present supply of free mill yarn to handlooms at the existing (hypothetical) level of 350 million lbs. The yarn required to fulfil the additional production of cloth estimated at 908 million lbs should come from the Ambar Charkha (improved hand operated spinning wheel) as per the Khadi Board's programme. The Government has not accepted these proposals so far at any rate, in spite of the promise of employment held forth by the Khadi Board. What the Second Plan describes as the "balance of public advantage" appears to have influenced the Government in assigning for the present only Rs 70 lakhs for the Ambar Charkha programme as against Rs 101 crores plus loan faci-

TABLE I

Cloth Production, Exports and Per Capita Availability

Year	Cloth production (in yds)			Exports (in yds)	Available for internal consumption.* (in yds)	Per Capita availability (in yds)
	Mill	Handloom	Power loom			
1950	3,665	805	148	1,120	3,478	9.7
1951	4,076	850	157	823	4,238	11.7
1952	4,598	1,109	204	602	5,275	14.4
1953	4,878	1,200	221	716	5,566	15.0
1954	4,998	1,318	243	956	5,586	15.0
1955	5,094	1,480	273	873	5,951	15.8

Source : **Indian Textile Industry's Statistical Bulletin Jan 1956 P 14.**

* Includes a negligible quantity of imports and excludes cloth deliveries for "other purposes".

lities to the extent of Rs 632 crores demanded by the Khadi Board. An interesting news item in this connection is a Press release from New Delhi dated March 4, 1956 stating that "There has been a shift towards fine and superfine varieties in the production of handloom cloth during 1955." The Khadi Board' programme is confined to the count ranges 16s to 20s, with an average of 18s .

A second line of action proposed assigns only a minimal or negligible role to the Ambar Charkha but would like handlooms alone to produce *all the extra cloth* required, thereby allowing expansion only of spindles in the mill section. Within this school of thought, there is a deviation, led by the Kanungo Committee, favouring the conversion of handlooms into powerlooms. Most others, however, do not view powerlooms with any favour at all. In the controversy around the Ambar Charkha, this school of thought seems to have vanished from the limelight it enjoyed only a couple of years back, though adherence to it by handloom and spinning mill interests has tended to break up the supposed unity of the decentralised sector and thereby strengthened the case of the mill industry.

The Mill Industry's Case

The third line, put forward by the mill industry, various economists, and also by Shri T T Krishnamachari, the Minister of Commerce and Industry, considers the target of 18 yards per capita in 1960-61 an underestimate and would like to revise the figures to 20 yards, if not 22 yards in view of the recent diversion of exports to the home market, declining mill stocks, full order books with mills, and rising prices particularly of dhoties and saris. (See The Economic Weekly, June 2, 1956 p 642.) The position about stocks is indicated in Table II. Data for the current year are not yet available but if the decline noticed till the end of last year has continued—which is probable since the offtake from the market was reported to have slackened at last only a couple of weeks back—the target of per capita consumption of 18 yards is well on its way to achievement.

Reconciling Employment and Consumption

This school of thought holds, firstly, that handlooms alone are not likely to fulfil even the target of 1700 mn yds (on the basis of 18 yards per capita) due to the difficulty of organisation and high cost and that they cannot, therefore be relied upon to satisfy an additional demand created by higher consumption; secondly complete dependence on the Ambar Charkha for additional yarn supplies would endanger not only the handloom industry but the entire structure of cloth prices and even the budget and the Second Plan through inflation; thirdly, pegging mill production of cloth or yarn or both at the present levels would curtail exports owing to higher home prices, and thereby impair foreign exchange earnings. It is suggested in broad terms, therefore, that the common production programme for the textile industry should be kept free from rigid ceilings. In this programme, the Ambar Charkha should be considered almost wholly as an employment agency in distress areas and not allowed to impinge to any significant extent on the expansion of mill spinning capacity. Further, to meet export and home demand as well as to create an emergency reserve, mills may be permitted to expand their loomage—particularly by installing automatic looms—to such an extent as to create sufficient capacity to produce another 500 million yards.

TABLE II

Yarn and Cloth Stocks with Mills

Year	Yarn mn lbs	Piecegoods mn yds
1950	36	334
1951	59	423
1952	69	539
1953	49	727
1954	51	678
1955 Jan.	50	615
Aug	24	301
Dec*	7	286

Source : **Monthly Abstract of Statistics, Jan 1956.**

*Source : **Directorate of Industrial Statistics.**

TABLE III

Average No. of Spindles Worked per Shift Jan 1955

(millions)

Total Spindles installed	1st Shift	2nd Shift	3rd Shift
11.96	10.13	9.46	3.59

Estimates of 'Reserve Capacity'

(mn yds of cloth)

According to	1st Shift	2nd Shift	3rd Shift	Total
G L Nanda	625	1,139	2,139	2,108
T T Krishnamachari	Nil	Nil	230	230

The remainder may be allotted to handlooms and powerlooms, simultaneously making provision for the conversion of the former into the latter. These measures, it is suggested, should meet the Plan objective of reconciling the conflicting goals of employment and consumption stated as follows on p 434 of the Plan:

"Within the limits set by the need to avoid shortage of goods on the one hand, and the extent to which production in small units can be organised effectively to take advantage of a larger market in any individual case, the balance of public advantage will determine whether and at what level the capacity of a large scale industry should be limited."

Reserve Capacity of Mills

To these arguments, the advocates of Ambar Charkha and handlooms reply that the existing mill spindles and looms could be worked more shifts and that the 2.1 million spindles, licenses for which have been granted already, should prove sufficient. In view of the conflicting statistics and expert opinions quoted by Shri Gulzarilal Nanda and Shri T T Krishnamachari, it would be interesting to reproduce some of their figures. In their calculation of spindle capacity, Shri Nanda allows only 2½ per cent of the total spindles in working mills to remain idle on account of repair and maintenance while Shri Krishnamachari considers 5 per cent to be a proper proportion and cuts down the effective capacity further by deducting 0.5 million dilapidated spindles in working mills. The net result is that effective capacity in Jan 1955 is 10.1 million spindles according to T T K and 10.9 million spindles according to Nanda, both of them relying on "expert opinion". Since the number of spindles working on the first shift in Jan 1955 was 10.1 million, T T K finds no reserve capacity, while Nanda discovers unutilized capacity for manufacturing 344 million yards of cloth.

The wide divergence between the reserve capacity estimates of the two Ministers is indicated in Table III. I think that TTK is correct so far as the first shift is concerned; on the second shift, TTK considers another 224 million yards 'possible', taking 4 ozs per spindle shift (which ratio errs on the lower side) but rules it out as improbable. About the third shift, he is definite that the attitudes of employers and employees and the condition of equipment do not justify the optimism of Nanda. One factor to which TTK does not draw attention is that in the case of most mills not equipped with the latest machinery a third shift is seldom economic except when prices go up high enough and labour, raw materials etc are available. An individual mill can produce more at a higher cost on the third shift only if it can market its products easily and at constant if not higher prices—a facility which is normally enjoyed only by the well known mills.

Wide Divergence

Till the suspension of licensing, 2.1 million spindles had been sanctioned by TTK's Ministry. Shri Nanda thinks that together with existing idle capacity, these new spindles worked three shifts could produce more than double the additional requirement of 1700 million yards of cloth. TTK replies that past experience as well as commonsense suggests that some of these licenses will not be utilized, and spindles will take time to be delivered, installed and worked upto the third shift stage; the new spindleage may therefore be expected to give results only after the third year or so.

In weaving also, Shri Nanda again finds enough reserve capacity in the mills, through more extensive third shift working, in the event of a shortage, to produce another 500 million yards of cloth which, in his opinion, renders it unnecessary to allow the installation of additional looms in mills. TTK, on the other hand, would like the mills to have 20,000 more looms, preferably automatic.

Basically, there appear to be two main causes for the differences between the Ministers:

1) The level of per capita consumption expected in 1960, and
2) Value judgements with reference to the decentralised sector and the relative emphasis on the goals of employment and price stability.

In a controversy of this nature, it is practically impossible to avoid bias and the present writer does not claim to be innocent of it, nor does he have any desire to step in where even V I P's fear to tread. All that he would like to say in this connection is that where there is a choice between the treatment of a chronic malady and the prevention of an acute disease, the latter should have a higher priority. Price stability, in short, is more important under the Second Plan with its inflationary potential than dubious and costly remedies for diminishing rural underemployment.

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Around Calcutta Markets

Industry, Investors and the Plan

Genuine investors, who should be as much, if not more, interested in the earnings per share cannot be unconcerned about present yields. It is only the speculator who can live on expectations of future issues of bonus or right shares.

This focuses attention on the unduly low yields on the speculative, though major, equities. As the new Company Law and the Kaldor report will influence the shape of things to come, yields on equities may have to move up to ensure adequate availability of equity capital.

Such a readjustment in equity yield need not necessarily involve any upward adjustment in Bank Rate or in interest rates. This point is not directly under reference here, but the American experience would seem to be conclusive.

DURING the First Plan period, the national income has increased by eighteen per cent. Bank deposits have grown considerably, though the disparity between the rates of growth of bank deposits and of currency expansion has been, and remains, unduly wide. Industrial production has improved, though there has been less expansion in installed capacity. Equities have been buoyant. Both the Union and State Governments have raised considerable loans. And the new issue market has not been inactive.

But investors' reaction to New Delhi's decision to permit issues of bonus or right shares by the two major iron and steel companies only at a premium would seem to contradict both economic and monetary statistics. Indian Iron's sharp set-back since the Government's consent to the Company's request to issue right shares only at a premium of Rs 3½ per share is not mainly due to the fact that the decided premium is a rupee in excess of market expectations. It is mainly due to doubts whether the considerable amount involved in the Company's proposed right issue will be duly subscribed.

There are wider economic issues which complicate the problem under reference. Industrialists seem reconciled to the Government's new Industrial policy. But investors remain suspicious. They may not be wrong in their suspicions that the public sector will expand gradually to absorb key industries like steel and cement. This may have something to do with the unfavourable reaction to the New Delhi decision to allow issues of new shares by the two iron and steel companies only at a premium. It is clear that, despite Pandit Nehru's assurances that the Government is not committed to wholesale nationalisation of industries, in spite of the repeated emphasis that the two sectors are to be regarded as an integrated whole, these doubts persist.

Company Law Changes

The dearth of equity capital has been a source of persistent complaint with industry in the last few years. Until 1953, taxation alone was blamed for the inadequate availability of equity capital. Two subsequent developments have introduced additional complications. Investors are supposed to have received a shock from the legislation relating to reform of Company Law. Though the psychological impact may be conceded, the reform of the Company Law should not have any lasting repercussion on the investor. On the contrary, the reforms are aimed at helping investors.

That being so, the new Company Law should not adversely affect the supply of equity capital. But, it is arguable, that it may have some temporary repercussion on the problem of financing industries. Some managing agents did help finance the industries they managed. But this could not have been a major source of supply of industrial finance in recent years. It is the administrative aspect of the new Company Law which is more inimical to the present managing agents. But they seem to be reconciled to the reforms, and the new Company Law has had no pronounced effect on the willingness of industrialists to expand.

Taxation and Equity Capital

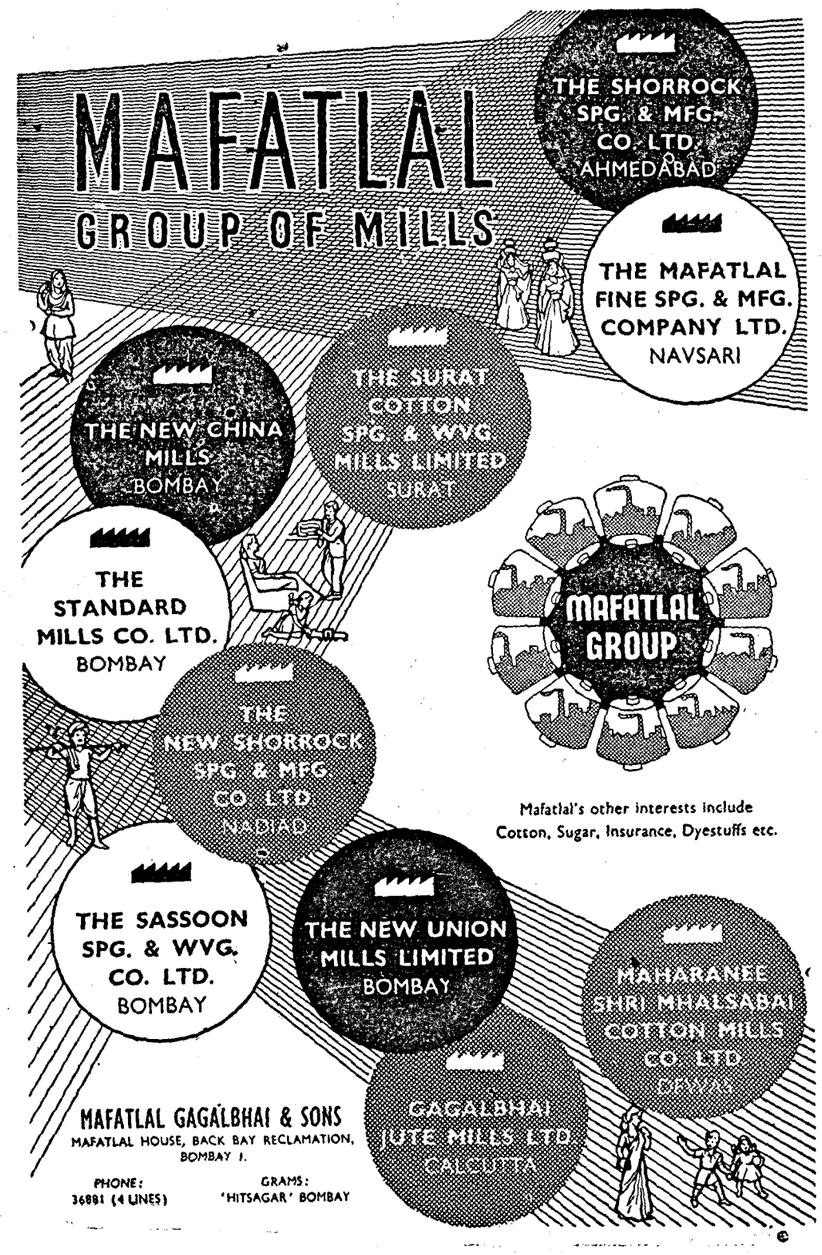
Taxation has a close relation to the availability of equity capital. Taxation is high. It will increase further during the Second Plan period. To that extent, the diversion of individual savings to the public sector at the cost of the private sector is inevitable. But, then, the gradual expansion of the public sector will result in a considerable increase in national income. It will rise further through simultaneous development in the private sector. All of the expected increase in national income will not be mopped up through rising taxation and public borrowings. Enough should be available as equity capital for the private sector.

It is clear that the Government will implement the substance of the Kaldor report for reform of the system of taxation. This should raise tax revenues, and yet increase incentives to industry. This has been one of the background factors behind the revival in equities in the last two months. Though industry and speculators seem optimistic, investors remain cautious. They have reasons to be hesitant. As a combined result of the new Company Law and the expected reforms of the tax system, industry may be encouraged to plough back profits. But the disbursements to equity holders will be discouraged. In the 1956-57 budget, the outlines of the shape of things to come have been sketched. With the expected changes, the shape of things will become clearer.

Restrictions on dividend payments and on indirect disbursements to shareholders (for instance, a sort of unofficial ban on the issue of bonus or right shares at par) have been mainly responsible for the cautious attitude of investors since March last. But it is necessary to appreciate the precise reason for the hesitancy of investors. Neither the new Company Law nor the Kaldor proposal for tax reforms has much to do with the aggregate availability of equity capital. Both these should, on the contrary, augment the source of equity capital. Only growing doubts about the prospects for yields can prejudice the availability of equity capital.

Dividend vs Earning

Two questions are involved. On the assumption that the private organised sector will have ample



scope for expansion, earnings per share assumes significance. Though the Second Plan, as it has finally emerged, is based on the Plan-frame, the former is more flexible (the cotton textile industry is a possible exception) than the latter in its treatment to the organised private sector of the industry. On this assumption, the earnings-per-share aspect of the problem assumes significance. This has some relation to the future policy relating to capitalisation of reserves. But it would be wrong to assume that any policy involving issues of right or bonus shares only at a premium is necessarily an impediment to the availability of equity capital.

Genuine investors, who should be as much, if not more, interested in the earnings per share cannot be unconcerned about present yields. Along with expectations of future issues of bonus or right shares, the yield factor cannot be ignored altogether. This focuses attention on the unduly low yields on the speculative, though major, equities. Even as industry in India is still mercantilist in outlook, there is too much speculation in stock markets. As the new Company Law and the Kaldor report will influence the shape of things to come, yields on equities may have to move up to ensure adequate availability of equity capital. Such a readjustment in equity yields need not necessarily involve any upward adjustment in Bank Rate or in interest rates. This point is not directly under reference here, but the American experience would seem to be conclusive.

Drain on Capital Market

Immediately after independence, many British companies changed hands at inflated prices. This process involved considerable investment of private Indian capital. During 1954 and 1955, many Indian companies issued bonus or right shares. Some foreign companies issued rupee capital. Considerable funds were invested in oil refineries. Many tea plantation companies and some light engineering companies were bought over by Indian capitalists. Even so, equity capital was shy. As a recent survey of the Reserve Bank relating to 771 companies indicates, only a fifth of the total capital raised by these companies during 1950-53 was through borrowings and equity capital, while four-fifths of the total capital was secured through companies' own resources.

Capitalisation of reserves involved in this process meant subscription

...en so, there has been growing complaint by industry that equity capital is not available in adequate quantities. Statistics up to 1953 have already become out-dated. Only since has deficit financing been implemented seriously. In the last two years, there was considerable private investment in bonus shares and in purchases of British-owned companies in this country. In the current year, the flow of investment seems to have slowed down. Implications of the Second Plan, the new Company Law and fears about rising taxation may have made capital shy. Since the recent payments crisis in Clive Street, companies issuing bonus or right shares have experienced some difficulties.

Outflow to Rural Sector

Before the changing pattern of investment is analysed, two related issues may be discussed. Both these issues have been raised by Shri B M Birla in his recent address as President of the West Bengal Finance Corporation. There has been considerable expansion in currency, as a sequel to deficit financing, since the end of 1953. But during and since 1955, the disparity between the rates of growth of bank deposits and currency expansion has been widening. In the current year, the disparity has widened further. Shri Birla argues that this disparity does not mean hoarding of currency, but reflects the growing lack of the reverse flow of funds from the countryside to the town. This, along with rising taxation, is causing scarcity of equity capital.

The scare of relative rural prosperity undermining investment activity had been raised once before. During the war and immediate post-war years, agricultural prices were high indeed. But the urban middlemen, and not the rural community, reaped the maximum gain out of rising prices. And, then, the village community had to pay relatively high prices for the necessities of life. There was no food rationing in rural areas. Villagers hardly enjoyed the benefit of buying cloth at controlled prices. But the situation may change during the Second Plan period. The Second Plan's rural bias, the encouragement to village, small-scale industries, expansion of rural credit and banking facilities and the establishment of rural warehouses should lead to a considerable expansion in the income of the village community. This is at once an opportunity and a challenge to the State Bank and the proposed Insurance Corporation to mobilise rural savings in the next few years.

Whether the disparity between currency expansion and growth in bank deposits reflects rural hoarding, however, is a highly debatable issue. Recent changes in the banking structure ensures canalising of rural savings in the future for productive purposes. Nevertheless, the disparity between the two major monetary indices is highly significant. There is growing suspicion of determined attempts at concealment of incomes. Recent trends in taxation combined with reforms of the Hindu Law do encourage attempts at concealment of incomes. This has been partly responsible for the difficulties experienced recently in securing equity capital. This trend alone justifies serious consideration of the Kaldor plans for reform of the system of taxation.

Resources for Industry

It is no use complaining about the scarcity of equity capital. With the gradual expansion of the public sector, taxation must increase. Therefore, individual savings will not be available in former volumes for the private sector. This does not mean that industry will be starved of finance. In recent years, the pattern of investment has been changing throughout the world. Industry is financing expansion increasingly out of its own resources. Socialist principles of taxation are in favour of a progressive increase in industry's own resources. As industrial profits expand along with direct and indirect limitation on dividend payments, industrial reserves must expand. Thus the future pattern of investment in the organised private sector would involve more and more issues of bonus or right shares.

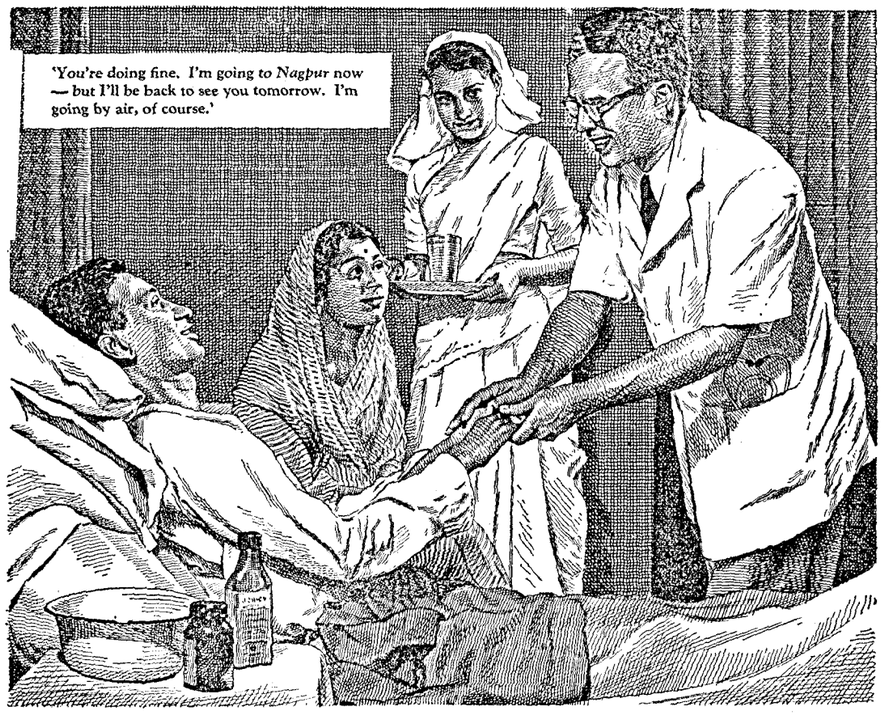
For equity capital, industry will have to depend progressively on institutional investors. There is the Industrial Credit and Investment Corporation for supplying both equity and "risk" capital to the organised sector of industry. There is the State-owned National Development Corporation to finance modernisation in the two major textile industries of the country. Investment trusts are not important in this country. But the nationalised life fund will remain a source of supplies of both equity and "risk" capital for industry. Bank credits to industry have been expanding. Financial propriety does not prevent supplies of equity capital by banks either through overdrafts or through loans against industrial equities as collateral. Bank credits are expected to play a major role in industrial finance during the Second Plan period.

Small and Medium Scale Industry

Small-scale industries may experience technological troubles. But these industries will not lack finance. Under the Second Plan, provision has been made for aiding these industries. Some of the observations of the Finance Minister in his reply to the debate on the Insurance Corporation Bill imply that these industries may receive additional financial help out of the nationalised life fund. Besides, there is the Small Industries Corporation to look after the technological and marketing problems of these industries.

What of the medium-sized industries in the private sector? State Financial Corporations are supposed to supply the financial requirements of these industries. Unlike large-scale organised industries, these concerns cannot enter the new issue market for equity capital. Nor can these industries offer tangible assets as collateral for loans. These are the explanations offered by State Finance Corporations for the paucity of loans offered by these institutions. If these Corporations are to function like banks, there is no justification for the continued existence of these institutions, especially as their loan rate is as high as six per cent. State Finance Corporations must either encourage unsecured loans at lower rates of interest, or cease to function.

Equity capital, in the sense of individual subscriptions to industrial equities, is likely to remain scarce. But this need not create any financial problem for the organised private sector. Institutional investment has come to stay. This trend will become more pronounced. Simultaneously, the trend towards financing industry out of its own resources is likely to develop further. This latter trend will be encouraged as New Delhi implements the Kaldor plan for tax reforms. Modern trends in taxation make it inevitable that industry will have to finance expansion progressively out of its reserves. And some of the aspects of the Kaldor Plan may even help individual subscriptions to equity capital. If national income expands according to schedule, industry's fears about dearth of capital are likely to prove baseless.



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A Calcutta Diary

The Pathology of a Myth

THE usual place for our fixed images of the dead is the refrigerator we call our memory; thick blocks of ice, recollections of carefully chosen aspects and moments which are happy in retrospect, see to it that the image does not decompose. A nation's way is different; it plants the dead in a hot-house of political enthusiasm, and the result is rich foliage rendering it irrelevant whether the primary seed had ever bargained for this kind of growth. Those who were present at the funeral, and watched the burial, saw the end of a man; the beginning of the myth is what they are later called upon to witness.

The post-mortem life of a leader can take one of two shapes: he can be kept alive as a man, as an undying father-figure about whom no questions are asked, or the body may be thrown into the incinerator and a book placed in the vacuum. In India, for instance, the philosophy of Gandhi has been found easily expendable, whilst the present leadership still worships, externally but sincerely, the man. The Soviet Union may be said to provide an example of the other possible use of a dead leader: the personality is denounced but Stalin's policies are altered but slightly—even if the philosophy is now re-named Marxism-Leninism. It may be that in the choice a leadership makes between the dead man and his philosophy is to be found a clue to the nature and strength of his successors. It may be—I have not examined enough evidence to put it more strongly—that a people which is still creative and growing has less need for an embalmed corpse, for its belief is tangible enough; a people with less vitality will cling pathetically to the man, his photograph on every wall, his statue at every street corner.

* * *

It is quite irrelevant for the purpose of this disquisition whether Subhas Chandra Bose, that gallant patriot of Bengal, is alive or dead. A committee recently collected some evidence and may be expected early to submit its report to the Government of India. It will not be surprising if the committee's verdict is equivocal; it would have been easier for the leader concerned to prove that he is alive than it ever can be for a committee to prove that he is dead. In any case, it is certain that West Bengal will reject the report and continue to believe what she likes to believe. She has certain fixed notions of what attributes and qualities should be found in Subhas Bose, and Bengali ingenuity can be trusted to interpret all evidence to the contrary as just so much more confirmation of what she has always known. A typical example of this was when, at the end of a meeting of the Congress Working Committee, the late Sardar Patel anounced that some financial assistance would be offered to Subhas Bose's widow and child in Austria. Nearly ten Bengali politicians promptly came out with a statement that the whole story was a canard, invented to discredit the Bengali leader.

It was more than the puritanic streak in the Bengali character which spoke in that statement, although even that is interesting enough; it was held to be incredible that so great a man should get married and raise a family. Whilst this innate respect for asceticism was responsible for the people's rejection of Patel's story, it is possible that the second rank leaders who rushed with the statement did so for an additional reason. They might have seen in the story a threat to the myth they had built up around Bose's personality, easily enlarged by his absence. Soon there were photographs of Mrs Bose and Miss Bose, there were facsimile letters from Bose to his elder brother (whose own silence seems, in retrospect, indicative of the possibility that he shared the politicians' fear) and the whole network of evidence caught up with, and closed in on, the agreeable illusion. To this day, however, it is not considered polite to mention the matter of Bose's marriage. It is quite usual to meet people in Calcutta who still do not believe that their idol, a considerable leader by any standards could ever have got married.

Talk to the average Bengali in Calcutta, read any of the nationalist dailies, and you will immediately see the very important position Subhas Bose still occupies in the Bengali mind. Let me repeat it, the Bengali has very good reasons to be proud of so courageous a fighter. What is being examined here, with some caution I am sure I have not been able to conceal, is that extra zeal of which there is not an immediate explanation in available data. Beneath the wholly justified pride over Subhas Bose there is something akin to the desperate possessiveness of a widow to her son, the son who has gone abroad and has not been heard of for a long time. However excessive the display of emotion may seem to the outside observer, it should also be appreciated that grief in a situation such as this can hardly be too much. It is not surprising that the widow has come to develop a resistance to harbingers of what may be bad news. She awaits the postman as intensely as she dreads his approach; she questions his identity when he looks like producing a letter with a black border.

The analyst—and I hope I have kept my judgments to the absolute minimum—is not debarred from being sympathetic, which I claim to be; but he cannot stop there. The widow, when she has other young ones to look after, should be told that her waiting for the son—"missing, believed dead"—is an act of cruelty to her other children. It is a pity that the Shah Nawaz Committee is unlikely to establish Subhas Bose's death or continued existence; either might have put an end to the uncertainty. It seems certain that Bengal's own leaders and newspapers will never do much either to interpret Bose's absence as death or to forget the whole story as an unsolved mystery. They have a vested interest in the story now; they eagerly publish every idle rumour about "Netaji a Member of Mongolian Trade Delegation" or "I 'Phoned Netaji Last Night." All this would be perfectly understandable in a tabloid Press, which Calcutta has not got; the newspapers are serious to the point of being dull. Only in the case of the Netaji myth is sensationalism indulged in—with the result that West Bengal has the afflictions of Wordworth's Margaret. Not a bad subject for sentimental verse, this, but no people in the world today, not even the Bengalis, can live on sentiment and poetry. The problem is not made easier by the fact that there is not, today, an excess of poetry and sentiment either in West Bengal.

—Flibbertigibbet.

Credit Expansion During the Current Busy Season

S N Sen

data regarding agricultural and industrial production and foreign trade during 1954-55 and 1955-56 do not provide any explanation for the higher rate of increase in bank credit in the present season as compared to the previous one. The presumption is strong that this year's increase has been fostered by the speculative holding of commodities. Unfortunately there is some amount of truth in the contention that the Reserve Bank of India and the State Bank were partly responsible.

The high rate of utilisation of cash balances by the banks for the expansion of credit is a matter of serious concern and provides the justification for arming the Reserve Bank with the authority to vary cash ratios. Selective credit control though useful, is not likely to be effective by itself.

THE expansion in the total volume of bank credit granted by the scheduled banks during the current busy season as also the factors that have facilitated it merit careful consideration. The financing of the Second Plan would involve the creation of large quantities of currency. In fact, the total money supply has increased in 1955-56 by about Rs 260 crores, and this is larger than the additions to the money supply in the two preceding years. The behaviour of bank credit under the impact of this factor has got to be watched with a critical eye in the interest of monetary stability.

Certain facts bearing on the situation should be noted at the outset. The present busy season started from October 15, 1955 and from this date to March 30, 1956, the total bank credit granted by the scheduled banks increased by Rs 172.4 crores; total deposits by Rs 18.56 crores; borrowings from the Reserve Bank by Rs 58.84 crores and from the State Bank by Rs 14.76 crores. Total cash balances also declined by Rs 8.4 crores and investments by Rs 30.49 crores.

The accompanying table contains the data relating to the expansion of bank credit in the last five busy sasons. It will be seen that, excepting the busy season of 1950-51, all the other immediately preceding busy seasons witnessed an expansion of bank credit on a much smaller scale than that in the present season. The average rate of expansion in bank credit in the last five busy seasons, 1950-51 to 1954-55, was Rs 118 crores, against Rs 172 crores in 1955-56, and this amount would rise still more by the time the present busy season is over.

Are there any special factors at work during the present season which may explain the rather large expansion in bank credit? But unfortunately the data regarding agricultural and industrial production and foreign trade in the two years, 1955-56 and 1954-55, do not provide any explanation for the higher rate of increase in bank credit in the present season as compared to that in the previous one. The average level of agricultural production during the current year is admitted to be lower than that in 1954-55. The total volume of exports during the eleven months of 1955-56 for which statistics are available is almost the same as that in the corresponding period of 1954-55. The Reserve Bank's price index of exports was 93 during the last quarter of 1955,—about 8 per cent below that in the same period of the previous year. The price index of imports, however, was higher by about 3 per cent—during the same period of both these years. The busy season of 1950-51 witnessed an expansion in bank credit which was slightly larger than that during the present. This expansion took place under the impact of the inflationary upsurge generated by the Korean War. The Annual Report of the Reserve Bank ascribed the high rate of increase in bank credit in that year to "the need to finance trade and movement of commodities at rising prices, to the continued high level of exports as well as to a degree of speculative holding of commodities". The general index of prices rose by 11 per cent during the busy season of 1950-51 and by 8.7 per cent during that of 1955-56. In the former year the value of exports was also larger than that in the latter. It is, therefore, difficult to find adequate justification for the expansion in bank credit that has taken place in the current busy season when all the relevant factors are examined in relation to the years 1954-55 and 1955-56. The presumption is strong that this year's rise in bank credit has also been fostered by the speculative holding of commodities as was the case during the busy season of 1950-51.

Moreover, this year's expansion in

Changes in Total Credit and Deposits of Scheduled Banks

(crores of rupees)

Season	Credit	Deposits
Nov. 25 - May 11 1950-51 (B)	+180.29	+21.81
May 12 - Oct. 26 1951 (S)	— 85.86	—19.74
Oct. 27 - March 7 1951-52 (B)	+ 99.96	—27.49
March 8 - Nov. 21 1952 (S)	—131.61	+ 5.58
Nov. 22 - May 8 1952-53 (B)	+ 85.87	—16.30
May 9 - Nov. 20 1953 (S)	— 89.75	+15.39
Nov. 21 - May 7 1953-54 (B)	+112.26	— 3.80
May 8 - Oct. 15 1954 (S)	— 61.67	+57.11
Oct. 16 - April 8 1954-55 (B)	+109.13	+48.62
April 9 - Oct. 14 1955 (S)	—34.14	+58.62
Oct. 15 - March 30 1955-56 (B)	+172.4	+18.86

(B) denotes busy season and (S) slack season.

bank credit should be studied against the background of the events which took place in the previous slack season In the busy season of 1954-55, lasting from October 16 to April 8, bank credit increased by Rs 109.13 crores. In the ensuing slack season, bank credit contracted by only Rs 34.14 crores. Thus only 31.3 per cent of the additional bank credit created during this busy season returned to the banks in the slack season. This rate of contraction of credit in the slack season is much lower than any during all previous slack seasons. The rate of contraction in the slack season of 1951 was 47.7 per cent of the previous expansion in bank credit, and even this rate was regarded by the Reserve Bank as extremely unsatisfactory. This lower rate of contraction of bank credit was stated to be one of the reasons for raising the Bank Rate in November, 1951. The rate of contraction in the slack season of 1955 is the lowest on record. The average rate of contraction of bank credit during the five preceding slack seasons works out at 86.6 per cent of the expansion in bank credit in the previous busy seasons. Had bank credit contracted by the average rate in the slack season of 1955, it would have declined by at least Rs 94 crores. Thus by the end of the slack season of 1955, the economy had retained about Rs 60 crores of the additional credit created during the last busy season. The expansion of credit in the present busy season by Rs 172 crores has thus been super-imposed over an already inflated economy. No wonder, therefore, that the ratio of advances to deposits rose to an all-time high of 73.02 per cent. The previous highest ratio was 69.6 per cent at the end of the busy season of 1951-52, and the high ratio was brought about partly by the decline in total deposits by Rs 26 crores which took place during that season. But during the present busy season, the total deposits have, on the other hand, increased by Rs 18.86 crores.*

The rate of expansion in bank credit in the last few months should have been checked, especially when it was found that the rate of contraction in bank credit in the last slack season was extremely unsatisfactory. Unfortunately there is some amount of truth in the contention that the Reserve Bank had also some share in this expansion process. Scheduled banks' borrowings from the Reserve Bank were the highest, being Rs 65.08 crores on 30th March, 1956. Such borrowings remained above Rs 10 crores in 10 months of the year, 1955-56, as against only 5 months in 1954-55 and 1953-54, 4 months in 1952-53 and 6 months in 1951-52. The Annual average of borrowings from the Reserve Bank formed in 1955-56 3.8 per cent of the total scheduled bank credit as compared to 2.6 per cent in 1954-55, less than 2 per cent in 1953-54 and about 2 per cent in 1952-53. Of the additional bank credit created by the scheduled banks, 8.5 per cent came from the Reserve Bank in March, 1956, and 5.8 per cent in March, 1955, 5.7 per cent in March, 1954 and only 3.5 per cent in March, 1953. Thus the Reserve Bank's share or compliance in this process of expansion of bank credit was also not inconsiderable. The State Bank of India has also some responsibility in this matter since its nationalisation. Borrowings from the State Bank amounted to an all-time high figure of Rs 19.71 crores on the last week of March, 1956, as against only 8.07 crores in the same period of the previous year.

The only step taken by the Reserve Bank was to raise the rate for advances under the Bill Market Scheme from 3 per cent to 3½ per cent as from March 1, 1956 and to withdraw the concession granted to banks hitherto in respect of the stamp duty. This of course resulted in some slight shift away from the method of borrowing through the Bill Market Scheme, the ratio of such borrowings to the total borrowings from the Reserve Bank declining from 51.8 per cent in February, 1956 to 45 per cent in March, 1956. But there is no evidence that it has restricted the growth in the volume of borrowings from the Reserve Bank or in that of bank credit. It is difficult to understand why the Reserve Bank failed to take suitable steps to arrest this rising trend in bank credit, especially as the contraction of bank credit in the slack season was inadequate, and as the ratio of advances to deposits rose above 70 per cent inspite of some rise in bank deposits. There was, moreover, no underlying factor in the economy to justify such a heavy rate of expansion in bank credit. On the other hand, there is a good deal of danger in this process, especially when a faster rate of expansion in currency is going on simultaneously. The other constituent of the money supply viz: bank credit, could not be allowed to proceed at the same time at more than the average pace. An increase in the Bank Rate by (say), half per cent at the beginning of 1956 would not have probably been a bad thing to do. It could have prevented increased resort to borrowing from the Reserve Bank by serving a sort of warning to the banking system to go slow. Time has, moreover, arrived when the Reserve Bank should seriously take up the consideration of evolving a convention to the effect that loans to a bank would be granted only under exceptional circumstances when the ratio of its advances to deposits is near about 70 per cent. As a general rule, banks should regard that ratio as the ceiling, and they should try to remain well within this limit, and when the actual ratio is approaching near this figure they should go to sources other than the Reserve Bank or the State Bank for loans.

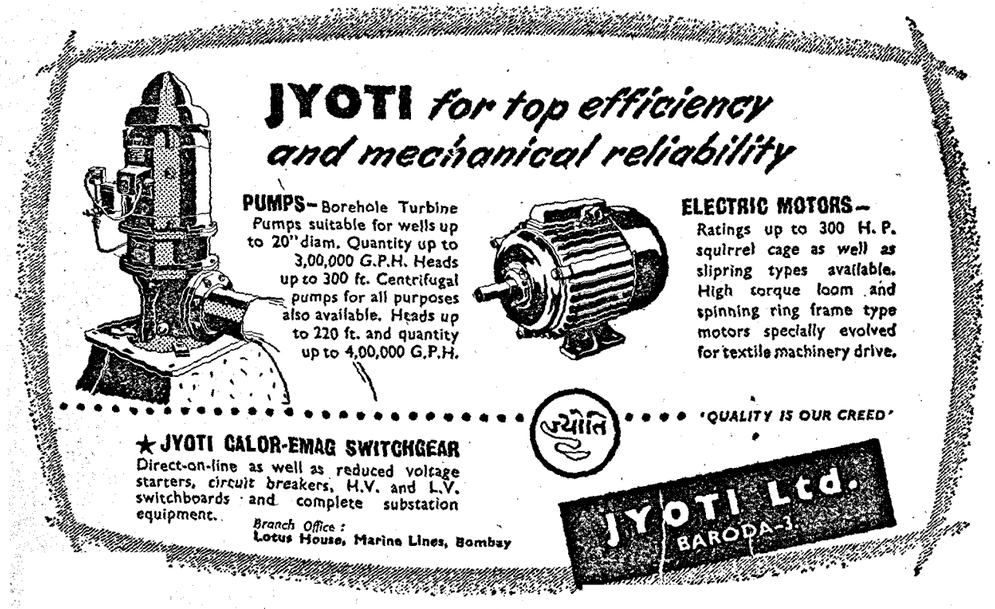
Another noticeable trend has been the running down of excess balances which seems to have been the practice with the scheduled banks in the last 3 or 4 years. They are increasingly using up their cash balances in their search for resources for financing the expansion in advances. Thus throughout 1955-56, banks maintained lower cash reserve ratios than those of earlier years. In that year, this ratio never rose above 9.04 per cent while the maximum was 11.16 per cent in 1954-55, 10.16 per cent in 1953-54, and 11.40 per cent in 1952-53. It was still higher in earlier years. In third week of March, 1956, the ratio declined to the lowest figure of 7.8 per cent. Throughout the year, 1955-56, the ratio was always below 9 per cent except in two months, whereas it was above 9 per cent in six months of 1954-55, 5 months of 1953-54, and 11 months of 1952-53. The banks have thus been raiding their cash balances during the last four years in order to increase their advances, helped, no doubt, by the growth in habits of rediscounting. In the five years 1950-51 to 1955-56, the total deposits of the scheduled banks have increased by about 16 per cent, while their total cash balances have actually declined by 8.7 per cent.

The result has been the considerable decline in the amount of excess balances possessed by the scheduled banks. The excess balances have fallen from an annual average of Rs 18.89 crores in 1954-55 to Rs 13.93 crores in 1955-56. On March 23, 1956, the excess balances came down to the low level of Rs 6.89 crores. We already know that the growth in bank credit in the busy season of 1950-51 was larger than that in 1955-56. But in that year the excess balances at the end of the period were 1.5 per cent of the total deposits against only .84 per cent on 30th March, 1956.

It may be urged that there is nothing alarming in this process. These excess balances represented potential lending capacity, and once banks use them up, their dependence on the Reserve Bank for any additional funds would be complete. Our banking system would then come closer to the British, rather than to the American organisation. In the meantime the range of fluctuations in the cash reserve ratios has tended to come closer on account of this factor. In 1955-56, the cash reserve ratios have remained within the limits of 9.04 per cent to 8.08 per cent, against 11.16 per cent and 8.28 per cent in the previous year. Disappearance of fluctuations in this ratio may prove to be an important factor perfecting the control mechanism of the Reserve Bank.

But this rate of utilisation of excess balances is certainly a matter of serious concern at a time when the economy has also to absorb large injections of currency. In view of the increasing resort to deficit-financing which might become necessary in course of the Second Five Year Plan, such activisation of idle balances is fraught with grave danger. It is this fact which provides the justification for arming the Reserve Bank with the authority to vary the cash reserve ratios. Such an authority ought to have been granted to the Reserve Bank long ago. The high rate of expansion of bank credit during the present busy season could have been checked had the Reserve Bank raised the cash reserve ratios by, say, one per cent. That might have slowed down the process of speculative hoarding of commodities, and so made the rate of adjustment of the relative price levels of agricultural and manufactured goods more smooth and less alarming. It is never too late to learn, and let us hope that the Reserve Bank would not fail to use this power vigorously and timely for keeping the growth in bank credit within proper limits. Recourse to the method of selective credit control, though belated, has its undoubted use. But it is not likely to make any significant impression on the growth of total bank credit, except indirectly, and it is not an easy method to administer. The use of the instrument of variable reserve ratios in conjunction with the selective credit control is, therefore, absolutely essential for steering the banking system along the desired direction.

* In a summary of the Annual Report on the Trend and Progress of Banking in 1955, released to the press, the relatively small contraction in bank credit in the slack season of 1955 has been ascribed to "the beginning of the growing diversification of the Indian economy", leading to a general rise in credit demands. It is rather difficult to accept this as a valid explanation of such a disquieting trend. Surely diversification of the economy cannot have proceeded in course of one year at such a pace as to justify an increase in total bank credit from Rs 109 crores to Rs 172 crores and a decline in the rate of contraction in credit in the slack season from 55 per cent in 1954 to 31 per cent in 1955.



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Industry in the Plan

Some Unresolved Points

George Rosen

Experience of Indian industries like cement and steel indicate that the investment requirements in the industrial sector will probably be greater than anticipated in the Plan, and that this increase will be felt especially in the public sector, to which are reserved many of the more capital intensive projects.

If there is an underestimation of capital requirements it may prove necessary to tighten priorities further, to extend the Plan over a longer period of time, or finally to change the priorities somewhat to lay greater stress on industries of lower capital intensity.

There is no discussion of price policy in the Plan. This may reflect a belief that price should not interfere with desired social goals. However, there may be some question whether the price system might not be used to a greater degree in assisting in the allocation of resources.

One other industrial area which the Plan skirts is the field of small industries. While an allocation of Rs. 200 crores is made for these industries, the bulk of the discussion in the Plan is confined to the village hand industries. Further exploration of the possibilities of starting ancillary industries performing work on a sub-contracting basis for larger firms would have been desirable.

THE two major general characteristics of the industrial programme in the Second Five Year Plan are

(1) the great increase—a tripling—of proposed investment for large and medium size industry, compared to the actual expenditures in the First Plan; and

(2) a pronounced shift to dependence on the public sector for the largest proportion of this increase.

In the First Five Year Plan an actual investment of Rs 57 crores was made for large and medium industrial projects in the public sector, and one of Rs 340 crores was made in the Private sector. The investment in the public sector was about 55 per cent of that proposed at the start of the Plan; that in the private sector was about 75 per cent of that originally proposed. Of the total investment of Rs 397 crores almost 85 per cent was by the private sector.

The total planned investment in organised industry in the Second Plan is of the order of Rs. 1200 crores. It is proposed to invest over Rs 600 crores in investment in the large and medium industries in the public sector (including the National Industrial Development Corporation). The programme of investment in the public sector is envisaged at Rs 570 crores. This is over a ten-fold increase in the investment in the public sector, and about a two-thirds increase in the private sector as compared to the First Plan.

Low Capital Output Ratio

The Second Five Year Plan as presented in the final version does not attempt to estimate the addition to national income from the industrial sector, anticipated by this great increase in investment in industry. However, since the total increase in national income is the same as that presented in the earlier Draft Outline of the Second Five Year Plan, it may be assumed that the planned increase in each sector also remains the same as in the Draft Outline.

During the period of the First Plan the increase in net national product, with the investment of Rs 397 crores in factory establishments, was Rs 250 crores. This equals a capital output ratio of approximately 1.6:1. For industry this is a low ratio, and its lowness is best explained by the existence of unutilized capacity in industry which could be used to expand output without major investment. For the Second Five Year Plan period it may be reasonably assumed that there is far less unused capacity. This may be one reason for the somewhat higher capital output ratio anticipated in the Second Plan period. With the investment of Rs 1200 crores it is anticipated that net national product from factory establishments will increase by Rs 540 crores—or a capital output ratio of 2.2 : 1.

Possible Alternatives

It is probable that this higher anticipated ratio is still too low. The Second Plan has a system of priorities laying major stress on setting up or expanding output in the producers goods industries—iron and steel, heavy chemicals, heavy engineering and machine building, aluminium, cement, chemical pulp, and light chemicals and drugs. Almost all the industries in which the public sector is investing are in those areas as also over 50 per cent of the proposed investment by the private sector.

Research has already indicated that the capital output ratios in the cement and steel industries will be of the order of 3:1 for new or expanded plants; for such industries as heavy chemicals and heavy machine building, the capital output ratios are probably at least of equal magnitude. This would indicate that the investment requirements in the industrial sector will probably be greater than anticipated in the Plan, and that this increase will be felt especially in the public sector, to which are reserved many of the more capital intensive projects. If there is an underestimation of capital requirements for this development, this may require various alternative solutions. Additional capital may be attempted to be raised, but this is probably the most difficult of the alternatives. Otherwise it may prove necessary to tighten priorities further, diverting investment from lower priority areas in industry or other sections of the economy to the higher priority industrial areas. It might also be considered desirable, as several government leaders have already stated, to extend the Plan over a longer period of time, and several of the lower priority industrial investments could be made later. Or finally priorities may be changed somewhat to lay greater stress on industries of lower capital intensity.*

* The Plan itself says at one point "If due to a stortage of financial resources, a scheme of priorities has to be worked out in connection with NIDC projects, the highest priority will have to be given to schemes connected with heavy machinery....." (p 404) —Ed.

Public and Private Sectors

With respect to the relative roles of the public and private sector, to a certain degree policy is circumscribed by two facts—first, the Industrial Policy Statement which reserves certain industries, or their expansion, for the public sector, and second, the inability of the private sector to finance certain large projects such as the projected great iron and steel works. However apart from these restrictions, it can be stated, based on the accomplishment in the First Plan, that the private sector was reasonably successful in achieving the desirable social goal of increasing production during the period, while at the same time profits increased. The First Five Year Plan with the commitment of a definite government programme of expenditure in the economy, proved highly stimulating to the private industrialist. With the expectation of increased spending in the Second Plan it is to be expected that this stimulus will continue. At the same time the attitudes of the private industrialist with respect to ploughing back profits into industry are increasingly such that, given an atmosphere conducive to this investment, he will continue to re-invest. The private industrial sector is in an early period of self-generating growth, and if this is encouraged, with proper social protection to prevent abuses, it could lead to rapid development of the economy.

The Plan for the private sector as presented in Chapter 19, is inevitably only the rudiments of a plan. It is based largely on the license applications of existing private firms for expansion or production during the next five years. At present rates of expansion, with present plans and attitudes toward further expansion, and with access to capital resources which may be underestimated in the Plan, it would not be surprising if the private sector both exceeded its various targets, and entered into areas of production unforeseen in the Plan.

At the same time the expansion of the government's industrial activities by ten times (in terms of investment), is more difficult to envisage. Apart from the difficulty of raising the capital for the expansion (which may be greater if there is underestimation of the requirements), there is the major problem of whether it will be possible to increase the administrative capacity of the government to handle such greatly increased responsibility within such a short period of time.

No Price Policy

It is of some interest that there is no discussion of price policy in the Plan. This may reflect a belief that price should not interfere with desired social goals. However there may be some question whether the price system might not be used to a greater degree in assisting in the allocation of resources. The present system of relatively low fixed prices for certain major manufactured products, such as cement, steel products, and paper, among others, may make it possible for the government to meet its requirements at relatively low cost; but it also may result in encouraging a presently undesirable demand for the price controlled products. This encourages development in certain low priority fields—such as luxury housing—at the same time as it diverts scarce resources away from higher priority areas. To the degree that such products must be imported, it also contributes to increasing foreign exchange difficulties.

Ancillary Industries

One other industrial area which the Plan skirts is the field of small industries. While an allocation of Rs 200 crores is made for these industries the bulk of the discussion in the Plan is confined to the village hand industries; and the larger part of the investment is planned for these industries. Further exploration of the possibilities of starting ancillary industries performing work on a subcontracting basis for larger firms would have been desirable. With such a large proportion of the investment for large industry in heavy and light engineering, a system of subcontracting parts of this machinery output to smaller firms might lead to greater increases in employment than currently envisaged from this sector. Since the central government is playing a major role in setting up the engineering works its encouragement of the development of ancillary works around government factories could prove fruitful. Such a programme by both the public and private sectors, however would require a conscious policy both on the part of the government and larger private industry to provide credit, needed raw materials and machinery, and proper inspection of finished products to ensure that the small industrialist would be able to enter production, to produce goods of high quality, and to grow. It may also call for steps to reduce the network of red tape which either exists, or more important, is believed by the small industrialist to exist, and which discourages contact between the small industrialist and the government.

This paper has raised certain questions with respect to the size and direction of the industrial portion of the Second Five Year, as well as certain problems with respect to implementing the Plan. The purpose has not been to give unsolicited advice, nor to perform the easy task of criticising from an ivory tower from which choices in a political setting do not have to be made. Rather it has been to stimulate discussion of certain unresolved points in the Plan, without in anyway denying its boldness and scope.

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The Coal Sector of the Plan

K M Purkayastha

If the Plan estimate of India's requirements of coal by 1960-61 were correct—happily, it is not—the industrial segment of the Plan would have foundered on the rock of an acute shortage of coal.

The target of coal production put at 60 million tons in the last Plan year may not be attainable but the author does not think that the requirements in that year are likely to exceed 52 million tons. A rise of output of 15 million tons above the present output of 37 million tons is, however, feasible though it is perhaps the maximum that can be attained. Therefore, there is no reason to fear an imbalance between supply of and demand for coal in the Second Plan period, though annual balances may not be easy to strike.

COAL is of major importance in the Second Plan, not only because of its basic role in any large industrial programme, but because of the particular pattern of industrial investment envisaged in the Plan too. The highlights of that proposed pattern are the large expansions of steel and cement output, which will make heavy demands on our available resources of coal.

Even in Prof Mahalanobis' Draft of the Plan, released in April last year, the 1960-61 target for coal was placed at 60 million tons. Its breakdown into different uses was as shown under:—

	mn tons
Railways ..	14
Electricity ..	5
Iron & Steel ..	15
Brick Manufacture ..	5
Cotton Mills ..	1.5
Jute Mills ..	0.5
Paper Mills ..	1
Fertiliser Industry ..	1
Other Industries ..	4
Bunker & Steamers ..	2
Domestic Fuel ..	7.5
Synthetic Petrol ..	1.5
All other uses ..	2
TOTAL ..	60

This is a near output-input analysis for coal consumption as envisaged in the last year of the Plan. This same estimation has been retained in the Plan. Also, the requirements of coal during the current and four subsequent years were given as shown below:—

Year	Production mn tons	Requirements mn tons	Estimated Gap mn tons
1956-57	40.5	47.5	7
1957-58	43.7	48.9	6.2
1958-59	47.6	56.6	9
1959-60	53.9	59.4	5.5
1960-61	60	61	1

Thus, according to the Plan, the coal situation in the country is likely to be critical even in the current year, and though by 1960-61 the situation is expected to improve considerably, a short-fall of 1 million tons is estimated even then.

Sources of Production

Much thought has been given to evolving a programme regarding the sources from which the additional supply of coal may be derived during the Second Plan. This programme is at present as follows:

Mining Source	Output in 1961 (mn tons)	Increase over Current level (mn tons)
Raniganj Coalfield	18.6	5.94
Jharia coalfield	16.69	3.50
Karanpura coalfield	6.00	4.56
Bokharo Coalfield	2.88	.50
Korba coalfield (virgin area in MP)	4.00	4.00
Central India field	5.31	3.00
Singarani (MP)	2.92	1.50
Total increase		23.00

The figures in the last column were based on the output in 1954 of 36.7 million tons. In 1955 total output has moved up by about a million tons, so that if the planned output is achieved, the 61 million tons mark will be reached by the end of 1960.

Critical Appraisal

Against this background of reality and planning in our coal situation, four issues emerge for a critical appraisal. In the first place, are the estimates of the demand for coal in 1960-61 reliable? Secondly, is the target of production set in the Plan capable of achievement, and if not, what is the likely output, taking the various limiting factors into account? Thirdly, is the problem of additional output entirely quantitative, or has it a qualitative aspect as well? And lastly, how will the wage award recently announced for colliery labourers affect the programme for increased production?

Regarding the first question, it appears that even with all the luck in our favour in the expansion of the steel industry, its requirements for coal are not likely to exceed 10 million tons, calculated at the rate of 3 tons of steam coal usable as hard coke for every ton of pig iron manufactured. The two new plants for chemical fertiliser are not likely to be based on sulphur, so that hard coke for its recovery from gypsum will not be needed. The synthetic oil project has been practically dropped. The chances for the demand for coal for domestic use reaching a figure higher than 5 mn. tons appear very remote. On the whole, India's requirements of coal by 1960-61 are very unlikely to exceed 50 mn tons. A maximum of another 2 mn. tons may be allowed to cover a margin of error in these estimates.

Probable Growth of Output

We turn next to the probable growth in output. There is hardly any virgin coal-bearing land left in the Raniganj field, and mining has been already carried to considerable depths below the ground. As against the 5.94 mn. tons of additional coal estimated to be raised from this field, it does not seem to be able to yield more than another 1.94 mn. tons, so that the estimate is too high by 4 million tons. For Jharia too, the estimate is high by at least 1 mn. tons, and by perhaps the same amount in the case of Karanpura field. The virgin area of Korba in South-east Madhya Pradesh is no doubt a very rich potential source, but its exploitation raises a number of problems incidental to opening a new area. Thus, the likely effective output from this field within the deadline of 1960-61 is perhaps 2.5 mn. tons, showing the estimate in the Plan being at least 1.5 mn. tons too high. Summing up the overall prospect, a rise of output of 15 mn. tons is the maximum achievable. This gives an output of 53 mn. tons by 1960-61, which balances well the

maximum likely requirements of 52 mn. tons. Indeed, if the planners' estimate of India's requirements of coal by 1960-61 were correct—which happily is not so—the industrial segment of the Plan would have foundered on the rock of an acute shortage of coal.

Metallurgical Coal

It is an over-simplification of the problem to estimate the demand for coal almost wholly in quantitative terms. Actually, it is the metallurgical coal—the quality with high carbon and low volatile—the deficit of which constitutes the crux of the problem. Today about 8 mn. tons of this quality are being mined. Of this 5 mn. tons are used in the steel furnaces and allied uses, and the balance of 2 to 3 mn. tons go for non-metallurgical consumption. Even according to our own estimates given earlier, the additional requirement for steel furnaces is about 5 mn. tons—a deficit not likely to be met by diverting all the available metallurgical coal to steel furnaces only. The current official assumption is that low grade high carbon coal will be first washed and then carbonised into hard cokes. The method will be wasteful and raises numerous incidental problems. A real solution of the problem lies in the adaptation of non-coking coal, as it is, in low-shaft steel furnances. Experiments on this are in progress in a pilot plant in Jamshedpur, and on its results depend very considerably the future solution of India's coal problem from the qualitative point of view.

Wage Rates and Coal Price

Lastly, it is certain that our coal economy will receive a heavy blow by the introduction of the new enhanced wage rates for colliery labour, awarded recently by an Industrial Tribunal, after a prolonged hearing of the points of view of the workers and employers, for a period of over two years. Briefly the terms of the award are these: that on the present level of wages, dating to the Conciliation Board Award of 1947, the wages of the time-rated unskilled workers have been increased by 61 per cent, those of the skilled surface and underground workers by 31 per cent, and of the piece-rated miners and time-rated loaders and trammers by the same proportion.

Whether these increased wage costs variously estimated at Rs 3 to Rs 3/12 per ton of coal—will be covered by a corresponding increase in the controlled price of coal is yet to be seen. A large gap between costs and price will send many collieries to the wall. Further, the effect of higher piece-rates for machine miners will largely eliminate the cost-advantage of mechanised as against hand-picked mining. On the whole, the award will not operate as an incentive, but rather as a disincentive, in boosting up production by the workers. Thus, even without going into the other economic effects of the award, its probable unfortunate effect on production is hardly to be doubted. But the situation is yet fluid, and any clear conclusions must wait announcement by Government of the revised schedule of coal prices.

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The Travail of Planning

The Ministry of External Affairs has a Director of Conferences. The Planning Commission has none. It cannot afford the luxury. Yet, there are more conferences in the Planning Commission and due to it than in the whole of the conference-run Central Secretariat.

If a Directorate of Conferences was established in the South Wing of Rashtrapati Bhavan to plan the output of the planners, the result would be embarrasing in the extreme. You might then have a Planning Commission with a Planning Commission and you would not know which was larger!

SUCH flippant talk is often heard, whenever the Planning Commission is discussed over coffee cups, in the bars or the drawing rooms of the capital—and that happens most of the time. That the Planning Commission is such a favourite subject of conversation is, in a sense, an acknowledgment of its central role in the life of the nation and the activities of the Government. It is an all embracing, ever-increasing role. The Commission, as some one put it, is spreading its tentacles wider and deeper into India's chunk of the time-space continuum. Not only is a bigger sector of the country's economy coming within the purview of planning, the idea of perspective planning, too, has begun to take root. At the practical level, therefore, every time there is talk of administrative economy, the organisation of the Planning Commission expands.

Herein lies the Commission's dilemma. In terms of the task assigned to it, the Commission's organisation is small. The few top-level officers and members of the Commission over-work themselves pitilessly, attending meetings during the office hours and spending almost as much time afterwards to clear their desks. But the multifarious functions that the Commission is being called upon to do, engender a certain amount of specialisation and a corresponding decentralisation of responsibility. And as soon as that happens, there is danger that the various wings of the Commission, like those of the Government, may go their several ways and planning may thus lose the cohesion and unity that should be its essence.

For nearly five years now the Planning Commission has tried to grapple with this dilemma. During the formulation of the First Five Year Plan, and even during the period of its execution, the conflict between its ends and methods was not so pronounced. The First Plan did no more than to project the then current rate of annual development expenditure over a quinquennium. The targets of outlay were modest; deficit financing on the scale that was envisaged proved to be unnecessary. Similarly the planned foreign exchange deficits could not be incurred. Everybody was agreed on according first priority to agriculture. The programmes for expansion of social services were hardly spectacular. Above all, no one contemplated a basic change in the social order.

The creation and compilation of the Second Plan has been comparatively an extremely complex affair. The outlay has been raised progressively to proportions twice as high as the firm resources. The estimates of foreign aid, the extent of deficit financing that the economy can safely bear are controversial; the "gaps" are palpable. Besides, the Plan has a social philosophy which, many believe, is in conflict with the economic reality.

These factors, apart from the ramified data that was available from the Central and the State Governments, impelled the Commission to pause, assess and think at every stage of its work. Planning for the second five years has been much less mechanical than for the first.

In that context, it is intriguing to recall the debate that was suddenly raised by Shri K C Neogy's "note of dissent". Surely Shri Neogy must have held the views he expressed in that note all along; it is impossible to imagine that, like Shri T T Krishnamachari, he flung a surprise at the Commission. The fact is that Shri Neogy had opposed the raising of the Plan outlay at every stage; he had pressed for adequate provision for transport all along. If he was over-ruled in the full session of the Commission, it was always after he had had his say; in fact for months he carried his resignation in his pocket and desisted from sending it in, only because of the personal requests of the Prime Minister. It was again on the intervention of Pandit Nehru that the gist of his thesis was incorporated in a crucial paragraph of the Second Five-Year Plan which cast a doubt on the contents of all its 641 pages.

Apart from the dispute among the members of the Commission, another conflict in relation to planning is worthy of mention—the conflict between the Centre and the States. Of course the Planning Commission had the whip-hand; it allotted the funds. But the States did everything in their power to try to secure a larger chunk of the cake. In U P for instance, the size of the Second Plan was revised progressively upwards from Rs 350 crores to Rs 450 crores to Rs 750 crores. Ultimately this largest State of the Union, —populationwise, was sanctioned a Plan of Rs 253 crores. One shudders to think of the waste in time, organisation and administrative resources that such calculated attempts to deceive involved. The Planning Commission officials freely recall that their discussions with the State Governments used to be the most tiresome and frustrating part of their duty.

It was however at one of the last meeting of the National Development Council before the finalisation of the Second Plan that Shri K Hanumanthaiyya shed all reserve to attack the Commission for neglecting the south. He had the sympathy of most of the southern states when he said that from their point of view the Plan was a downright "fraud"—it taxed their resources without making a proportionate provision for spending them in their territory. He backed his charges with figures. All the major development works including steel plants were located in the north; not a mile of new railway line was to be built in large areas of the south under the First and the Second Plans. For a moment, the Council reeled under his vehemence but obviously he was too late!

What is the Commission doing now? The drawing up of the Annual Plan is avowedly the next item on its agenda. Discussions with the State Governments will begin again. But while attempting the task, the Commission is facing again its basic problem—the inadequacy of the organisation in face of its responsibilities. The weakness is likely to prove crippling when the Commission has to grapple with details.

Some of the administrative gaps, however, are being filled. For instance, an Adviser on Oil has just been appointed. But it would be futile to expect that the diligence of its officials would all the time make up for the paucity of their number. Of course, the key personnel of the Commission will never work less than 12 hours a day. By and large, however, expansion of the Commission's organisation would become inevitable, if it has to combine the functions of a watch-dog of the nation's development with those of an author of its detailed blue-prints. And very soon the need of a perspective planning unit may be felt: the Commission has proved itself quite receptive to foreign opinions on the technical aspects of planning and it is unlikely that the seed dropped by M Mikoyan has fallen on altogether barren soil.

The Commission's other problem is likely to be more ticklish. How will it acquire an ideology or at least some kind of cohesion and clarity in the definition of its basic concepts and objectives? It would be futile to expect the harrassed Chief of the Economic Division to accord unity and a semblance of social idealism everytime without injury to the subsisting economic pattern. He did that for the Second Plan by stringing delicately balanced sentences over the whole length of first four chapters. At some stage the differences at the top may overwhelm even men of his calibre.

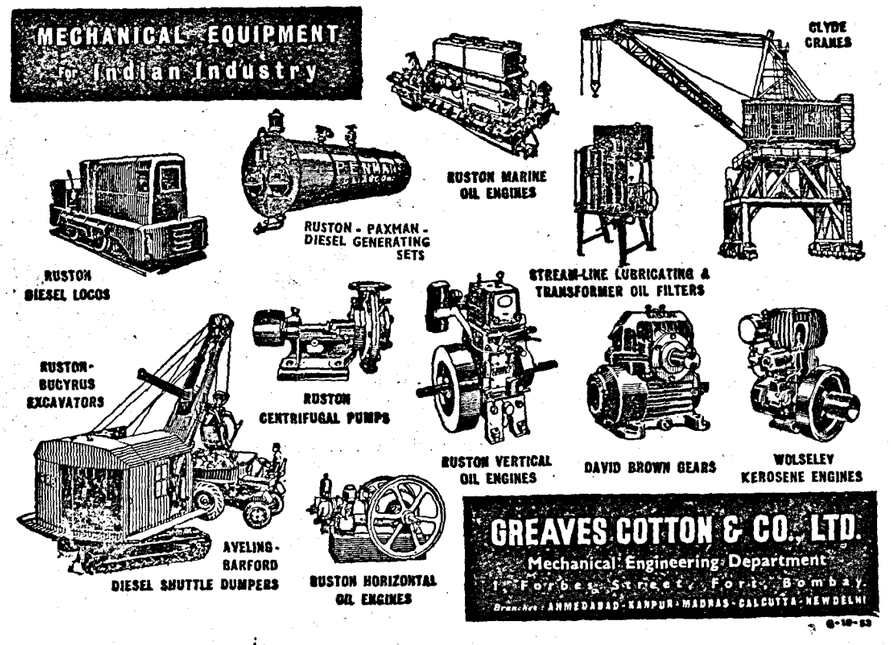
The Plodiv Fair

THE Plodiv Fair is not only a major event in Bulgaria's economic life, helping as it does to extend Bulgaria's commercial relations with other countries, but the international importance of the Fair has increased greatly during the past few years. This is because of the vastly expanded export and import potentialities of Bulgaria, which has within a short period of time overcome her backwardness and has become a modern industrial-agrarian country. The nation's industrialisation and electrification as well as the mechanisation of agriculture have vastly increased the demand for plant, equipment and machinery, for industrial raw materials and chemicals as well as for consumers goods.

In addition to the traditional agricultural produce, the export list now includes machine tools, farming machinery, electric equipment and materials, such as electric motors, transformers and radio sets, ores and concentrates, caustic soda, soda ash, penicillin etc.

The Plodiv Fair offers plenty of opportunities for economic co-operation as well as for the exchange of technological experience and scientific knowledge. This was strikingly demonstrated by the XVI Plodiv Fair, held in September 1955, in which twenty countries, i.e. almost half of the countries with which Bulgaria trades, took part.

Henceforth the Plodiv Fair will be held annually. The XVII Fair opens on September 2 and will continue until september 20.



BETTER THAN BARTER
they exchange—spare time labour

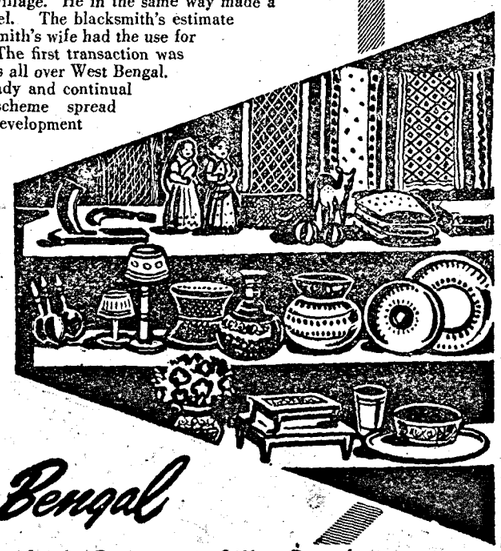




The Government of West Bengal is experimenting a new programme for industrial extension in the State.

The first practical step to bring this novel scheme of "The Village Exchange" was taken on December 26, 1954 in an obscure village in the district of Birbhum. A carpenter carved out a small wooden lampstand in his spare time with a piece of waste wood. He estimated its price to be five annas but he could not sell it in the market because nobody in the village had five annas to spare and nobody outside was interested in such a crude product. So he took the lamp-stand to a blacksmith of the same village. He in the same way made a razor in his spare time with a piece of rusty steel. The blacksmith's estimate of razor, too, was worth five annas. But the blacksmith's wife had the use for the lamp-stand and the carpenter for the razor. The first transaction was quickly followed by many other similar transactions all over West Bengal. Every month since then has been a month of steady and continual progress. At the end of October the scheme spread over 1,190 villages in the Community Development and National Extension Service Blocks and as many as 6,098 artisans, craftsmen and other types of producers participated in it. The value of the articles and services exchanged amounted to Rs. 35,451. The additional wealth, thus created, would not be there, were it not for the everexpanding Village Exchange plan.

This was a humble beginning but there was a more significant meaning behind the exchange with its insignificant value reckoned in money. It meant the release of the rural productive forces based on a new-wealth creating concept to —



build a
Better Bengal

Issued in public interest by the Government of West Bengal

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Future of the Commonwealth

EMPIRES have been built only to be lost. This is the history of empires as of civilizations. Britain built and lost her first empire only to establish a greater second empire. By this achievement, she created history. When, in 1947, she withdrew from south-east Asia, the end of her second empire was confidently predicted. Since her retreat from the Indian Ocean basin, the process of liquidation of her vanishing second empire has been rapid. Sooner rather than later, her second empire will be no more in existence. But with the beginning of the end of her second empire, influences converged which might develop into Britain's third "empire". It was a happy coincidence that a Labour Government was in power in Britain when she chose to liquidate her second empire. As she lost her first empire, she learnt a lesson which helped her to build a second empire. As she lost her second empire, she learnt another lesson which helped her to perpetuate her association with her former colonies in harmony and friendship.

In the gradual transformation, Britain became a British Commonwealth which, in turn, came to be known as the Commonwealth of Nations. It would be uncharitable, as well as irrelevant, to insinuate that the Commonwealth of Nations is an inspired British design to establish a third empire. It is no mean achievement for Britain to remain in friendly association with her former dependencies in south-east Asia through the changing Commonwealth. But further difficulties and conflicts will emerge as Malaya, Singapore, Aden, Cyprus, the Gold Coast, Nigeria, the West Indies and other colonies and protectorates attain self-government. This seems to be the main problem before the Commonwealth as its Prime Ministers discuss in London their common and world affairs. This may not be an inconsequential issue. But it is difficult to appreciate how the Commonwealth's future can depend mainly on the solution of problems which this issue involves.

In the future, the Commonwealth will increasingly become multi-racial in character. Why should such a developing structure create insurmountable hurdles? Even as South Africa became a Dominion, the Commonwealth assumed a multi-racial character. Since 1947, as India, Ceylon and Pakistan became members, the already multi-racial Commonwealth became a free association of peoples and nations of different stock and religion. Racial equality is implicit in the Commonwealth concept. It is the basic condition of its survival. Implementation of this fundamental condition may, conceivably, change the composition of the future Commonwealth. But, if South Africa's adamant attitude forces a change in the composition, the Commonwealth's prestige or future will not be prejudiced in the event. Acceptance of the right of self-government of every area within the Commonwealth is a logical corollary to the concept of human equality. Without doubt, the Commonwealth cannot survive without the acceptance of racial equality of its members.

If racial tolerance is the foundation both of the Commonwealth and the United Nations, the former must attain and develop certain other essential attributes to ensure its cohesion. It was inevitable that the former Commonwealth, composed mainly of Britons, would feel a sense

of strategic unity. All the Asian members of the present Commonwealth depend on Britain for the equipment of their armed forces. But the new Asian members of the Commonwealth have no interest in the British system of global defence. Strategic considerations, therefore, do not any longer bind all the members of the Commonwealth. Like the Army, the government and the administration of Commonwealth members are based on the British model. Asian members of the Commonwealth may feel an urge to lessen their dependence on Britain for defence. But all Commonwealth members, with the exception of South Africa with its white population mainly non-British and of Dutch origin, value the essentially British conception of law and liberty on which their life, society and government are based.

Even so, it is doubtful whether common traditions of law and liberty can perpetuate the Commonwealth when strategic and economic ties loosen gradually. Already, Britain is devising an alternative system of defences. Economic ties still unite the members of the Commonwealth. Though the Commonwealth and the sterling area are not synonymous terms, the latter is still a cementing force for the former. But the Commonwealth is gradually losing its economic affinity. Australia is opposed to the Ottawa system of preferences. Some members of the Commonwealth feel that trade and currency pooling arrangements of the sterling area now benefit Britain at the cost of some of them. As the dollar shortage continues, the importance of the sterling link recedes. Reasons which have caused the decline of sterling also explain why Britain is no longer the banker even to the Commonwealth. If Commonwealth countries have to look increasingly elsewhere to secure supplies of capital, the sense of economic unity must gradually disappear.

Kinship is no longer the connecting link of the Commonwealth. Nor is sterling. Commonwealth members enjoy and value common traditions of law, liberty and racial tolerance. These are valuable links. But as all the areas within the Commonwealth attain independence and the traditions of law and liberty take deep roots, these bonds will cease to be significant. Democracy will be accepted as the only decent norm. What, then, would be the justification and function of the Commonwealth? It is suggested that the Commonwealth should develop as a third force. It lost an opportunity as, under the pressure of transient influences, the late Mr Bevan, the Labour Foreign Minister, pursued a combative anti-Communist policy. As Sir Winston Churchill found it diplomatic to align his foreign policy with that of America, the Commonwealth lost the chance of functioning as a third force. In the current phase of international politics, there is less urgent need for a third force.

But the need may arise again in a different shape, and under changed circumstances. Here is an opportunity which the Commonwealth can seize to justify its continued existence. Even when, and if, the world settles down to competitive coexistence, there will be occasions for disputes and differences between the two power blocs. As Asia and Africa grow in status, differences and disputes may arise between these and other continents. By its character and composition, the Commonwealth is best suited to function as a mediating third force. To function as a third force, it must foster and develop a moral purpose. Law, liberty and racial tolerance must necessarily be the basic ingredients of this moral base. Above all, the Commonwealth must develop a common policy to attain and to maintain individual freedom. Only if the Commonwealth can function at such a high moral level can there be justification for its continued existence.

Postage Stamp Rates for Steel & Cement

A VERY important step has been taken to initiate the dispersal of industries and to encourage decentralisation of their location by introducing postage stamp rates for the transport of two of the basic raw materials of industry viz. iron and steel, and cement. This is an altogether new development, equalisation of transport costs and selling at the same uniform price at all the rail-heads in the country. The system of pooling prices, so as to eliminate the price differences between imported and domestically manufactured steel, had already been in force in steel. Thought shortage has existed in cement for many years and of late it has become far more acute, both large scale imports and price pooling arrangements are new.

To make cement and steel available at the same uniform price at all the rail-heads, however, involves much more than adoption of postage stamp rates for internal transport. For iron and steel, control over distribution has been made more complete and thorough. Under the Iron and Steel (Control) Order which came into force on May 12, 1956, no one is entitled to acquire any iron or steel from a producer or a stock-holder, except under the authority of quota certificate or a permit issued by the Iron and Steel Controller. Nor can iron or steel be used for any purpose other than that directed by authority. The control extends to scrap.

By means of an order issued under section 18 (G) of the Industries (Development and Regulation) Act, 1951, full control over the distribution of cement has been taken over by Government with effect from July 1, 1956. And in order to make cement available at a uniform price at all rail head destinations, the newly formed State Trading Corporation has been entrusted with the responsibility of distribution. The Corporation, however, will utilise for this purpose the existing selling agencies of the producers who have been appointed as its selling agents. It will be the sole importer of cement henceforth. The uniform selling price has been fixed at Rs 102-8 per ton, i.e. at Rs 40 to Rs 50 higher than the present control price. The difference covers, firstly, the incidental freight and secondly the higher cost of imported cement. It is the intention of the Government to import adequate quantities of cement, so that development may not be retarded in any part of the country by the shortage of this essential material. Among the considerations which led Government to take this step was rationalisation of transport, so that movements of cement may cause the minimum strain on the transport system. This is secured, however, by centralised control on distribution and not by introduction of uniform prices which goes along with it.

It is only so far as controlled distribution at uniform prices becomes a reality and the substance of it is not eaten up by an expanding black market, that it can have an effect in the direction desired. But how great will its impact be on the present pattern of location of industries? For cement, many other considerations intervene, e.g. how far is Government prepared to encourage housing and private construction which are outside the sphere of planned development. So, it is better to confine the consideration only to iron and steel.

At present manufacturing industries which use iron and steel as raw materials are largely concentrated in and around Calcutta and Bombay. One of the advantages they derive from their location is that of getting iron and steel at a cheaper price, compared to manufacturers in other places, and greater the distance from the main distributing centres, the greater the disadvantage in this particular respect. But what about the co-operant factors, all those advantages which go with the localisation of industries? To suppose that uniform steel prices will put the backward areas on a par with areas more advanced in the matter of setting up new producetion is fantastic. Those areas which are relatively advanced in other directions e.g. availability of power, ready market for sale of products, trained labour supply and other conditions of commercial development, would be in a position to derive advantage from the present measure and it is only to the extent that this advantage is actually derived that benefits will be widely shared. For the unpleasant fact has to be faced that postage stamp transport rates will raise the price of iron and steel in centres which have so long been doing the bulk of fabricating. So the immediate effect is bound to be higher prices for consumers of steel products which will continue until such time as production develops in areas hitherto unfavourably placed in respect of iron and steel. This can be, at best, therefore, a selective encouragement and to the extent that it enables the social overheads which have been built up e.g. by multipurpose projects, to be more fully utilised, it is a measure to be welcomed. But, to repeat the obvious, price of steel is only one of the many factors, and by no means the most important factor, determining the progress of industries in different parts of the country. Since the question of backward areas is likely to be raised in this connection, it is better to dispel the illusion fostered by politicians that we can, at our present stage of development, attempt anything so spectacular or uneconomic as a general levelling up in the matter of industrial development. To do that would be wasteful. The more important task at the moment is to utilise to the maximum possible extent the existing resources and facilities, including the social overheads, of course, wherever they happen to be located. Equality is an expensive luxury which no underdeveloped country can afford, particularly equality in the matter of regional development of industries.

It is not enough to distribute steel or cement evenly all over the country. De-centralisation and dispersal is equally necessary of capital, skills and other facilities that the Government and the country are in a position to supply, in order to ensure a better allocation of resources. In the last analysis, it boils down to the decentralisation of the administration itself. To forget the essentials in the pursuit of the solution to a partial problem is not uncommon but it is necessary sometimes to emphasise the obvious. Such a situation faces the country today. That planning involves a different approach, that no tinkering at it is possible without upsetting priorities or internal balances seems to have been lost sight of. The decision to have a price pool for iron and steel and cement suggested it. The Mussoorie Conference of State Agriculture Ministers confirmed it. The proposal for an upward revision of coal prices reinforces it. This is not to suggest that there is no case for the price pool or revision of the price of coal or, for that matter, for raising the targets for agriculture. We had asked the question, who does the planning? Now it appears that perhaps the Ministry of Commerce and Industry may be able to answer.

Government of India

3¼ per cent Bonds 1962. Issue Price Rs 98 per Rs. 100 (Nominal). Repayable on the 16th of July 1962.

3½ per cent National Plan Bonds—Third Series (3½ per cent 1967). Issue Price Rs 98-8 per Rs 100 (Nominal). Repayable on the 16th of July 1967.

3¾ per cent Loan 1974. Issue Price Rs 98-8 per Rs 100 (Nominal). Repayable on the 16th of July 1974.

Subscriptions to the above bonds and loan will be received simultaneously and will be limited to a total of Rs 150 crores (approximately). Subscriptions may be in the form of (i) Cash/Cheque or (ii) Securities of the 3 per cent Victory Loan 1957 which will be accepted at Rs 99-13 for every Rs 100 (Nominal) tendered for conversion. Interest will be paid on the 3 per cent Victory Loan 1957 tendered for conversion upto the 15th of July 1956 inclusive.

Interest on the new bonds and loan will be payable half-yearly on the 16th of January and the 16th of July.

Subscription lists will open on the 16th of July 1956 and close on the 18th of July 1956 or earlier without notice.

Applications for the bonds and loan will be received at

(1) Public Debt Offices of the Reserve Bank of India at Bombay, Calcutta, Delhi, Madras and Bangalore;

(2) Branches of the State Bank of India except in the States of Hyderabad and Mysore;

(3) Branches of the Hyderabad State Bank in Hyderabad State; and

(4) Branches of the Bank of Mysore Ltd., in Mysore State.

For full particulars apply to any of these offices or branches, or treasuries.

Weekly Notes

Motor Car Prices

IN August, 1955, Government requested the Tariff Commission to examine and to recommend "what should be the fair ex-works and selling prices of various types of motor vehicles manufactured in the country taking into account the present stage of their manufacture and how the prices should be revised from time to time as more and more components begin to be produced in the country in accordance with the approved manufacturing programme of the several units". The Commission was requested to pay special attention to the extent to which and the manner in which automobile manufacturers whose manufacturing programmes had been approved have discharged their obligations, the further steps that would be necessary to implement them fully and the difficulties, if any, in the way of the full discharge of such obligations in the future and how they should be removed.

The automobile industry is not included in the first and second schedules of the Industrial Policy Resolution; its development has been left to the private sector. The industry is one of the most complicated. It calls for heavy capital investment and engineering skill of a high order, besides exceptional initiative and alertness. Moreover, its development is doubly difficult when the demand for its products is low or inadequate, because automobile production is not economical except on a large scale. Government, now, seems to be of the view that it is time to regulate the prices of automobiles in the country.

There is no question that prices of cars and trucks should be as low as possible. The question is, has the industry misbehaved to invoke price control at this stage of its development? If price control is introduced, it will not be possible for Government to disown responsibility for the development of the industry. Here the purpose of price control cannot be to mop up surplus profits, but it should be to assist the industry to develop quickly, so as to be independent of imports. On the other hand, the institution of price control necessarily presages greater and greater interference from Government in the future. The industry, then, must be in for trouble.

Perhaps it is premature to anticipate, but it does appear reasonably certain that the findings of the present enquiry are going to shape the automobile policy of the Government, even though it may not decide the future of the industry. The automobile industry has been given an opportunity to establish its credentials and how good an account of itself it is able to give is likely to be of decisive importance. For manufacture of automobiles to remain in the private sector, it is necessary for the industry to satisfy the Tariff Commission that it has fulfilled its obligations satisfactorily and carried out its commitments in the production programme with reasonable speed and efficiency.

A Policy for Oil

Our Delhi Correspondent Writes :

IN no sphere of national effort have the Government of India tried so hard and bungled so much as in the formulation of the country's oil policy. Nearly five years ago India entered the arena of international oil diplomacy without knowing it. Inadequate knowledge of the highly technical problems of oil exploration, exploitation, transport, refining and distribution was indeed a handicap, but no attempt was made to learn. A mixture of sentiment, superficial study and interested advice continued to guide the authorities responsible for taking decisions on oil. The influences were multifarious.

Unhappily the administrative machinery dealing with problems of oil continues to be diffused. The Ministry of Natural Resources and Scientific Research is in charge of oil exploration in the public sector. Prospecting concessions over large and potentially oil-rich territory have been given, on the other hand, to Assam Oil Company, a subsidiary of the Burmah Shell Group in Assam and to Standard Vacuum Company in West Bengal. The result is that the Ministry of NRSR is excluded from prospecting in areas where oil is most likely to be found. In fact, the recent strikes at Naharkatiya and other places in Assam have justified the highest hopes of the interests concerned though prospecting in West Bengal has brought up many things but no trace of oil.

There is overlapping again in the refining sector. The Ministry of Production is dealing with refineries in the private sector while the Ministry of NRSR is negotiating for the new refinery in the eastern region. Which Ministry will deal with the refinery projects sponsored by the Saurashtra and Madras Governments remains uncertain because the Government's policy is not clear as to whether private participation in the business of refining will be permitted at all. Until the administrative responsibility is fixed, the projects naturally cannot make any headway.

This is particularly unfortunate for the Saurashtra Government's project for which considerable spade-work has been already made by a private entrepreneur, Mr Nusserwanji H C Dinshaw. With the blessings of the Saurashtra Government, he has drawn up a scheme for the establishment of a refinery at Bhavnagar with a capacity for processing 1.2 million tons of crude oil to begin with. The refinery, however, would be designed for the essential expansion of its capacity to 2 million tons of crude oil. The basic raw material—crude oil—is to be obtained from the National Iranian Oil Company under an arrangement with the Iranian Government which has the right to dispose of a proportion of the oil production of Iran, independently of the international consortium which controls Iran's oil industry. Technical help for the erection of the refinery would be obtained from MM Krebs et Cie, Paris, with whom are associated the group of Atlantic Refineries in France. The Refinery would cost Rs 20 crores to establish but MM Krebs et Cie have agreed to defer the payment of nearly Rs 6 crores, being the value of the equipment to be supplied for the refinery, over a period of 7 years. MM Krebs et Cie have also expressed their willingness to subscribe towards the capital of the proposed venture to the extent of Rs 1 crore. Similarly, the National Iranian Oil Company appears to be willing to subscribe as much as Rs 3 crores. In view of MM Krebs et Cie's willingness to accept deferred payment, working capital of not more than Rs 10 crores would be needed. The proposal is that the Centre and the State Governments should hold majority of the ordinary shares, thereby ensuring controlling interest for the public sector while the balance of the share capital would be subscribed by private industrialists in India. Messrs Birla Brothers are apparently eager to collaborate. The foreign offers may be utilised in the form of a loan to the proposed refinery.

The scheme also envisages the flotation of a distribution company with a capital of Rs 5 crores and an arrangement for transportation of oil from Iran to Bhavnagar with an Iranian tanker Company.

The Saurashtra Government has worked out the economics of the refinery in great detail. The project will it is expected, yield a net profit of about Rs 6 crores a year, exclusive of taxes and should be able to meet the payment of instalments for the purchase of equipment from MM Krebs et Cie very comfortably.

It is a pity that a promising scheme like the one processed by the Saurashtra Government over a period of two years remains in cold storage just because the Central Government cannot decide who should deal with it.

Review Oil Concessions

THE Government of India is known to be seriously concerned over the allegedly large profits being netted by the Standard Vacuum and Burmah Shell refineries. The concessions that these companies have obtained under their agreements with the Government of India are enormous. Besides an assurance that the refineries would not be nationalised over a period of 25 years, they have been allowed to sell petroleum products in India at prices equal to the theoretical and now largely fictious landed cost of similar products imported from abroad based on the cost of transport from the Gulf Ports, whatever may be their actual source of supply. This clause alone would enable them to make profits quite out of proportion to their investments. Another clause prevents Government from taxing them at a rate higher than the general rate obtaining in the country.

The Central Government proposes to study the contracts in detail, particularly after the refining companies have attained full production, with a view to changing the agreements by negotiation, if possible. The refining companies have not altogether shut the doors against such talks. But this is just another instance of the Government having acted in haste to ponder at leisure.

A second instance is the prospecting license granted to the Standard Vacuum Oil Company for exploration in the West Bengal basin. The details of this long-term concession have yet to be published. There is no gainsaying, however, that the grant of a license to a company which holds similar concessions in East Pakistan, across the border, was an initial blunder. Anyone familiar with the geology of oil knows that petroleum occurs below the ground in a continuous sheet extending over several thousand square miles. This subterranean "river" of oil naturally knows no political frontiers. The international law of oil permits any country which sinks the wells to draw from such reservoirs as much as it can. There is evidence that because of political and commercial reasons, Standard Vacuum is more serious about exploration in East Bengal than in West Bengal. That recently Stan Vac diverted a drill ordered for West Bengal to East Pakistan is cited as a glaring case of misdemeanour.

It has also to be admitted, however, that the Government's pettifogging and wobbly policies do not help to instil confidence in the foreign investor. There are whispers here that the agreement with Stan Vac for exploration in West Bengal may be superseded by legislation if modification by negotiation is not possible. The foreign companies naturally contrast the Government of India's keenness to bring oil within the public sector with the liberal terms offered by Pakistan where the share of the State is limited to 25 per cent in most ventures. The fact that the Russians and the Rumanians are being encouraged to participate as much as possible in our oil development programme also acts as a deterrent to western prospectors. Lastly, moves are under way for restricting prospecting leases for oil by amending the Mines and Minerals (Development and Regulations) Act, 1948, and the mining concession rules thereunder.

The oil policy seems to be so confused that a good beginning would perhaps be to centralise authority. It must be remembered that besides the Ministries of NRSR and Production, the Ministries of Commerce and Industry and the Works, Housing and Supply also deal with different aspects of the oil problem. The former is responsible for export and import of oil while the latter looks after distribution and fixes prices. Now the Planning Commission is taking a hand with the appointment of an Adviser on Oil directly at the instance of the Prime Minister.

Naval Bases

AS Britain built her empire, she established naval bases in her colonies. Britain has withdrawn from her former colonies in south-east Asia. Suez Canal has been evacuated. Malaya will soon gain independence. But the British reluctance to quit Singapore, Aden Malta and Cyprus reflects the importance of far-flung naval and air bases in the British system of global defence. Singapore's strategic importance as a naval base has been seriously questioned. Malta is a heavy economic liability to Britain. Hongkong is of doubtful value in an emergency. Soon after Burma, India and Pakistan became independent, Britain transferred power to Ceylon. But Britain continued to enjoy "pocket sovereignty" in the naval base at Trincomalee and in the air base at Katunayake. Ceylon's membership of the Commonwealth helped Britain to enjoy "pocket sovereignty" in the naval and air bases in Ceylon.

One of the issues on which Mr Bandarnaike fought the recent Ceylonese elections was the withdrawal of British bases from Ceylon. In his first major policy statement as Premier, he demanded British withdrawal from Ceylonese bases. He has now announced in London that Britain has agreed in principle to withdraw her bases from Ceylon. Some day, Aden, Singapore, Cyprus, Malta and Hongkong would gain independence. And, then, these areas would repeat Ceylon's demand for withdrawal of British bases. It would be wise for Britain to be prepared for such a contingency. She may emulate America in creating a "long-legged" navy so that her naval forces can be maintained and equipped from home bases. In these days of nuclear weapons and the guided missile, naval bases have lost much of their significance. There is need for Britain, as well as other Western European Powers, to devise a new and modern system of global defence.

Off the Record

How Good is the Monsoon?

THE rains have come. The beginning of the monsoon this year in Bombay was most unpropitious. The monsoon broke prematurely and feebly but in the last few days, it has more than made up. The deluge brings it home to the office goers that it is not the total rainfall during the season which matters so much, he can put up without great discomfort with 80 inches a year but it is the 2½ inches between mid-night and dawn which gets him. For it dislocates the transport system of the city and brings many of the roads under water. Even if the drainage were as good as it could possibly be, it would still not be designed to cope with monsoon floods at their peak. That would be far too expensive, even for the prosperous Bombay Municipal Corporation.

These are, however, mere trifles; for school boys, a rainy day is a lark; for office goers, a minor irritation or a little extra expenditure. But for the economy of the country as a whole, the distribution of the rainfall during the season can be a very serious matter. The monsoon has not progressed far enough yet to warrant a forecast whether it is going to be an average monsoon or the rainfall is going to exceed or fall short of the normal. The papers this morning carried news on the front page of heavy rains in Saurashtra which completely dislocated rail, road and air services, of submerged rail lines in Gujarat and of floods in Malaprabha near Belgaum while on page three two news items follow of the drought in Mysore which has made it urgently necessary to distribute food to the distressed population and of the crop damages in North Behar and in Kerala.

What does it all add up to? Three years ago a complaint was voiced in this paper, much to the annoyance of the serious minded who thought this sort of thing flippant or worse for a respectable journal that we have not yet been able to work out a proper statistical measure of the monsoon. It was argued that

"India is a vast country and conditions differ, in the matter of rainfall as in other things. How can one get a connected picture of the situation, a measure in this particular case, of the distribution of rainfall through space and time? For both are equally important. Unseasonal rains can be as injurious to crops as timely showers, even light ones, can be favourable to them. This is a job for the meteorologist and the statistician to work out between themselves—an index of rain fall which will tell us something of its distribution, so that one can have an assessment which is sorely needed for so many different purposes. And why the total alone? The idea can be expanded and one can some day expect a break down of the figure—the sub-index, for example, of the rainfall for rice-growing areas or the cash crop component of the monsoon for the year!

"That saying about the budget being a gamble in the rains is now heard less often, though substantially the old dictum holds . . . But it is not necessary to argue the point. A workable measure of the monsoon is very necessary, for getting the hang of the economic situation and if one could be found, it would surely prove an effective instrument for policy making also."

—The Monsoon, June 13, 1953.

* * *

The question was also raised that since science had failed to come to the aid of the agriculturist, the latter had to go by folklore. "The cycle of the seasons, the spate of wind and rain, storm and sleet, have always had their local chroniclers and generalisations based upon observation, though perhaps not so precise or accurate, are part of the folklore of the people. These are still the standby of the husbandmen who guide their agricultural and other operations by these popular sayings. Soft rain early in the summer associated with a bumper mango crop in some parts of the country, for instance, is supposed to presage an insufficient monsoon. Similarly, late rains in winter promise a sumptuous rabi crop. And so on and so forth. This is perhaps the best one could expect when there was nothing better to go by than the observation of the naked eye". How good were these as guides?

At the time of writing all this, we never thought that any one would take the slightest notice. It was an agreeable surprise, therefore, to find that the Meteorological Department had carefully checked up on many of the popular sayings about rains and found them statistically unproven. About the main question, however, though three years have passed, no answer has been offered yet, but there is hope. Some one in Poona has been working assiduously at the problem and some day, from the mass of statistics which the Meteorological Department has carefully collected over many decades, may emerge the first faint outline of the conceptual pattern into which could be fitted later on the relevant data to provide an answer to the question raised—an weighted index which will tell us of the distribution of rainfall in the different parts of the country and perhaps also separate indices that will suggest how good rains have been for different crops in the different parts of the country. The Statistician-Meteorologist who works out such an index would indeed be a benefactor, not perhaps of the Indian peasant, but of the harassed planners who take upon themselves the onerous task of transforming the economy in setting up targets that would be both optimum and attainable.

* * *

Many readers have complained that without the full text of the Second Five Year Plan, they cannot follow the comments and the questions raised in the Special Number of this paper which was devoted to the Plan. Though the Plan was presented to Parliament in the middle of May, copies are not yet available with the book-sellers who sell Government publications. The complaint has come from such diverse quarters that the subject cannot be dismissed off hand as peevish grouse of lazy people who would not take the trouble of getting Government publications from the proper sources. Doesn't the Planning Commission want people to read the Plan any more, now that it has done with sifting of opinions and has had its fill of reactions and comments? If it does, why is it that copies of the Plan are not to be had anywhere except in newspaper offices?

Frankly, I have not seen any newspaper advertisement so far or posters at any book shop advertising the sale of the Second Five-Year Plan. If any readers have, I shall be delighted to be contradicted.

* * *

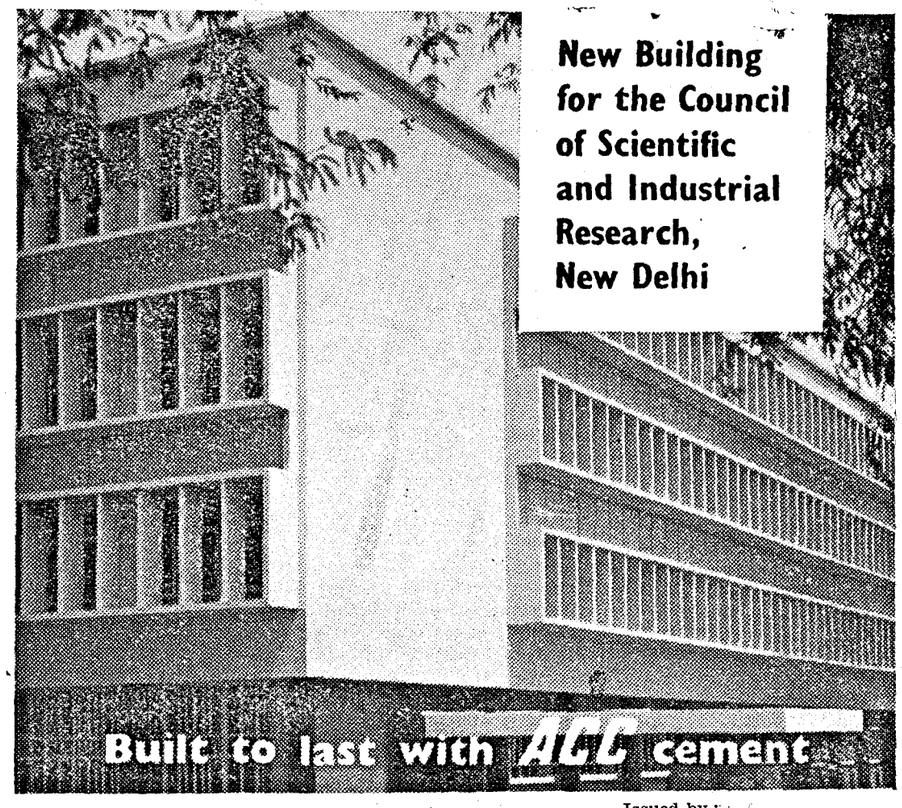
An innocent paragraph in the issue of June 9 in the editorial reviewing the Trend and Progress of Banking in 1955 has provoked enquiries about the powers of the Reserve Bank under the Banking Companies Act to interfere with the management of banks. The Report mentioned, and the passage in question was quoted verbatim, that while discharging its responsibilities, the Reserve Bank had exercised its powers during the year for securing

> "replacement of the Chief Executive Officer by a suitable person and appointment of a Banking Adviser, curtailment of the Powers of particular persons on the Board of Directors," etc.

Is the Reserve Bank really competent to do that? A correspondent has raised a pointed enquiry about some recent changes in the top personnel of one of our leading scheduled banks and wants to know whether the passage in question has any relevance to these changes. He is definite that Reserve Bank has no such powers to interfere with the management and cites the instance of an observer placed on the Board of Directors of a leading bank who was later withdrawn by it. The position is as follows: Under clause (d) of sub-section (1) of Section 36 of the Banking Companies Act, the Reserve Bank may, "during the course or after the completion of any inspection of a banking company under section 35 by order in writing, require the company—

> (i) to make, within such time as may be specified in the order, such changes in its management as the Reserve Bank may consider necessary in consequence of the state of affairs disclosed during or by the inspection."

It does not seem that these powers are limited only to such banks as have not yet been given a licence, or that once they have been given the licence, banks may cock a snook at the Reserve Bank. But commonsense suggests that perhaps those who have not yet got their licence would be more amenable to reason and willing to take hints and comply than others who are safe behind their licences. But granted all the logic of the licensing procedure for bringing up the sub-standard banks and for keeping the standard ones on to the narrow and strait path, it is curious that the Trend and Progress does not mention anywhere the names of the banks which received their licences during the year under review. All that is said in the report is the number of banks who received their licences and the number whose applications remained pending at the end of the year. Why this reticence?



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Degrees of Power and Corruption

POWER, or its pursuit, as a determinant of national policy is rather at a discount at the moment —which does not mean that, just because Bertrand Russell once wrote a book on this, it has ceased to be an extremely important factor. The way power comes, the quantity in which it comes, the manner in which it is received, to say nothing of the way it is exercised, are all circumstances which shape the quality of the power that is received, and they are "an intelligible field of study" like one of those tiny stones in Agra Fort which reflect the entire Taj. Before I come to the very prosaic affairs of the Corporation of Calcutta, I had better mention that what I have in mind is a slight emendation of Lord Acton's famous formula. My thesis, for what it is worth, is that while all power corrupts—partial power corrupts absolutely.

Much is heard about corruption in New Delhi, the place to which my theory should be applied first. How did the change-over come? By peaceful negotiation, and "business as usual" was the motto. There is a good deal to be said in favour of this procedure, which did away with violence and made the transfer of power one of the smoothest transactions in the history of the world. It should not on that account be lost sight of that this relatively peaceful manner has in many ways affected the character of the power now residing in New Delhi. It is outside the purview of this diary to speculate whether some other method of seizing political power would have been better, or worse, but after nine years of "independent" administration at the Centre it is not difficult to see that there is a qualitative difference between a gift and what has been earned. I will return to the theme before I have done.

* * *

Despite nationalist criticism at the time, the Calcutta Municipal Act of 1923 was something of a revolution in India. Sir Surendra Nath Banerjea, the architect of that advance in local self-government, had no reason to be ashamed of his truly great achievement. The Act did offer to the citizens of Calcutta a great opportunity of serving themselves and the country. It may never be known exactly why and how this promising experiment failed so sadly in the years which followed, but the Corporation of Calcutta is here to show that, however glorious India's record may be since independence, there was very little warrant for optimism in the country's apprenticeship in local self-government. The Act gave only limited power to Indians, who naturally resented it. Perhaps not quite so naturally, they immediately proceeded to abuse the limited power they got. Whether the alien rulers were hurt in consequence is doubtful. The city of Calcutta certainly bears many ugly scars on her face. Not to put too fine a point on the matter, the civic administration of Calcutta constitutes perhaps the strongest argument against transfer of power to native hands.

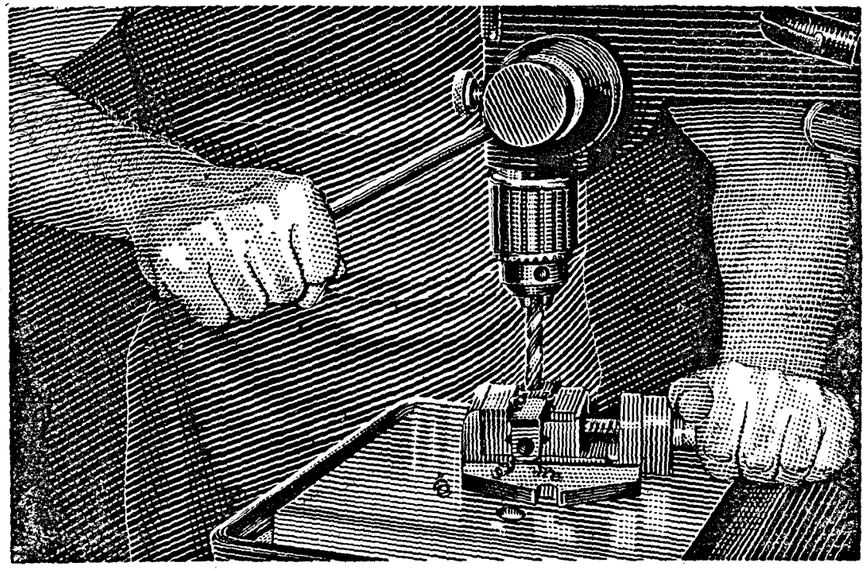
In the course of the past fortnight, for instance, a member of a special committee looking into the state of the city's filtered water supply came out with a statement that what we are in fact drinking is a sort of consomme. Not only are the pipes rarely cleaned; in the tank itself there are all manner of growths—animals, vegetable and mineral, as the quiz programmes put it. The Deputy Mayor of the Corporation, chairman of the special committee, promptly came out with a denial, and said there was nothing the matter with Calcutta's drinking water. He said the opposition was bringing politics into civic administration. Secondly in the northern part of the city, the hive of the natives of Calcutta, the conservancy system has apparently broken down completely. The Commissioner has been blaming it on the Councillors, and the latter have been returning the compliment. Meanwhile, an important Bengali daily, **Jugantar**, came out with a report (the kind of reporting one sees too rarely) that the Standing Works Committee of the Corporation had made it impossible for executives to function efficiently: this committee, it was alleged and it has not been denied, saw to it that the Corporation could not buy the lorries it required because an unnamed supplier, apparently a darling of the committee, did not have the vehicles in stock. The fact that there were other suppliers, quoting lower rates, was ignored by the committee. The money remained unspent, and the roads remain uncleaned.

* * *

The Deputy Mayor's complaint was not in fact far wrong. Politics had indeed come into the Corporation quite early in its life. To this has to be added the point that this is the least of the criticisms against the municipal government of Calcutta. It would be a very cynical view of politics to hold that so important a matter as civic administration should be free from politics. What then is politics to deal with? The real criticism is that a very wrong kind of politics came into the Corporation in the 'twenties, as it later did in the provinces in the late 'thirties. What Sir Surendra Nath Banerjea had in mind was to work the Act; those who were elected came to wreck it. The motives of the Gandhi-led Congress are not questioned here; they were of the highest. The fact remains that the negative attitude of mind with which Congressmen got into these elective bodies made it impossible for them to function in the spirit which had them. In a wider sense than the purely financial, this had a corrupting effect on all the democratic institutions which preceded the advent of freedom itself.

The determination to abuse every piece of partial power which came the Congress' way, so that absolute power could come sooner, made a virtue of political irresponsibility. Is the city corporation going to be elected? We will get in and see that it does not work and thus prove what great patriots we are. Is the University going to be democratised? We will get in, and so debase the alien system of education that its worthless products, frustrated in every walk of life, would join the national struggle and hasten independence. It would be rash to suggest that the policy was thought out in such detail and with such deliberation; and in any case, the policy has paid off, for independence has indeed come. But in those pre-independence days Indian nationalists acted like the man who wanted a hundred rupees, was paid only driblets of ten or fifteen, which paltry sums he so hated that he proceeded to waste them immediately. The final balance sheet shows that a hundred has in fact been paid, but the recipient is a pauper just the same. I will not press the analogy too far, but offer it as a talking point that power in instalments does not necessarily bring with it an equal degree of responsibility, whilst all of it at once always comes accompanied by tremendous responsibility. Concurrent confirmation of the thesis may be found in the difference between the Centre, where power came in its entirety, and the States, where bits and pieces of power had come, and been abused, earlier. The last thing I want to suggest is that the Corporation of Calcutta or the University of Calcutta would be one whit better if more power were given now. It is too late. These seven-month babies of freedom and democracy in India were born weak, and then maimed as professional beggars in Calcutta streets are.

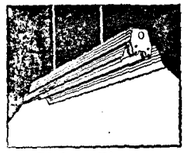
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From the London End

A New Commonwealth?

BY the time this despatch appears in print, the Commonwealth Conference will have completed its discussions and a long and no doubt platitudinous communique will have been issued. Like past conferences of Commonwealth Premiers, the present one will be utilised to give the not too honest impression of the existence around Britain of a viable and powerful association of States —an impression which is vitally necessary for upholding Britain's status in this power-complex age. In the past post-war years, the periodic Commonwealth Conferences have been occasions for bursts of intellectual speculation on such questions as whether the Commonwealth should be conceived of in "constitutional and legal terms" or whether there is a need for "machinery for regular consultation" and the like. Equally these occasions have been used to extol the "freedom", the "generosity" and to some unthinking persons, "the Western civilized way of life" on which the Commonwealth is said to be founded. The public discussions around the present conference have been no exception.

It is certainly true that for Britain the Commonwealth has been a powerful instrument of policy. The "exchange of views on world questions" and the discussions, although bilaterally conducted, on defence matters, have given these conferences the character of an international demonstration. There can be no doubt that every foreign embassy in London has its ears fixed on the ground—every murmur and every report on occasions like this is scrutinized with a view to assessing their possible consequences to international relations. From this there must follow the overwhelmingly important question of whether the Commonwealth is a force for peace and international harmony. There can be no doubt either that each and every member of this association cannot but conceive of their membership as a factor making for peace although the exact definition or interpretation of a "state of peace" may vary as between each of them. It is to be noted however that insofar as the British Government has been able to give the Commonwealth a demonstrable position in world affairs, to that extent the sovereignty of each of the Commonwealth members has been impinged.

In this system of relationship and in the directive influence of the United Kingdom, a crisis of considerable dimensions has occurred. Even the **Times** has suggested that the "common allegiance" which provided Britain with the main arm of its international policy is now "obsolete". And in your Correspondent's view, the crisis is of very recent origin. The first serious crack in the old Commonwealth system appeared when three members of the Commonwealth concurred in the historic declaration of the Bandung Conference of April 1955. Since then the neutralism and innate anti-colonialist character of that declaration has become the confirmed outlook of the Ceylon Government. This is a definite departure from the old system and it is this which is bringing into focus the possibility of the emergence of blocks within the Commonwealth, and the cohesion of those members with fundamentally similar interests. Here a very special type of relationship is appearing among Australia, New Zealand, South Africa and the Central African Federation, with Britain at the centre.

To day more than ever it is necessary to confront this emerging schism in Commonwealth relations frankly. And it is a matter of considerable credit to the **Times** that it has faced up to this question. In a particularly thoughtful and significant editorial comment, the **Times** described the old system of relationship with remarkable realism:

> "So long as the Commonwealth were homogeneous to the extent of being united by common allegiance to the Crown and being inhabited or at any rate ruled by persons of predominantly United Kingdom stock, there were no differences over fundamental issues."

Now the fundamental issues on which conflict has emerged are the neutralism of India and Ceylon which "places strains on the harmonious working of the Commonwealth" and which "provokes embarrassments and irritations", and Colonialism and racialism. The Indian stand which previously provoked this larger conflict has, says the **Times** "put a strain on her relationships with Britain" and has led to a rupture in India's relations with South Africa.

In a recent despatch your Correspondent attempted to describe some recent developments in South Africa. The path of **Apartheid**, of racial segregation designed to maintain in perpetuity the dominance of the white over the black people, has now been confirmed by the South African Prime Minister in a speech in London. What was illuminating in his elaboration of the methods his Government pursues was the reference to its similarity to the policies and methods adopted by Britain in Kenya and the Central African Federation. From this he drew the conclusion that the task in Africa was to maintain the dominance of what he called "white civilisation". For this, he called for consultation with the other colonial powers in Africa.

The prospect which this position portends is one of sustained war against any vestige of nationalism and for that matter, liberty in Africa. It presents a fundamental incongruity to the tide of the times and insofar as such a war is conducted by members of the Commonwealth, the Commonwealth as an institution becomes heavily tainted and smeared. It is possibly a recognition of this consequence that the **New Statesman** should see the "acceptance of human equality" as the only hope for the institution's survival. Since nothing in the nature of present policies in South Africa, Kenya or the Central African Federation suggests that such a hope is realizable, the parting of ways and the emergence of a new Commonwealth based on identity of interests and ideology is a serious—a very serious —possibility. This is a possibility notwithstanding whatever cohesive factors of an economic character may still influence Commonwealth relations.

UNITED ASIA

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Transport in Second Plan: I—Railways

M N Ghosh

Assuming that there will be only a limited increase in the transport of foodgrains, an increase of roughly sixty per cent in total freight turnover may be expected during the Second Plan. The amount of investment required for the purpose may be found by applying a certain ratio to the amount of investment envisaged in industry. This ratio is likely to be intermediate between that found applicable in the U S A and in the USSR.

Improvement in operational efficiency is, however, essential if the amount of investment calculated in this way is to prove sufficient. The author attempts some statistical comparisons which suggest the presence of large idle capacity and considerable scope for augmenting transport without substantial capital investment.

NOTHING in the Second Five Year Plan has aroused as much interest as the question of transport and the allocation for it in the Plan. This is natural because transport is the lynch-pin in any scheme of economic development, and unless transport is adequate, investment in other directions would not bear fruit. Two important questions arise:

(1) Volume of transport needed to implement the production targets of the Plan, and

(2) Capital investment necessary for this purpose.

While (2) depends on (1), the capital cost required for the additional transport may be brought down to the extent that there is scope for more intensive utilisation of existing transport facilities. This is not an unimportant consideration.

The transport need of a country for a particular scale of development depends on so many factors that there is no standard formula for estimating it. That is to say, one cannot straightaway work out the transport component for planned development. Perhaps the extensive input-output studies that are being carried on of different economies in different states of development and of the same economy at different stages of its development may give us some idea later on of the magnitudes involved. The experience of other countries in their early stages of industrialization corresponding to the stage of development of India at the present moment, however, may throw some light on the problems at hand and provide basis for checking the estimates of transport requirements derived by projection of past experience combined with firmer estimates which are possible for specific projects in the Plan. For this purpose USA and USSR have been chosen for comparison, because of geographical and other similarities between India and other countries.

There has been a large number of estimates and counter estimates of the transport requirements of the Second Plan. Further confusion has been created by the different estimates of agricultural production given by Ministers and members of the Planning Commission. Thus according to Shri V T Krishnamachari, Vice-Chairman of the Planning Commission, agricultural production will increase by 40 per cent during the period of the Plan, while in the Draft Plan-frame only a provision of 18 per cent increase had been made. Needless to say, the size of transport required will be quite different if agricultural production increases by 40 per cent instead of only 18 per cent. Unless adequate transport is provided for the higher target, its achievement may cause a heavy slump in agricultural commodities which will remain blocked in rural areas. This will be self-defeating in its purpose. We shall confine ourselves to railway transport alone because it provides the bulk of transport needed for a continental country like India. This is not to underestimate the possibilities of the development of river transport and coastal shipping to meet the increased requirements of transport in the Second and subsequent plans. These will be treated separately.

The increase in originating tonnage due to the establishment of new productive enterprises has been estimated by the Railway Board as 60 million tons, which is about 51 per cent over the existing tonnage. This does not, of course, represent the entire transport requirement of the Second Plan because it does not take into account the average haulage of goods, which may change during this period. Again, the estimate has been obtained by a more or less direct computation of the output of various industrial plants to be installed, with some provision for miscellaneous articles. However, the process of industrialisation implies specialisation in fabrication processes, so that an additional output of 3.5 million tons of steel may mean very much more of originating tonnage in manufactured articles. The changing pattern of distribution and trade are also likely to increase the originating tonnage which a mixed economy cannot altogether avoid, without instituting complicated controls.

Any direct estimate of this type is, therefore, likely to result in an underestimate and we should look for indirect methods of estimation also. The volume of industrial production provides a fairly satisfactory method of estimating the ton-miles of transportation. The relationship between the two for different countries is shown in Table I.

The wide difference in the trends for the USA and the USSR are due to various reasons, one of which is a possible overestimation of the value of gross industrial production in the USSR in 1927-28 values (official index) when some products like

TABLE I

(Indices of Unweighted Freight Turnover in Ton-Miles per Unit Value of Gross Industrial Production)

India (1948 = 100)	
1948	100.0
1952	106.7
1953	104.8
USA (1890 = 100)	
1890	100
1900	130
1910	143
1920	143

USSR		
	(Base 1928 = 100)*	(1928=100)†
1928	100.0	100
1932	78.6	107
1937	66.0	98

* Official Index.

† Hodgeman's Revised Index, "Soviet Economic Growth"

Edited by Abraham Bergson.

machinery were in short supply and had high values. If correction is made for this over-valuation, the index for USSR will show a similar proportionality of freight turnover in ton-miles to gross industrial production as that of USA. Economic development in the USA in the period 1890-1910 was not only rapid, it went hand in hand with a westward movement of population and economic activities, especially in agriculture, the product of which was largely exported, while in the USSR special efforts were made to conserve transport by localising industries in certain zones. The eastward expansion in USSR began only during and after the second world war. In India we have a situation intermediate between that of the USA and USSR. This suggests that the ratio of increase in freight turnover to the increase in volume of industrial production during the Plan may be little more than one.

According to the Draft Plan-frame, domestic product of India from industries and mines during the Second Plan would be as in Table II.

TABLE II

Net National Product by Industrial Origin

(crores of rupees in 1952-53 prices)

	1955-56	1960-61
Mining	95	150
Factory Establishment	840	1380
Small Enterprises	840	1085

Thus the output of mining and factory establishments is to increase by 64.0 per cent. If small enterprises are included the increase is 49 per cent. However, a large portion of the output of small industries is locally consumed and does not need to be transported by rail, so the output of mining and factory establishments will be more important and the increase in freight transport may be about 60 per cent or more.

Coal Transport

This estimate is corroborated by certain features of coal transport. Transport of coal has formed about 40 per cent of net ton-miles of total transport in India, about 35 per cent in the USA, about 50 per cent in the UK and about 20 per cent in the USSR over very long periods (see Table III). This is a very curious phenomenon, but shows that in spite of various technological changes, coal still remains the most important raw material of industry and the pattern of haulage of coal reflects the pattern of industrial activities in the country and the transport needs of other commodities also.

The relative stability of the proportion of coal movements to total ton-miles of transportation in these countries, despite the very large changes that have taken place in their economies during this period is indeed remarkable. Whatever may be the factors giving rise to such a phenomenon, there is no reason to believe that they will cease to operate during the Second Five Year Plan in India. The increase in the production of coal by 62 per cent from 37 million tons to 60 million tons should therefore suggest an increase in the total transport ton-miles of a similar proportion. We should expect, therefore, an increase of about 60 per cent in total ton-miles. The experience of the USSR in this respect is interesting (see Table IV).

TABLE IV

Output of Coal and Total Freight Turnover in the USSR

Year	% increase in the output of coal	% increase in total freight turnover (all carriers)
1928-32	84	84
1932-37	98	93

Thus an increase of roughly 60 per cent in total freight turnover may be expected during the Second Five Year Plan, assuming that there is only a limited increase in the transport of food grains etc. A large increase in agricultural production will mean greater increase in freight turn-over. In the Draft Plan provision has been made for a 35 per cent increase. This might lead to serious dislocation of the productive machinery and failure in realising the targets of the Plan.

Investment in Transport

In any development programme, investment in means of transport bears a certain relation to investment in productive industry. Of course, it depends also upon the dispersion of the centres of production and the patterns of industrial development. It may be possible, therefore, to reduce the transport needs and consequently the investment in transport industries by proper planning of the location of industries and regulation of supplies of raw materials etc. However, as argued above, the transport needed for a given volume of industrial production in India is likely to be intermediate between those for the USA and the USSR. It is reasonable to assume, therefore, that the ratio of investment in transport to investment in industry should also bear the same relation. (See Table V)

TABLE III

(Ratio of Net Ton-Miles of Coal Transported to Total Ton-Miles)

(per cent)

India		USA*		UK		USSR	
1933-34	40.5	1925	34.0	1938	49.0	1928	17.3
1934-35	40.0	1930	35.3	1951	47.0	1932	19.4
1935-36	39.0	1935	40.6	1952	49.0	1937	21.6
1940-41	44.0	1940	36.9	1953	49.0		
1941-42	42.0	1945	34.0	1954	49.0		
1942-43	38.0	1946	34.9				
1949-50	41.0	1947	35.3				
1950-51	40.0	1948	34.9				
1951-52	40.0						

* Tonnage of coal transported to total tonnage.

TABLE V.

(Investment in Transport and in Industry)

	Percentage of Total Investment		
	Industry	Transport	Ratio
USA (1880-1912)	19.1	18.1	.95
USSR (1928-1932)	41.0	17.3	.45
(1933-1937)	37.1	15.6	.42
China (1952-57)	58.2	19.2	.32
India (1956-61)	28	27	.96

In the USA, transport development during the period 1880-1912 was of an extensive character, following the westward migration of the population. Thus railway mileage increased from 268,000 kilometers in 1890 to 413,000 kilometers in 1912, and the large volume of export of food grains to Europe accounted for a great increase in freight. In India the Second Five Year Plan does not envisage a development of the extensive type, and new mileage to be opened up is small. Similarly it does not envisage a large increase of export of agricultural products to be carried by rail to the ports from the hinterland. Thus we should expect a smaller ratio for India than for the USA. It should be noted that the war-time damage to the Indian Railways has been substantially repaired by the replacement of a large number of engines and locomotives and about Rs 400 crores were spent during the First Five Year Plan for the rehabilitation and expansion of the Railways. There is therefore, no special reason why, the proportion of investment in transport should be higher in India than in the other countries, specially when China can manage with a much lower ratio of investment in transport inspite of the poor condition of its railways after decades of civil war. To some extent, the USSR was able to manage with a much lower ratio of investment in transport because of an increase in operational efficiency in the railways during this period and it may be presumed that this is also the case in China.

Operational Efficiency

There are various measures of operational efficiency in the usage of wagons, locomotives etc. I have defined two such composite indices of wagon and locomotive usage, which take into account the effectiveness of maintenance and repair services, turn-round of wagons, average loading of wagons, percentage of empties, average haulage of wagons and locomotives etc, which together determine the degree of usage of the stock of wagons and locomotives. (Calcutta Review, October 1955) These are:

$$I_1 = \frac{\text{Net ton-miles of freight turnover}}{\text{Total capacity of wagons in tons}}$$

$$I_2 = \frac{\text{Total freight ton-miles x 2240}}{\text{Estimated total tractive power of goods locomotives.}}$$

Table VI below shows these indices for India, USA and USSR:

It shows that the USSR was able to double the index I_1 for wagon usage. In the USA shortage of capital has never been a problem and thus no special effort has been made there to increase the degree of usage of the capital stock of the railways. The conventional indices of efficiency, e g, average haulage of goods engines and wagons also indicate the same thing (Table VII).

The indices of efficiency of wagon and locomotive usage improved remarkably during the First and Second Five Year Plans in the USSR. On the other hand, Indian Railways have not yet been able to reach the peak wartime standards in operational efficiency, inspite of the fact that the equipment now is better than during the 1941-42 period.

One of the main reason for the inefficient use of wagons is the inordinate delay in loading and unloading, which keeps wagons from moving. Roughly about 17 hours of wagon time out of 24 hours is spent in the yards. The Railway Enquiry Committee suggested measures for eliminating this major cause of delay but radical measures may have to be devised to improve the situation if necessary. Shri K B Mathur, the then Chief Operating Superintendent of the EIR, stated in 1948 "The main problem, however, is the limited capacity of the goods sheds, accentuated by slower removals by merchants—the latter is due to marketing conditions, godown accommodation etc and we cannot really do very much". However, these are not insurmountable difficulties and the Railway Board should be able to devise measures to solve them. Some new methods of handling "smalls" traffic in the South Eastern Railways demonstrate how much increase in efficiency is possible in many aspects of operation. Thus wagon loading in October 1955, averaged 239 mds instead of only 154 mds in October 1954, after the introduction of new methods.

If only the wartime levels of efficiency of the Indian Railways could be attained during the Second Five Year Plan, so much less of investment in wagons and locomotives would be needed and there is no reason why with suitable organisation the wartime records could not be improved upon. In a country like India with limited prospects for expansion of foreign trade, growth of indigenous manufacturing industry and specially of heavy industry is essential for rapid economic development and thus any diversion of investment from industries to transport, more than what is barely necessary will retard the growth of the economy. Besides rapid economic development, with increasing investment necessitates an intensive utilisation of the existing means of production and transportation. In India, we can hardly afford the luxury of surplus capacity and insuffi-

TABLE VI

Composite Indices of Operational Efficiency

	India			USSR			USA	
	I_1	I_2		I_1	I_2		I_1	I_2
1938-39	6,345	873,500	1928	7,364	*	1925	3,954	634,360
1940-41	7,197	801,500	1929	8,032	*	1930	3,633	623,800
1941-42	8,088	844,800	1932	10,643	*	1935	3,199	502,800
1942-43	8,277	782,000	1935	13,000	*	1940	4,535	665,500
1950-51	8,189	762,000	1936	14,640	*	1942	7,268	1,027,000
1951-52	8,002	828,500	1937	14,011	*	1947	7,577	1,147,300

TABLE VII

Average Haulage of Engines and Wagons

	India		USSR			USA		
Year	(a)	(b)	Year	(a)	(b)	Year	(a)	(b)
1938-39	99	40.2	1928	85.3	52.5	1924	78.0	29.1
1940-41	105	42.9	1929	82.3	56.3	1933	89.8	24.7
1941-42	105	47.0	1932	102.1	60.3	1935	93.5	30.0
1942-43	109	42.5	1935	117.4	79.6	1936	105.2	35.3
1950-51	93	38.7	1936	144.7	87.2	1944	122.8	51.9
1951-52	95	40.9	1937	140.8	86.7	1946	115.9	45.2
1952-53	94	41.1						

(a) average haulage of goods engines
(b) average haulage of wagons

cient use of capital without negating our avowed aim of rapid economic development.

It is necessary from the point of view discussed above to minimise capital investment in transport and this may mean postponement of some of the schemes of dispersal of economic activity in backward regions by development of railways in these regions. Extension of railway mileage should therefore be limited to what is essential for serving the new industries to be developed or would help in the operation of the railways. This may not be consistent with the social aims of the Plan but where such social aims run counter to the prospects of rapid economic growth, the latter should have precedence at least till an independent foundation of manufacturing industries (including heavy industries) is firmly established in the country.

Co-ordination of Transport

Although the Railway system in India is fairly well developed, the same is not true of other modes of transport like inland waterways, road transport, coastal shipping etc which have come to occupy an important place in the economies of other advanced countries. The emphasis on Railway development was mainly motivated by the military and strategic interests of the Indian empire and this explains the preoccupation of Indian Railways with passenger traffic. The Railway administration in India has always tried to put restrictions on competitive modes of transport, often with a sectarian motive and this mentality has not yet been overcome.

The Railway Enquiry Committee (1947-48) had expressed its apprehension about competition from road transport and had suggested more strict control by the Union Government. The Railway Board also still appears to be worried about such competition. It has examined the costs of transport by road and has established the uneconomic character of road transport. It is difficult to see, however, why the railways should be at all worried over competition from road transport or coastal shipping if these are relatively costlier. In fact, there is some traffic like the movement of coal, cement etc, which must be transported by railways since the cost of road transport would be prohibitive. But there is another kind of traffic (specially for short hauls) where the trucks would be more economical. This applies specially to short distance passenger traffic which is served much better by the buses than by the railways. This has been the experience in the USA, where competition between railroads and bus and truck services has resulted in a division of the field of operation for these various modes of transport with consequent benefit to all. Elimination of short hauls by rail will also improve the utilisation of wagons and in fact road transport should be encouraged by the railways specially for this purpose. It is highly desirable to constitute a Transport Board as the supreme authority for co-ordination of various modes of transport, as suggested in a recent issue of the Economic Weekly (May 26, 1956). Only such a body will be able to draw up efficient and realistic plans for transport for the Second and subsequent Five Year plans.

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Transport in Second Plan: II—Road Transport

G Isaac

In re-examining the transport section of the Plan, it should be possible to provide a solution that takes note of the existence of acute scarcity of steel. It is vital to remember that road transport is much more economical in the use of steel than rail transport.

Road Transport is again much more economical on fuel than steam traction on the railways. One ton of diesel oil can do the work of nine tons of coal. The employment argument, too, as strongly in favour of road transport.

These considerations do not seem to have influenced the Government of India's policy. That policy has historically been one of limiting and restricting the development of all alternative forms of transport in the interests of Railway earnings. The peculiar dependence of the country on rail transport is the result of the active efforts made in the past to restrict competition to the railways.

THE Second Five Year Plan will create an enormous transport problem, for the solution of which the Planning Commission has envisaged a programme of railway development which will cost Rs 900 crores. Of the additional traffic that will be created at the end of the period approximately 60.8 million tons, as shown below, is proposed to be moved by the railways.

	(Mn tons)
Finished steel and raw products for it including coal.	25
Coal for other industries ..	13
Cement	5
Other general goods ..	17.8
Total ..	60.8

In contrast the expenditure for roads and road transport is Rs 265 crores, while no indication is available of the actual traffic expected to be moved by road. However, as information becomes increasingly available for the basis on which this allocation has been made, grave doubts arise about its soundness, and a re-examination of the whole approach to the transport problem seems to be necessary. An article by Shri K B Mathur, Member, Transportation, The Railway Board, in the first issue of "Indian Railways" may be assumed to summarize the salient points in the "Railway case".

In Shri Mathur's article, the study of alternative means of transport has been limited by assuming that road transport is unsuited for the movement of steel, its raw materials and coal. Since these alone amount to 38 million tons, the possibility of using road transport has been examined only for the remaining 22.8 million tons. Technically, it is difficult to believe that every component of a steel plant or engineering work is so constituted that only a railway wagon can carry it. In fact, very large proportion of the total machinery and steel traffic during the period of the Second Plan can be carried by road. A number of special duty motor vehicles, evolved abroad to carry loads that are beyond railway capacity, are readily available to transport even equipment of peculiar shapes and sizes. As far as coal and other raw materials are concerned, a fair amount is even now moved in motor trucks. On special single lane highways from coal fields to steel plants, it is technically possible for motor trucks to carry coal continuously at a rate of approximately a thousand vehicles per hour, which allows a vehicle spacing of fifty yards at thirty miles per hour; carrying capacity can be substantially augmented by the use of heavy trailers. Operational efficiency of this order may be difficult to achieve, but it does suggest that the assumption that 38 million tons of goods are unsuitable for road transport is untenable.

Costs of Road Transport

The argument that the cost of road transport would be higher requires detailed investigation. The Transportation Member of the Railway Board bases his argument on two assumptions. In the first place, on railway calculations, to carry a million tons of goods, it would require 3,333 motor trucks—at a total capital cost of Rs 11.6 crores. The Railways in comparison require a capital investment of only Rs 4 crores to carry the same volume of traffic. It appears that the cost of road trucks has been calculated at Rs 35,000 per truck. Now, this is the price of a Tata Mercedes truck, a price which is grossly inflated by:

(1) the fact that it is a new product;

(2) heavy taxation at a number of points; and

(3) the low output of a few hundred units at which the expensive plant operates. Given suitable encouragement, release from taxation, a high level of activity, and cheap steel there is no reason why the price per truck should not be halved or reduced even further—no reason why the figure of Rs 11.6 crores should not be reduced to Rs 5 crores or even lower. How exactly the railway investment figure of Rs 4 crores per million tons has been calculated it is not known, but perhaps this too could be re-examined.

The second assumption turns on the relative cost per ton mile of the two methods of transport. The railways carry a variety of common commodities at rates which vary between 20 and 40 pies per ton mile. The transport study group set up by the Government, all the full time members of which were railway personnel, calculated the cost of road truck transport as 72 pies per ton mile. Therefore it is argued on the cost consideration alone road transport can be ruled out. It will, however, be seen that this figure of 72 pies per mile is inflated by:

(a) an extremely high level of taxation—the Centre's petrol tax, the highest **ad valorem** tax on any commodity in the country; sales tax imposed by the States; and octoris, wheel taxes, transit fees etc levied by local authorities;

(b) licensing and other restrictions which reduce activity and utilization of trucks to uneconomic levels;

(c) depreciation calculated on the unrealistic price of Rs 35,000 per lorry.

If relief is granted on these points, it is possible to bring down the cost per ton mile on motor road transport to about 30 pies per mile or below.

The statement of the Railway case shows considerable confusion in the

minds of the Railway planners. Mr Mathur writes "Even in the USA, where road transport has been extensively developed, the volume of goods traffic carried by road constitutes only 10 per cent of the total, despite cheap and indigenous production of both fuel and lorries". The figure of 10 per cent indicates though not accurately, the road transport share of inter-city traffic, and not of total commercial freight traffic. It probably omits traffic between towns, between towns and cities and vice versa, the enormous movements from the cities and towns into the adjacent countryside and vice versa and export trade.

Decrease in Rail Mileage

In fact road transport has established and is widening a broad margin of efficiency over the railways. In the USA the roads carry the overwhelming majority of passengers and probably more than three-quarters of the commercial freight. Railway mileage has actually decreased since 1932. New centres of population are growing up away from the railways. Sites for new factories are determined increasingly by the availability of road transport rather than of railway facilities. It is interesting to note that a new American passenger car is powered with a 200 h.p. engine. Goods, too heavy for the railways, are carried by road transport. In all cases where fast deliveries are required the railways are found unsuitable for the job.

In Europe, it was calculated that the railways moved goods at an average rate of 2 mph. The belief so sedulously fostered that rail transport is essential to heavy industrial development is a myth. In the United States, steel production increased from 15 million tons in 1932 to 117 million tons in 1955, the nation fought a major war in this period, and national income increased from 40,159 million dollars in 1933 to 2,99,675 million dollars in 1954 (i.e. seven times). During the same period, the total railway mileage, the number of goods wagons, passenger wagons, and locomotives in service all declined (see Table below).

The figures speak for themselves. The coal, the cement, the raw materials for the new steel plants, the structural steel for the houses, the machinery for the new factories, the finished products of industry and agriculture, all these which increased American national income by seven times over the last twentytwo years, were carried by road transport and the waterways.

Economy in Steel and Fuel

In re-examining the transport section of the Plan, it should be possible to provide a solution that takes note of the existence of acute scarcity of steel. It is vital to remember that road transport is much more economical in the use of steel than rail transport. A railway carriage to carry a passenger with any degree of comfort requires between three-quarter and a ton of steel. A motor coach for the same amount of steel will carry sixteen passengers. The railway requirements for track, signalling equipment, heavy bridges and stations go to augment an extravagance in steel the country can ill afford. And even when the steel has been put down on a rail road track or bridge, there is the factor of relative usage to be considered. A railway line can only be used by railway engines and carriages and that too only for a few minutes in an hour, because of the hundreds of yards needed fore and aft for braking space. Under ideal conditions, motor vehicles can use a first class, single trunk road at the rate of a thousand vehicles an hour, which allows a vehicle spacing of fifty yards at thirty miles per hour or of hundred yards at sixty miles per hour. Besides, ordinarily, motor cycles, motor cars, lorries, motor rickshaws, light scooters, motorized cycles, cycles and bullock carts give a road an intensity of usage combined with flexibility to which the railways can offer no counterpart.

Road Transport is again much more economical on fuel than steam traction on the railways. One ton of diesel oil can do work equivalent to that of nine tons of coal. Diesel trucks and lorries would release carrying capacity at a time when it is vitally needed. The railways on the other hand require 11 per cent of their carrying capacity to transport coal for their own consumption, and 20 per cent of their capacity to carry the total of their cumbrous stores.

The employment argument too is strongly in favour of road transport. Road transport is very much more labour intensive than the railways and this alone should give it more attention than it has received to-date. The Indian motor transport industry provides employment today for 15 lakhs of workers—one and a half times the number the railways employ. For the same capacity, it provides employment for three times as many people. This employment is provided by some 47,000 operators, a pattern of small enterprise that is socially valuable and extremely flexible. Against it stand the monopolistic railways. The paralysis caused by the recent strike on the Eastern and Northern Railways is a warning of the dangers implicit in committing the country's economy to the care of the railways. Strikes are now inherent in the organization of the railways. Part of the explanation is to be found in the report of the Committee on Railway Corruption. Significant sections of the railway administration have forfeited their moral claim to the workers' loyalty.

It is worth noting that dispersal of ownership is inherent in the nature of road transport. Each of the largest firms in the US including two which doubled their size in 1956 still account for less than half the industry's total volume of freight. Strategic and military considerations argue in favour of an increased emphasis on roads and road transport. Modern warfare turns on dispersed troop movements based on good roads, and on an industry supplying armoured cars, motor cycles, trucks, lorries, weapon carriers. The days of the troop train are numbered; the concentration of troops required

RAIL TRANSPORT IN THE UNITED STATES

Year	Locomotives	Goods Wagons	Passenger Wagons
1935 ..	49,541	1,867,381	42,426
1940 ..	44,333	1,684,171	38,308
1945 ..	46,258	1,787,078	38,633
1946 ..	45,511	1,768,400	38,697
1947 ..	44,344	1,759,758	39,057
1948 ..	44,474	1,785,067	39,406
1949 ..	43,272	1,778,811	38,006
1950 ..	42,951	1,745,778	37,359
1951 ..	42,473	1,777,878	36,326
1952 ..	39,697	1,783,352	34,942
1953 ..	37,251	1,801,874	34,106

Source: World Almanac—1955

is too dangerous. The vast marshalling yards and exposed railway lines are major liabilities exposed to both subversion and enemy bombing action.

Small Towns and Villages

India consists largely of small towns and villages dependent for transport primarily on 10 million bullock carts. A large programme of road development is directly connected with their interests in a way that rail transport is not. To the village and the small town, roads and road transport bring freer flowing traffic, lower cost for supplies brought in from other centres and the countryside. They bring better education for children, more employment, better earnings and higher property values. They destroy social barriers, create national loyalties and provide the basis for community growth.

The Administrative Report of India 1918-19 referred to roads as "the most indispensable of all requirements to India's prosperity". It is not difficult to see why, though specific reasons are difficult to state concisely. It was estimated that for every 100 acres cultivated there are 50 acres uncultivated in this country. The main reason for this is that it is uneconomic to cultivate these lands because there are no transport facilities to bring the produce to the markets. In this context it is the shortage of roads and road transport, and not of railways that is important. Surveys conducted by the Road Transport and Development Association in 1943 suggested that through increased production of crops, cheaper and speedier transport, the community earnings in a village can be increased by Rs 277 annually for every Rs 100 spent on roads—quite apart from increased revenue to Government through taxes on motor vehicles and petroleum.

Local Price Movements

Roads and Road Transport are intimately involved with price movements, particularly with movements in the price of food. The local price of food depends on the supplies locally available. Since there are only 33,000 miles of railway line in the country, it can be seen that as far as the vast majority of villages and towns are concerned, supplies are primarily dependent on the 2,74,000 miles of roads and the vehicles that operate over them. The disastrous rise in the price of foodstuffs in districts, villages and towns removed from the railhead, inspite of the large stocks known to be held by the Government, and the high priority given to food movements by the railways, is the result of inadequate roads and road transport.

These considerations do not seem to have influenced the Government of India's policy. That policy has historically been one of limiting and restricting the development of all alternative forms of transport in the interests of Railway earnings. The peculiar dependence of the country on rail transport is the result of the active efforts made in the past to restrict competition to the railways. The policy was applied ruthlessly in the thirties when Government earnings declined; it is enshrined in the Motor Vehicles Act of 1940 and the Code of Principles and Practice and subsequent legislation.

As a result, in the years 1913-14 to 1950-51, road mileage increased by a paltry 75,000 miles to 2,44,000 miles. Of this only 39 per cent is metalled. Per square mile of her territory India has 0.2 miles of roads, as against 2.1 in Great Britain, and 1.84 in France. The rate of increase in the number of motor vehicles on the road, which was, 12 per cent per annum during the period 1920 to 1950, has declined to 4½ per cent in the First Plan period. For every 100,000 of population the country has 76 motor vehicles as compared with Ceylon's 715 and Malaya's 1,391. It has been a continuous process of sacrificing road (and river) transport to the interests of the railways.

The Basis for Progress

However, the time has come to re-examine the fundamentals of our transport policy. It must be realized that railways are the legacy of the 19th century, and that steam traction, on which the railways' share of the Second Plan is based, is, perhaps the most inefficient and wasteful form of transport. Prima facie, in this period of unprecedented change, there is cause for questioning the emphasis in the Second Five Year Plan on the transport mechanism of the 19th century. The modern method of transport is road transport and the transport of the future is air transport. In 1955 scheduled air services carried a greater percentage of the entire passenger traffic across the North Atlantic than did the steam companies. Road and air transport have an organic unity in the sense that one has grown out of the other. In the United States, in the United Kingdom, and in the rest of Europe, it is the motor car industry, with the financial and technical resources acquired in the manufacture of internal combustion engines, that has pioneered air transport. This industrial organism manufactures tanks, tractors, earth movers, motor boats, aircraft—its implications reach into every corner of a nation's economy. It provides the living basis for progress. In comparison the railway industry is a dead branch, cut off from the sap of economc life. Any additional cost involved in transporting the heavy traffic of the Second Five Year Plan on the roads, is a small price to pay for a modern, fast, flexible and expanding system of transport. The saving, calculated on an arbitrary costing system, made by expanding rail transport, will cause a lasting waste inhibiting the country's economy.

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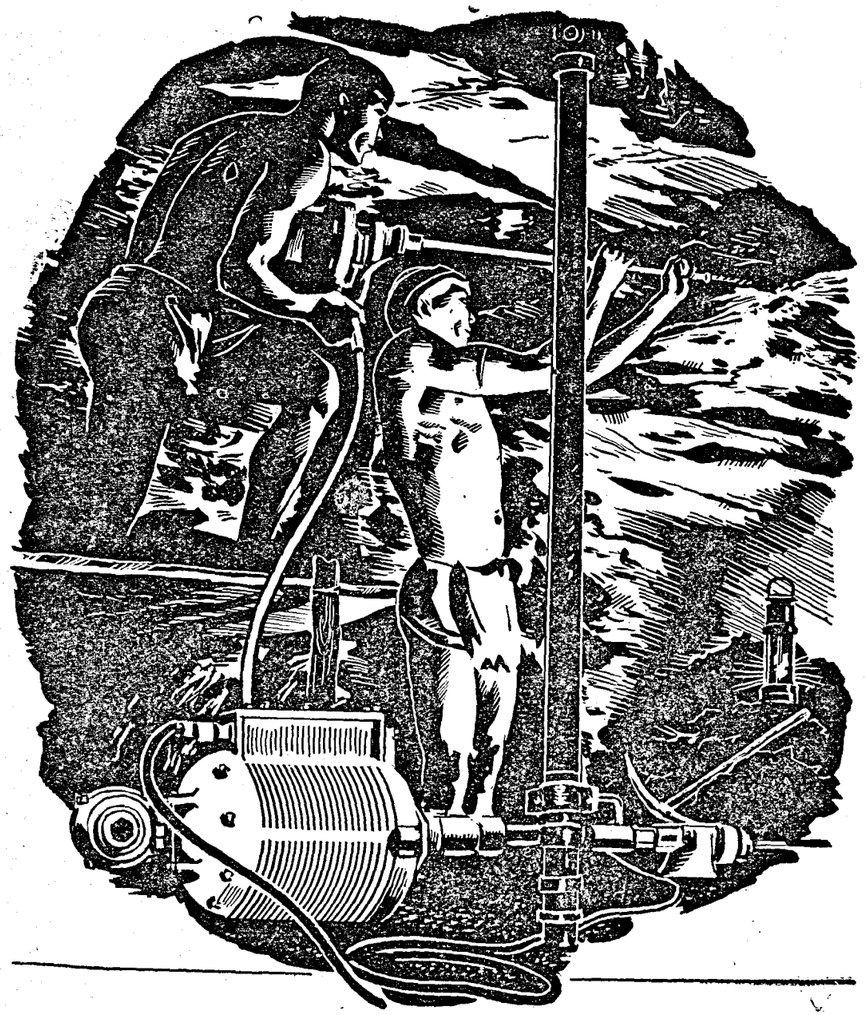
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Taxation in the Second Plan

P C Bhattacharyya

This bare recital of the finances for the Second Plan pinpoints the inescapable conclusion that the burden has to be shouldered by the Centre not only of raising the taxes that have been allotted to it but also of filling the gap.

The order of deficit financing envisaged in the Plan cannot clearly be exceeded. The public borrowing has also been fixed on a fairly liberal basis. Even if these targets are fulfilled, non-development expenditures may also grow at a rate faster than that assumed in the Plan. The budgets of the State Governments are pointers in that direction.

It would therefore be more realistic to assume that if the Plan is to be implemented successfully, the whole of the uncovered gap of Rs 400 crores will have to be covered by additional taxation.

WITH the presentation of the Plan to Parliament, one chapter in the formulation of the Plan has now come to a close. This is an appropriate occasion for commenting on certain aspects of the Plan. The following is an attempt to focus attention on certain problems of taxation in connection with providing adequate resources for the Plan.

Additional Tax Yields
(in crores of Rs)

Year	Yield Due to Measures taken during previous plan years	during current plan years	Total
1956-57	—	35	35
1957-58	35	45	80
1958-59	80	45	125
1959-60	125	45	170
1960-61	170	45	215
Grand Total			625

Both in the final version of the Plan and the recent speeches of the Prime Minister emphasis has been laid on the need for self-reliance in the execution of the Plan. The Draft Outline envisaged Rs 450 crores of additional taxation to be raised over a period of five years. Half of this was to be raised by the State governments and half by the Centre. The uncovered gap of Rs 400 crores was left to be met from sources which were not very clearly indicated. The emphasis on self-reliance in the final version of the Plan may be taken to imply that this uncovered gap will have to be met mainly from internal resources.

The order of deficit financing envisaged in the Plan cannot clearly be exceeded without danger to the economy. Expert opinion seems to be unanimous on this point. The targets of 'Public Borrowing' have also been fixed on a fairly liberal basis. Even if these targets are overfulfilled, one has always to keep at the back of one's mind the possibility that non-development expenditures may also grow at a rate faster than that assumed for the purposes of the Plan. The budgets of the State governments for the current year are pointers in that direction. It would therefore be more realistic to assume that if the Plan is to be implemented successfully the whole of the uncovered gap of Rs 400 crores will have to be covered by additional taxation.

The State governments are even now finding it difficult to adopt appropriate measures which will enable them to reach their current taxation targets of Rs 225 crores. The field of State taxation is also limited. The responsibility of raising taxes to cover the gap will, therefore, fall mainly on the Centre and the total amount of taxes to be raised by the Centre over the five years of the Plan may go as high as Rs 625 crores. In the first year of the Plan the Centre has been able to enact measures which are estimated to yield Rs 35 crores of additional taxes a year. Over the five years these will yield Rs 175 crores. This leaves a balance of Rs 450 crores to be raised during the next four years. Budgets of each of these years must therefore provide for new measures of taxation yielding additional amounts of Rs 45 crores annually. The scheme for additional taxation will have to be somewhat on the lines indicated in the table.

The estimates for gross revenue at the Centre (including net contribution from the Railways), as revised for 1955-56 are approximately Rs 558 crores. If the above scheme of taxation is accepted, the gross revenue at the Centre will have to reach the figure of Rs 773 crores in 1960-61.

On the face of it this may appear a large increase, but not in any way out of keeping with the order of increase in the national income envisaged in the Plan.

Second Five Year Plan Number

On account of pressure on space and shortage of time, several articles intended for this number have been held over. These will be published in the forthcoming issues and will give a more extended coverage of the Second Plan.

Among the articles awaiting publication are the following:

Transport in the Second Plan
1. Railways
2. Road Transport
3. Sea and River transport.

Structure and Management of Industries

Occupational Pattern and Employment

Economics of the Ambar Charkha

Education in the Plan

Health Programme and Social Services. etc etc

Editor

Five Year Plans and Industrialization in South

(Contributed)

"A CORRESPONDENT in the South" who has recorded his "Grouse Against the Plan" while discussing in your Second Five Year Plan number some of the factors influencing the small allotment of funds under the Plan for development in the South has failed to touch the sore spot, which militates against industry gravitating towards the South, especially Madras. The sore spot is the perennial power shortage afflicting Madras State. The correspondent in referring to the problem makes the observation that "periodical power cuts in one area or the other, consequent on the failure of monsoons, can be obviated by the Southern States establishing one big regional grid". The establishment of "one big regional grid" by itself is unlikely to obviate yearly power cuts unless the monsoon happens to be normal. But what the State has been witnessing in recent years is inadequate monsoons, followed by drastic power cuts. Any amount of additional hydro projects is unlikely to meet the situation, (as the storage of water in the reservoirs is, in the absence of snow-fed streams, at the mercy of the monsoon) and what the State has needed all these years and will need in future is adequate firming up by thermal power.

What the State Electricity Department should have done in the past was to have built a brand new thermal Station (even depending on Bihar coal) of 100MW; instead, the Department went about acquiring the Basin Bridge Steam Station in Madras (even though the option to purchase under the License had arisen) by laying out huge sums without creating any new assets. The Electricity (Supply) Act was then on the legislative anvil, and the Madras undertaking could have been declared a controlled station under the Act, with resultant benefit to the State Grid. The Licensee would have been earning only the very limited return of 5 per cent on the capital employed, against greater return now claimed by the Department.

The situation became much worse by the State, against the known view of the Central Government, proceeding with the Bill to nationalise the Electric Supply undertakings in the State to be followed by laying out further large sums towards acquiring undertakings, again without any accretion in the form of assets. This development also put an end to the possibility of any new Licensee coming forward to electrify new areas and further served as a warning to private sector as to what was in store for it in the State.

This aspect of the State's Industrial policy giving rise to power shortage year after year, has to a large extent discouraged industrialization, and surely posterity will hold those concerned with the policy largely responsible for the plight the State is faced with now. The fanfare with which the inauguration of the Kundah project has been greeted is not likely to result in the goods being delivered. This project also has to depend on the monsoon which has again and again proved fickle.

The hope of the State now rests on the successful outcome of the Lignite project at Neiveli and one can only hope that the present operations would result in the "difficulty presented by the high pressure artisian springs" being overcome. On this will depend whether or not the installation of a thermal station with an ultimate capacity of 200 MW in the region is a practical possibility, as without firm power, the pre-requisite of an industrial base cannot be laid.



Association Meeting

General Insurance has Bright Future

Shri K C Desai's Optimism

I VISUALISE a bright future for our industry, since the scope for insurance companies to add to their premium income, by developing new lines of business as well as by improving further the lines in which they are already engaged, will be growing daily with the progressive implementation of the various schemes for the economic development of the country", said Shri K C Desai, Chairman of the Indian Insurance Companies' Association, Bombay, presiding over its 28th annual general meeting held last week.

Shri Desai, however, added that "the supreme need of the moment is a complete change of outlook on our part—a determination to put our home in order—so as to ensure an abiding place for our business in the private sector". He said that this effort should be supported by an unqualified and categorical statement from the Government that "this business is to remain within the private sector so that insurance companies reassured about their future existence, can go ahead with their programmes of expansion and equip themselves better for their vital role in the coming crucial years".

Case Against State

The year, continued Shri Desai, marked a milestone in the planned economic development of India and also saw far-reaching development in the direction of State ownership of which the amendment of the Constitution and the nationalisation of the Imperial Bank of India and life insurance business were proofs.

Shri Desai hoped that the hard school of experience would lead to a gradual reorientation of the Government's attitude towards the private sector and free enterprise would be allowed to make its proper contribution to the enrichment and diversification of the national economy. Shri Desai referred to the question of compensation and the advocacy of Shri A D Shroff before the Select Committee where he ably argued that the Government was offering only 35 per cent of the real value of the shareholders' interests.

Expressing satisfaction at the Government's decision not to nationalise General Insurance business, Shri Desai said that General Insurance is highly complex, demanding flexibility of management and adaptability to supply a tailor-made service with immense variations in insurance coverages to suit different types of risks. He sought renewed assurance from the Government that this business is to remain within the private sector.

Fair Practices

Referring to the problems posed by the nationalisation of Life Insurance business, Shri Desai said that in the process of adjustment, many companies might be forced to close down their branch organisations and may have, further, to lose the services of those who have worked for them efficiently well over a long period. Besides, there was also the fear of competition for business among insurance companies becoming stiffer. In this general scramble he asked insurance companies to guard against the temptation of adopting questionable methods to circumvent the salutary provisions of the Act.

"With the increasing tempo of economic activity, there will soon be enough business to go round. But in the meantime, it is very essential that we take a long range view of things and concentrate our energies on effecting a radical rationalisation in the working of our business by eliminating all undesirable features that hamper our progress on the right lines", he added.

Immediate Problems

After announcing the formation of a reinsurance corporation which, with Shri T K Desai, as the first General Manager, would play a significant role in the development of the country's economy, Shri Desai pointed out that some of the provisions in the Companies Act would cause unnecessary hardships to insurance companies in their day-to-day work and increase their management expenses on account of the duplication involved. He urged the Government to exempt the companies from their operation so that the companies could continue to function efficiently, unhampered by needlessly irksome rules. He hoped that the State-associated insurance concerns would not enjoy an unfair advantage. Concluding, Shri Desai referred to the continued uncertainty regarding the taxation of profits arising from reinsurance contracts and hoped that the recommendation of the Taxation Enquiry Commission in this regard would be implemented.

ESSAY COMPETITION

Subject:
The Importance of Statistics in the National Reconstruction of India

Prizes: Rs. 1500. Two cash prizes totalling Rs. 1500 will be awarded for the two best essays.
Language: English or Hindi. Maximum Length: 6000 words. Last Date of Acceptance: 31st August 1956. Open to all except employees of the Indian Statistical Institute.

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The Future of European Communism
—India as the Model

(From our London Correspondent)

A NEW period in the history of European communism is in the offing. The Communist parties in the two crucial Western countries, Italy and France, have not only accepted the U S State Department's version of the Khrushchev report as a correct one, but have made, for the first time, their independent assessment of the remarkable data divulged by the Russian leader. This shows that Communists in these countries are no longer prepared to accept what up to now was a permanent satellite status and that henceforth their acceptance of Soviet developments will be only from a critical and "objective standpoint." When the Italian leader, Signor Togliatti says that some of the prestige of the Soviet leaders "has fallen," he takes a step which brings on trial the whole system of international communist affiliation and relations: this suggests the most pertinent consequences (for European political development) of the Khrushchev report.

Thirty years of Stalinism and the Stalin cult is not easy to live down. The Communist leadership in the Soviet Union may be able to achieve remarkable flexibility in their standpoints over periods of time and change, turn, and adjust positions and lines of Policy. The Western Communists are not capable of such flexibility. For thirty years they have been employed to meet the exigencies of Soviet Policy; it was thus inevitable that their ability to manoeuvre in domestic Policies and more important, their ability to reason (even according to their Marxism) should become stilted and rusty. It is therefore understandable that those who are most surprised by the Khrushchev report are the West European communists. Possibly for this reason, it is the French Communists who are experiencing the greatest difficulty in even believing that Stalin in his years was able to Perpetrate crimes which are now attributed to him. This 30-year heritage is now making itself felt in a coolness towards and a hesitancy to accept fully the new Russian leadership. The French Communists and their counterparts in Britain complain that the Khrushchev report lacks Marxist analysis, that "a more adequate estimate of Stalin, both in its positive and negative aspects will be necessary". For Western European Communists, the Kremlin is no longer the repository of Marxist wisdom. This is the first significant change.

The Italian Communists, the largest in Europe and Probably the most ably led of all the European Parties, have themselves taken one or two steps forward from the Khrushchev report and have made formulations which are fundamentally new to Communist strategy. They have come to the conclusion that the "Soviet model is not and cannot be obligatory any longer". This remarkable shift is occasioned by their new and attractive slogan—"Socialism with liberty" and this is founded on their new view of the class struggle and who the allies are to be in that struggle. The struggle can be non-violent; further, and this is most important, the leadership in the socialist transformation need not necessarily be Communist. In a guarded way, Signor Togliatti suggests that the developments in India are a Pointer of considerable significance for the achievement of "Socialism with liberty." The allies in the class struggle can be many, varied and of diverse interests; the enemy of the people—the "monopolists and imperialists" are, according to Togliatti opposed by "the nation". Italian Communists therefore stand for leading the people and the nation and in this, support will be sought from all sectional groups. Such formulations savour strongly of nationalism and it is suggested that the national character and the peculiarities of the national situation will henceforth become a basic determinant in the formulation of Communist designs and aims. This is the second of the major changes that appears to be taking place in the outlook of European communism.

It is admitted by all the Western Communists that they were not informed of the Khrushchev report by the Russian Party. They see in this a break in the clandestine relationship which existed between them and the Soviet party. They see at the same time a "resumption of full relations" between the C.P.S.U. and the Yugoslav Communist League. More important, they find French socialists feted in Moscow on a State level. All this has caused anxiety; in France the unity of the party is at stake. In Italy it is only the adept leadership of Signor Togliatti that is maintaining continued homogenity and unity. The British Communists are in a patent state of confusion and the departure of Mr Harry Pollitt is possibly an outcome of this situation. There is the search for a new creativeness, a new dynamic for which Communists have a reputation, to lift themselves out of the crisis, largely not of their making, but into which they have willy-nilly fallen. They have had to face the charge that they were a "foreign party", agents of Russian Communism and devoid of nationalism. It was only their singleness of mind that has carried them through the cold war—a period in which the strength of European Communism was severely tested and out of which it has now come out weaker than it was in 1945. All this has forced upon them a realisation which may now have the greatest consequences for European Politics.

To the extent to which this realisation leads to policies divorced from Soviet politics, European communism will again make an impact on developments. The changes suggested by the Italian Communists point to that possibility.

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Around Calcutta Markets

Investors' Doubts

Wednesday Evening

EQUITIES on the Calcutta Stock Exchange started falling as it became known that IISCO had been allowed by the Government to issue right shares only at a premium. For about a month now, the trend has been downward. By the beginning of the current week, the selling pressure subsided. But equities still remain hesitant. Investors remain aloof from the market. Even Paper and Engineering shares remain without investment support. As the hesitant trend continues and the volume of business shrinks, the belief spreads that stock markets may not move up confidently during the duration of the Second Plan.

Immediately, the hesitant trend in equities is due to the belief that a loan by the Union Government is imminent. But for the series of resignations from the Union Cabinet and the State Bank, the loan might have been floated by now. In the last few weeks, there has been currency contraction. This means that funds are flowing back into the banking system. Thus the slack season is well under way. Some of the technical indicators of the money market suggest that the loan is imminent.

Loan Effects

Two years ago, when the National Plan Loan was floated, the resultant withdrawal of funds had the effect of starving stock markets of funds. But such a development is not likely to be repeated now. Three years ago, deficit financing had not gathered momentum. Since 1953, deficit financing has been, and continues to be heavy. So the disturbances arising out of the National Plan Loan are not likely to be repeated. Last year's loan programme created no difficulties. This year's loan target should, similarly create no troubles.

Fears that the Government's loan programme will starve stock markets of funds are, therefore, exaggerated. As the Second Plan is executed gradually, as deficit financing gathers further momentum, the public borrowing targets may be enlarged. There is a case for such enlarged borrowings. There is some reason to believe that some investors are aware of such a possible development and its possible effects on stock markets. But even as present fears are baseless, apprehensions about the future, so far as the issue under reference is concerned, would seem to be exaggerated.

Price Policy

Lack of confidence in stock markets is reflected in the hesitant trend in equities. Certain recent developments in New Delhi's economic policy are causing concern to investors. There may be economic justification for ensuring uniform selling prices for iron and steel and cement. Such uniform selling prices may encourage diffusion of industry. By implication, therefore, such a price-policy is likely to discourage concentration of industry in Calcutta and Bombay. This may be in consonance with the Government's avowed aim of decentralising industry. But it has had adverse effects on the Calcutta Stock Exchange.

Calcutta is the main centre of secondary engineering and miscellaneous industries. These industries are heavy users of iron and steel. Until recently, these industries enjoyed the advantage of relatively cheaper prices for iron and steel for their development. Since the announcement of uniform iron and steel prices, these groups of shares have developed a downward trend on the argument that Calcutta's secondary engineering industries would lose the price advantage. Uniform prices for cement would also tend to have the same effect. Whatever be the economic justification for uniform prices for cement and iron and steel, such a policy must have adverse effects on the industries in the Calcutta region. This is, naturally, reflected in the downward trend of the shares concerned.

State Control

Much has been sought to be made of the growing scarcity of equity capital in relation to the proposed IISCO right issue at a premium. More relevant are the growing fears of State trading and the uniform price policy of basic raw materials of industry. Iron and steel and cement are two of the major industries. Recent developments strongly indicate the possibility that the cement industry may be either nationalised or brought increasingly under State control. Such a development was clearly envisaged by TTK in one of his speeches in Parliament in the Government's new industrial policy.

This raises the problem of the existing iron and steel industries. Under the new industrial policy, existing industries were assured that they would not be nationalised. New iron and steel industries will be established and developed only within the public sector. This is not news. But New Delhi's insistence on fixing the issue price of right shares, the announcement of uniform iron and steel selling prices and similar other developments have deepened suspicions that even the existing private iron and steel industries would be brought progressively under State control and supervision. This explains the continued hesitant trend in IISCO.

Jute Shares

Jute shares continue to drop. Besides the general downward trend, there is another explanation for the drooping trend in Jute shares. Some time ago, news emanated from New Delhi that the Government was contemplating fixation of minimum prices for jute goods. It soon transpired that IJMA was opposed to any such policy as it might have adverse reactions among foreign buyers of Indian jute goods. It soon became evident that the alternative IJMA formula of curtailing output would be adopted. IJMA has announced that 2½ per cent of jute looms will be re-sealed. But Jute shares continue to drop as the proposed cut in output is not likely to have any appreciable effect on the prices of jute goods.

Coal shares have recently fluctuated with changes in sentiment. A couple of months ago, they started crawling up as it became known that private collieries would be allowed to expand during the Second Plan period. Later, Coal shares resumed their downward trend as the Tribunal award raised wage costs. There were hopes that the Government would raise selling prices to offset the higher wage costs. Delay in the Government's announcement relating to higher selling prices is aggravating the downward trend in Coal shares.

Around Bombay Markets

Uptrend after Long Liquidation

Thursday, Morning

DALAL STREET had more than its fair share of ups and downs during the last three weeks. To begin with, there was Shri Chintaman Deshmukh's resignation. The news naturally caused a slight set back. But the losses were more than made up on the following day when the new textile policy was announced. What enthused the market was the decision of the Government to licence 14,600 new automatic looms. Though these looms were to be installed mainly for boosting exports, the hint was not lost on the market. Indeed, the market openly expressed its approval in no uncertain manner but over did it the point of drawing a sharp rebuke from the Finance Minister that there was no reason for so much jubilation.

As a result, market leaders like Tata Steel and Indian Iron suffered a loss of the order of about 5 per cent from the high levels reached before the Finance Minister cried a halt. Just before this, news that the World Bank had agreed to give a $ 75 million loan to Tatas, at 4¾ per cent had taken up Tata Ordinary to Rs 206. It was only towards the middle of the week under review that the trend was reversed and industrials recorded all round gains, construction scrips leading. This was certainly a promising start for the new account on Monday. True, the volume of trading did not improve to any great extent; but the change in trading sentiment was remarkable, particularly after the spell of liquidation towards the end of June.

In the textile section, prices moved both ways, profit-taking being prominent at higher levels. Kohinoors were an exception and moved up steadily to Rs. 377-8 at one time, on continuous support from interested quarters. Swadeshi, Nagpur, Century and others also ruled firm.

After moving up to Rs. 196 exright, A C C declined to Rs 188. As holders of right shares have to make a downpayment of Rs 60 per share and the balance of Rs 60 after six months, the terms are attractive enough for investment buying. Dalmia Cement were active on higher dividended announcement, dividend having been raised from 10 per cent to 12½ per cent. Premier Construtions were firm and attracted considerable investment demand on reports of early change in the capital structure of the company. Bombay Burmah maintained a firm trend on anticipation that the interim dividend would be maintained. New India moved up on announcement of the issue of one bonus share for three shares held. The shares are being quoted ex-dividend from this week.

Cotton

Trading in Delivery Contracts

FUTURE trading in coton, which has now been going on for a few weeks, reflected a note of sober optimism. A notable event during the week was the opening of trading in delivery contracts since July 2. The Board of the East India Cotton Association, which met on June, 29, decided to permit non-transferable specific delivery contracts. It was argued on behalf of the trade that although there is usually a tendency for such trading to degenerate into speculation, thereby provoking intervention on the part of Government, this was unlikely to happen under the circumstances prevailing today, especially in view of the existence of two contracts operating simultaneously in the futures market which cover almost all the cotton grown in the country. If this had not been true, the Forward Markets Commission would not have given its permission for such trading.

The following were the latest quotations:

	(Contract December)	
Khandesh 197/3	Rs 117	ON Jarilla
Berar	95	ON Jarilla
Moglai	5	ON Jarilla
320F	55	ON Vijay
216F	101	ON Vijay
	(Contract February—March)	
Vijay 13/16"	25	ON Vijay

An important development in the spot market at Sewri was the keen purchases of Bengal deshi cotton by a party, who has been extending sustained support in this direction. It is believed in market circles that the Textile Commissioner may shortly announce an ad hoc export quota of 5000 bales of Bengal deshi. It is rumoured that this quota might be given to a single Bombay firm. Such an uprecedented step would amount to unjustifiable discrimination in distribution and it is to be hoped that the rumour is unfounded.

Oilseeds

Erratic Trend in Castor

THE Oilseeds market was marked during the week under review by an erratic trend, particularly in the castor futures section. There was a rise in the prices at the start, more due to nervous short-covering than to actual bull manipulation. The technical and statistical positions both warranted a rise in values.

The reverse in the trend of price was due to corrective profit-taking. But instead of merely a mild setback, there was a rather precipitous fall in the price of castor futures. This was because of active manipulation on the part of bears as well as liquidation by bulls. Moreover there was hardly any export demand for castor oil. Another bearish factor was the decision of the U S Commodity Credit Corporation to release about 10,000 tons of castor oil. To cap all these, there was the report that forward trading in new crop castor would be taken up soon.

It is true that in the prevailing circumstances, one can hardly expect any American support, but we have an alternative market in Japan which is credited with having bought already about 700 tons of castor oil of B S S variety at between £ 126 and £ 129 per ton. Castor futures September contract declined from the highest by about seven points to close the week at Rs 133/8, little over two rupees higher than the week's lowest.

In sympathy with the bearish trend in castor futures the groundnut futures market also reflected a bearish trend. After declining from Rs 137/8 to Rs 131, groundnut February very nearly recovered the lost ground only to drift down towards the close to Rs 133/12. The narrowing of the gap between the prices of castor future and groundnut futures has resulted in a considerable shrinkage in the straddle business which was widespread only two weeks back.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1474.67	1486.87	1501.84	1312.71
2. Rupee Coin	107.69	106.83	105.06	105.59
3. Deposits				
a) Central Government's	56.84	62.58	54.48	58.96
b) Banks'	54.49	51.88	51.88	46.14
c) Other Governments'	13.17	8.01	10.26	12.34
d) Others'	13.08	13.02	13.10	35.69
4. Foreign Securities	646.55	656.54	676.48	652.04
5. Balances held abroad	34.97	32.27	28.86	61.85
6. Rupee Securities	708.68	713.66	703.72	543.64
7. Investments	43.04	35.99	37.03	46.55
8. Loans and advances to Governments	2.37	5.02	2.80	0.91
Scheduled Banks				
1. Demand liabilities (net)	626.25	626.44	637.77	594.22
2. Time Liabilities	449.63	446.73	435.56	393.96
3. Cash on hand	37.38	37.65	39.50	34.08
4. Borrowings from Reserve Bank	56.33	58.37	63.95	18.85
of which against Usance Bills	41.91	41.46	44.22	18.39
5. Advances and Bills discounted	719.31	716.08	722.81	572.22
of which State Bank's	135.89	137.77	140.20	116.57
6. Invst. in Govt. Sec.	348.07	348.85	352.78	354.95
of which State Bank's	100.63	100.73	101.52	89.59
Cheque Clearance	142.69	139.13	153.25	125.85

†For Reserve Bank and Cheque Clearance week ended 29-6-56. Scheduled Banks week ended 22-6-56.

Bombay Money Rates	29-6-56	22-6-56	1-6-56	1-7-55
Inter-Bank Call Rate	3½	3¼	3½	2⅝
3 months deposits	3⅜	3 1/16	3⅜	2⅞
6 months deposits	3⅜	3 7/16	3⅜	2⅞

Bombay Bullion

In Rupees and Annas

	5-7-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	92-12	101-9½	102-12	93-2
Forward	99-6	100-5½	100-2	91-14
Silver (per 100 tolas)				
Spot	171-12	172-14	170-0	159-12
Forward	172-4	172-14	167-8	159-4

COTTON STATISTICS

MILL CONSUMPTION

(in '000 bales of 400 lbs each)

Description:	Apr '56	Mar '56	Feb '56	Jan '56	Dec '55	Sept '55 to Apr56
Indian	341.82	347.76	347.76	353.76	397.24	2910.60
Foreign	51.28	51.95	52.19	49.60	51.65	390.67
of which American*	2.33	2.21	3.18	3.02	3.35	24.94
Egyptian	16.42	18.53	16.63	15.60	15.97	125.67
E. African	20.67	18.77	41.42	21.40	20.07	153.80
Sudan†	11.27	11.72	9.93	9.46	10.84	80.40
Pakistan	—	—	—	—	—	xx
TOTAL	443.79	450.94	471.11	462.34	499.12	3686.08
Consumption in corresponding periods a year ago:						
	Apr '56	Mar '56	Feb '56	Jan '56	Dce '55	Sept '55 to Apr 56
Indian	322.6	314.9	311.4	348.1	357.3	2587.2
Foreign	61.7	58.3	56.4	55.7	56.0	461.0
TOTAL	384.3	373.2	367.8	403.8	413.3	3048.2

* Includes United States, Mexican and Peruvian cotton.
† Includes both Sudan Egyptian and Sudan American
xx Negligible

MILL STOCKS OF COTTON

(in '000 bales of 400 lbs each)

	Apr '56	Mar '56	Feb '56	Jan '56	Dec '55
Indian:					
1955-56	1512.7	1359.8	1188.0	1137.9	1088.36
1954-55	1478.4	1346.4	1161.2	1043.9	942.3
Foreign:					
1955-56	213.4	211.5	174.6	158.4	159.2
1954-55	138.9	145.8	135.4	135.7	152.3

Source : East India Cotton Association

COTTON IMPORTS

(in '000 bales of 392 lbs each)

Source	Mar '56	Feb '56	Jan '56	Dec '55	Sept '55 to Mar 56
USA	—	1	—	—	3
East Africa*	29	7	8	3	71
Egypt & Sudan	37	88	44	31	272
Other countries	—	5	3	1	13
TOTAL	66	101	55	35	359
Total imports in corresponding months of the previous year	58	66	42	38	309

*Includes Kenya, Tanganyika and Uganda.
Source : Indian Trade Journal

COTTON EXPORTS

(in bales)

Destination	Exports from 1st Sept to 24th May † 1955-56	1954-55	1953-54
United Kingdom	59,943	25,979	12,961
Continent	83,165	42,057	22,959
China	57,525	—	—
Hongkong	35,253	3,679	251
Japan	235,817	77,320	60,221
USA	4,066	16,248	12,455
Other countries	3,733	1,621	1,552
Total of all foreign countries	479,502	166,904	110,399
Coastal Ports	94,055	114,856	128,945
TOTAL	573,557	281,760	239,344

† Excluding Zoda and yellow pickings etc.
Source : East India Cotton Association.

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group	Week ending 23-6-56	Week Ago 16-6-56	Month Ago 26-5-56	Year Ago 26-5-55
I Food Articles:	373.6	372.7	348.2	288.7
Cereals	474	475	453	336
Pulses	345	353	355	246
Others	248	245	216	229
II Industrial Raw Materials:	480.6	480.6	484.3	389.9
Fibres	459	459	459	403
Oilseeds	539	540	558	358
Minerals	470	468	460	406
Others	430	432	431	417
III Semi Manufactures:	395.0	396.8	386.9	329.0
Leather	406	407	404	389
Mineral Oils	208	208	208	201
Vegetable Oils	544	552	559	368
Cotton Yarn	475	476	480	419
Metals	329	330	279	244
Oilcakes	416	424	424	338
Others	361	361	361	330
IV Manufactures:	377.9	377.9	376.9	369 5
Textiles	411	411	411	406
Jute	388	388	386	416
Cotton	419	419	416	403
Rayon & Silk	463	463	485	467
Woollen	264	264	264	285
Metal Products	377	377	371	343
Others	286	286	286	286
V Miscellaneous:	522.6	513.1	508.2	563.2
All Commodities:	401.4	401.1	391.1	344.5

EXPORTS OF COTTON PIECE GOODS MILL MADE

Destination	Mar. 1956	Feb. 1956	Jan. 1956	Dec. 1955	Nov. 1955	April 1955 to March 1956.
U K ..	6,455	11,501	7,548	5,896	4,683	81,313
Kenya ..	2,647	2,320	2,397	3,606	3,743	34,520
Tangan-yika ..	1,755	802	566	1,326	1,826	26,197
Nigeria	2,907	3,362	3,839	1,718	3,472	53,638
Sudan ..	8,910	5,911	4,044	2,913	7,063	64,319
Kuwart	424	781	210	475	219	4,395
Iraq ..	309	250	267	1,243	954	8,318
Aden ..	2,089	2,964	2,230	3,642	2,006	38,066
Afgh'tan	2,089	2,964	2,230	3,642	2,006	38,066
West Pakistan	100	152	106	527	..	2,020
Ceylon ..	2,260	1,571	2,260	1,947	1,439	22,000
Burma ..	1,608	6,373	119	234	71	12,097
Singapore	1,991	3,902	2,628	2,962	2,718	25,963
Malaya	805	1,301	603	752	1,231	9,229
Australia	3,963	3,890	2,309	3,869	2,409	41,193
Other countries	20,066	20,431	14,559	17,454	17,045	244,408
Total						
1955-56:	57,000	66,571	45,544	51,019	50,164	680,011
1954-55:	59,266	64,126	57,750	75,793	70,102	761,270

Source: Indian Trade Journal

SUMMARY OF THE LATEST ALL INDIA CROP ESTIMATES

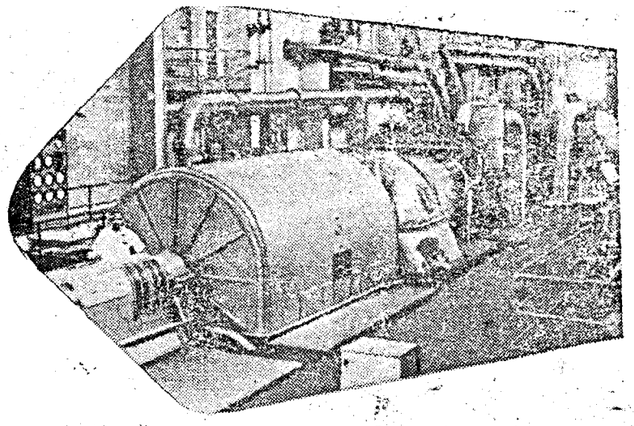
All figures in thousands)

Crop	Estimate	Area (acres) 1955-56	Area (acres) 1954-55 (adjusted)	% change	Production (tons) 1955-56	Production (tons) 1954-55 (adjusted)	% change
Cereals							
Rice	Final	76,253	75,949	+ 0.4	25,474	24,531	+ 3.8
Jowar	Second	41,129	41,378	— 0.6	4,565	6,040	—24.4
Bajra	Final	27,025	27,983	— 3.4	3,400	3,421	— 0.6
Maize	do	8,909	9,311	— 4.3	2,519	2,939	—14.3
Ragi	do	5,627	5,711	— 1.5	1,844	1,646	+12.0
Small Millets	Second	11,446	12,215	— 6.3	1,693	2,002	—15.4
Wheat	First	27,689	25,685	+ 7.8	—	—	—
Barley	do	8,321	7,861	+ 5.9	—	—	—
Pulses							
Gram	First	22,185	19,657	+12.9	—	—	—
Tur	Second	5,755	5,648	+ 1.9	1,709	1,799	— 5.0
Other Kharif Pulses	Final	15,862	16,719	— 5.1	1,650	1,830	— 9.8
Other Rabi Pulses	First	9,263	9,550	— 3.0	—	—	—
Potato	do	552	551	+ 0.2	—	—	—
Sugar cane*	Second	3,930	3,718	+ 5.7	50,282	48,103	+ 4.5
Tobacco	First	807	798	+ 1.1	—	—	—
Ginger (dry)	Final	37	35	+ 4.2	15	14	+ 6.4
Pepper (black)	do	214	208	+ 2.8	27	26	+ 5.4
Oilseeds							— 7.8
Groundnut	do	12,585	13,548	— 7.1			
Castorseed	do	1,462	1,394	+ 4.9	3,804‡	4,128‡	+ 1.6
Sesamum	Third	5,587	6.123	+ 8.8	126	124	—21.6
Rape and mustard	Second	2,386	2,226	+ 7.2	461	588	—
Linseed	do	2,560	2,478	+ 3.3	—	—	—
Fibres					—	—	—
Cotton	Fourth	19,525	17,506	+11.5	3,705‡	4,075§	— 9.0
Jute	Final	1,581	1,243	+27.2	4,137†	2,928†	+41.3
Mesta	do	618	528	+17.0	1,201†	1,018†	+18.0

* *Production in terms of* Cane; the corresponding figures in terms of raw sugar or gur are 5,079 and 4,858 thousand tons for 1955-56 and 1954-55 respectively.
† In bales of 400 lbs each.
§ In bales of 392 lbs each of cotton lint.
‡ In terms of nuts in shell.
Source : Ministry of Food and Agriculture.

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GOVERNMENT OF MADRAS 16 JUL 1956

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Mineral Policy and Export of Ores

JULY 15 is the D day for mining companies who produce for export markets as well as for exporters and shippers of ores. Pending finalisation of the new licensing procedure for export of ores, *current quotas* and registration slips have been validated *uptill* that date. On that day, the export procedure for ores is expected to be announced.

There have been some important changes in respect of minerals. The future development of selected minerals—*only mining* in the case of iron, manganese and chrome ores etc., and both mining and processing in the case of the others—is now the exclusive responsibility of the State. The inclusion of these minerals in Schedule A of the new Industrial Policy Resolution however, has not made much of a difference in mining policy. On the contrary, applications for prospecting licenses for *these minerals* which had been kept *pending* after the announcement of the Industrial Policy Resolution, will now be freely granted. Similar licenses would be issued in the future also, as in the case of many of the minerals under Schedule IV of the Mineral Concession Rules, *1949*.

The Mineral Concession Rules, however, are to be changed very substantially but the major changes would *relate to the terms of* lease granted before the present rules came into force. In fact, this has been long over-due. The conditions of the earlier leases, which are very much out of line with current regulations, will be amended by a *bill which* will be presented when the Parliament meets.

It is lately that the Government has woken up *to the necessity* for a more energetic development of minerals. The First Plan did not even provide for a systematic investigation of our mineral resources; it was later that the allocation for the purpose was more than doubled. But all *this* takes us very far away from the question of export *policy* which is the immediate concern of mining interests. It is here that State trading comes in. The functions and aims of the State Trading Corporation had been deliberately left vague, when the Corporation was formed. *In the* very first meeting of the Board of *Directors of the* Corporation held on June 2, however, it was given out that "the Corporation aims to play a leading role in promoting exports of ores, particularly iron-ore, manganese ore and *chrome ore* from India". (All these, it will be recalled, come under Schedule A of the *Industrial Policy Resolution*). It was at this meeting that the Board "decided to take over" the export of iron ore (manganese was not mentioned).

Leaving aside coal, which is a subject by itself, the Second Plan merely mentioned by way of a mineral policy that the "increasing participation by the State in basic industries *like iron and steel will require* detailed investigation of *deposits* of mineral raw materials such as iron ore, manganese ore, etc." This throws no light *on* the manner of exploitation of these minerals which came out later. In a press *note* issued by the Ministry of Commerce and Industry *on June 22*, the Government first gave out its ideas about export policy for ores. The major considerations which appear to have influenced the Government were (1) "developments in certain countries in the matter of purchase of *ores* and their effect on India's foreign trading" and *(2) the* conviction that the existing trade mechanism was *quite* inadequate to cope with these developments. There was a further consideration; the difficulty of

maintaining equitable distribution of wagons among mining and trading interests had made it virtually impossible "for the limited resources (of transport?) to be used to the maximum advantage" or "for economical arrangements to be made for the transportation of ores and for their handling at the ports".

All this, the press note stated, had made it necessary for the Government to play a more positive role, (a) to overcome the obstacles in the way of increasing foreign exchange earnings from the export of ores and (b) to canalise these exports in the "progressively increasing measure" through the State Trading Corporation. The Corporation, however, as it has already done in the case of cement, may use the existing trading agencies "to the extent practicable". Limited opportunities, nevertheless, are to be given to mining and trading interests for direct export within the limits of the broad policy that may be laid down. This lead to allocation of transport for export of ores and the issue of quotas separately for manganese and iron ores, on the basis of actual exports in the past in the case of shippers and of royalty paid (excluding royalty on quantities supplied for domestic consumption) in the case of mine-owners.

Conservation of minerals in the interest of future development of the country is a sensible policy. So is active development of minerals to the extent that resources permit and the general state of development of the economy may require. The range for it is wide—smelting, refining, benefication, development of metallurgical industries and fabrication. It is not that the Government intends or hopes to utilise all the iron and manganese ore for the above purposes. In fact, the export target for both have been substantially increased for the Second Plan period. But a dog in the manger policy promotes no development. If there is more to it, perhaps the Government would take not only the trade but also the public into its confidence.

Socialists' Opportunity

MUCH, too much, has been heard about Khrushchev's speech before the secret session of the 20th Congress of the Soviet Communist Party. Mr Dulles's decision to publish the text of Khrushchev's secret speech has paid quick dividends. There is bewilderment among Communist parties outside Soviet Russia. Togliatti is critical. For reasons entirely different, Khrushchev's speech is disapproved by Thorez. Within the Soviet bloc, the reaction has been different. Eastern Germany and Communist Eastern European countries generally welcome the crusade against the "personality cult". Moscow's policy of relaxing its hold on the Soviet bloc has had a favourable reaction. The Poznan riots may indicate that the process of democratisation will have to be gradual. But the process is not likely to be reversed. Within Russia, the new policy is popular. Khrushchev's position still remains secure.

In publishing the text of Khrushchev's secret speech, Mr Dulles has succeeded in spreading embarassment to Communist leaders and parties outside Russia. This explains the French Communist Party's belligerent attitude. More relevant is Togliatti's theoretical approach to Khrushchev's secret speech. Mr Dulles had ulterior motives in publishing the text of the secret speech. His purpose was to make it clear that the present men of the Kremlin could not absolve responsibility for the crimes of Stalin. Not only the present leaders of Russia, but the leaders of all Communist parties in all countries are in a predicament. Khrushchev has tried to explain away his and his associates' compliance with Stalinist terror by their impotence and powerlessness. Communist leaders outside Russia can plead no such excuse in defence of their servile support to Stalinism.

When Khrushchev made his secret speech, he took a calculated risk. Despite the Poznan riots, subsequent events do not prove that the men of the Kremlin have taken too great a risk. It is hasty to conclude that the new Soviet policy has caused a loss of political cohesion within the Soviet bloc. It has, on the contrary, led to a partial reconciliation between Belgrade and Moscow. Mr Dulles is over-optimistic in hoping that the democratising process will hasten the disintegration of the Soviet bloc in Europe. Along with Russia, Eastern European countries may abandon the monolithic structure of Communism. But the latter are not likely to prefer capitalist democracy to Communism. With the gradual acceptance of individual freedom, with Moscow's efforts to foster national Communism, Eastern European countries are likely to remain within the Soviet orbit. Russia and Eastern European countries are dominated by the Slav people. Racial affinity is a binding force between Russia and her Eastern European neighbours.

If the new Russian policy is not likely to wean Eastern European countries away from Communism, it has been tremendously successful in its international aspect. As the men of the Kremlin have announced their determination to reject the "personality cult", Russia has gained new friends. Totalitarian aspects of Communism have been ever deplored by even those who reject American Capitalism. By espousing the cause of tolerance, Moscow has succeeded in acquiring new sympathisers. Not only Tito, but Sir Anthony Eden, M Mollet and Pandit Nehru are impressed with the changing out look of Moscow. As the international tension has eased, Moscow has not only loosened its grip over Eastern European countries. Russia has utilised the opportunity to curtail her military expenditure and armed forces. It is America and some of her Western allies who are now made to look as militarists. Simultaneously, Russia has diverted part of her former military expenditure to raise production so as to enable her to function as a source of supply of capital goods and technicians to under-developed countries.

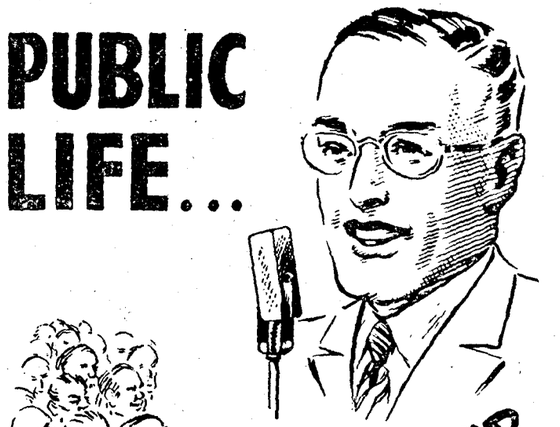
Crusade against "personality cult" will not prejudice the future of Communism. Mikoyan's outspoken criticism of some aspects of the Marxist-Leninist theory of the inevitable collapse of Capitalism is far more damaging. So is Togliatti's repudiation of Khrushchev's explanatory analysis of Stalinism as "un-Marxist". This is where the struggle between Socialism and Communism assumes significance. Moscow may have retrieved its position to some extent by conceding national Communism. But there are other strategic fronts on which the battle between Socialism and Communism will be fought and won. As Communism fosters and encourages individual freedom, it will be fighting the war from a vantage ground. On the economic front, there may be nothing much to choose between the two ideologies. But both Socialism and Communism have a common interest in fighting the economic battle together to discredit Capitalism as obtains in America. While Mikoyan has warned Communism against any complacent attitude to the theory of inevitability of disintegration of Capitalism, there is a danger that the fight between Socialism and Communism may prejudice, as well as delay, the outcome of the more urgent and crucial battle for freedom from want. Only the Nenni Socialists seem to be aware of this danger. Sooner the Socialists of other countries become conscious of this danger, the better for them as well as the common man throughout the world.

Scarcity and Abundance in Pakistan

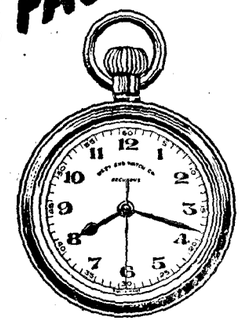
ABOUT Sui gas or the Thal development scheme, not to speak of the canal water dispute, there is no dearth of information. These hit the headlines, because international agencies are interested in them and Pakistan is not reluctant to tell the world all about them. This is at one end of the scale—at the other, there are things like exodus of refugees or acute food shortage in East Bengal which cannot be kept out of the news. Naturally such news hit the headlines when food ships are rushed from Soviet Russia and the UNICEF makes an emergency grant for rice ration for children and mothers and food imports are expedited from U S and Burma. In between there are other developments in Pakistan which, not being so sensational, get publicity only in bits and pieces and raise questions for outsiders which are not easy to answer.

An instance in point is the export of cotton textiles from Pakistan which first made their appearance in foreign markets some time ago and have now assumed considerable proportions. About the time that Pakistan cloth first appeared on foreign markets, Pakistan textile industry was complaining of over-production and heavy accumulation of stocks. There was no overproduction, of course, in the sense of per capita supply of cloth exceeding the per capita requirements of the population. Referring to the Pakistan Government's target of 18 yards per head per annum—India has now raised her target to 18½ yards from her present consumption of 16 yards —the President of the Pakistan Textile Millowners' Association made it clear that this only represented "a target of future expectation to be realised when the standard of living and per capita income in the country has suitably risen". But judging from past experience, even in the most favourable years when cloth imports were on the OGL, he said that consumption would not exceed 9½ yards per head and if this was still the effective demand in the country, he maintained that it had been far outstripped by internal production.

The position described above has to be reconciled with the operation of Pakistan's existing aid agreement with America under which she is to get a large quantity of cloth and yarn manufactured in different countries from U S aid cotton. The agreements with different countries e.g. with Britain, this week, for import of cloth made from aid cotton. It is difficult, at sight, to reconcile these two flows of cloth into and out of Pakistan except on the assumption that Pakistan consumers have switched over to superfine and fancy varieties of textiles made from American cotton and therefore Pakistan mills are exporting medium and coarse varieties manufactured from home grown cotton. It is too fantastic an assumption to be considered seriously. What then is the correct explanation?



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Weekly Notes

Reappraisal by Prime Ministers

FROM the communique issued at the conclusion of the Commonwealth Prime Ministers' Conference, it is apparent that Pandit Nehru and Sir Anthony Eden have convinced their opposite numbers that recent developments in Russia call for a reappraisal of the attitude to the East-West conflict. Non-Asian members of the Commonwealth have not turned "neutralist"; nor have they abandoned their faith in regional military pacts. But the Commonwealth as a whole would seem to have accepted the need for a more sympathetic attitude toward Russia. Though the communique is less emphatic about Communist China, it is clear that the Commonwealth is in favour of Red China's admission to the United Nations, and will welcome increased trade relations with that country.

Washington may feel irritated at the Commonwealth's efforts to pursue a foreign policy which is not endorsed fully by it. But some Commonwealth members may have a grievance that the Commonwealth has not emerged definitely as a third force. This raises the problem of the future of the Commonwealth. There are indications that Britain as well as other members are inclined to stress the economic aspect of the Commonwealth link. Satisfaction is expressed in the communique over Britain's "determination" to function as a source of capital for development in the Commonwealth countries. Whether Britain will be able to provide the needed capital, is doubtful. Economic ties are not unimportant. But it is likely that the basic political unity may be a more binding and continuing link. In the "common heritage of parliamentary democracy", the Commonwealth has a dependable foundation. This base will become more solid as the Commonwealth's professed respect for "aspirations for freedom and self-government" is more widely reflected in the transfer of power to the areas which are not yet free.

There is growing doubt about the future of the Commonwealth. Looseness and informality of the association have been its strongest points so far. It may, therefore, seem surprising that, at a time when doubts about its future existence are being expressed, some eminent authorities are arguing the case for a closer and more rigid association. Sardar Panikkar has called for a declaration of Faith by Commonwealth members. He is also in favour of creating a machinery for conciliation, now that the Privy Council has been abolished. To some, these may seem to be risky innovations. No formal or rigid ties can perpetuate the Commonwealth, if the approach to basic social and human problems ceases to be common. It will, or can, survive only as long as it maintains a common approach to fundamental issues.

Side Issues in Food Debate

THERE are interesting side-issues to the food controversy which have got lost in the confusion created by the good imbroglio. Had the controversy been carried on according to approved rules, the question that would arise seriatim are (1) Is it within the competence even of the Planning Commission to alter the targets after they have been fixed? This question was raised by Shri K C Neogy, and appropriately enough, when the Musooree conference was in session. The answer to it is 'yes' and 'no'. Yes, because the Plan itself says: "In view of the considerations outlined in paragraph 10 and especially the need to provide adequate safeguards against possibilities of inflation, it is considered that it is both necessary and possible to achieve higher agricultural targets with relatively small adjustments in regard to resources. With a view to fixing higher targets and ensuring their realisation, the Planning Commission and the Ministry of Food and Agriculture propose to undertake further study of agricultural programmes in each State and region with reference to its crop pattern, land and water resources etc."

But definitely 'no', if the order of magnitude of the proposed increase is borne in mind and the manner of its implementation, through re-allocation of resources. If these are done, what happens to the balances within the Plan and its internal consistency?

The second question that would arise is, what was the basis on which the target was fixed, production possibilities or estimated demand? Again the answer is, 'yes' and 'no'. Yes, because in the paragraph 10 referred to above, the factors to be considered are laid down as follows:

(1) increase in the total population,
(2) increase in the urban population,
(3) the need to improve per capita consumption,
(4) the need to counter possibilities of inflationary pressures resulting from the implementation of the Second Five Year Plan, and
(5) effects on food consumption, of increase in national income and changes in its distribution.

Needless to say that the target, was based on all these considerations the figure arrived at not only happened to be, but had to and did equal the figure which was worked out on the basis of production possibilities. The latter, in turn, suggested the 40 per cent increase also. The increased production in community project blocks and areas served by the N E S as found from two sample surveys in these areas, were put up as the basis for Shri V T Krishnamachari's note that food production could be raised by 40 per cent without any significant increase in investments for agriculture!

Transport Board Strengthened

THE Departmental Standing Committee of the Central Advisory Board of Transport, is now to be strengthened. It is to be expanded by the inclusion of high-level representatives of, among others, the Ministries of Production, Commerce and Industry, Iron and Steel and Defence with the object of undertaking for the first time the co-ordination and advance planning of transport facilities in the light of the requirements of the next two or three years. The immediate concern is the procedure for avoiding congestion in ports which may occur in view of the heavy programme for imports of capital goods.

Government's awareness of the need to co-ordinate transport is revealed by the recent appointment of a Central Authority for the co-ordination of goods movement at all ports in the country in co-operation with the railways and importers. Shri B C Mullick, Director of Railway Movements, Calcutta, is to be in charge of this organisation.

The Standing Committee is likely to set up a number of sub-committees to deal with different aspects of the transport problem. The issue of sea-rail transport co-ordination is, however, to be tackled by the Standing Committee itself. Although the report of the Sea-Rail Co-ordination Committee is not yet available, the desirability of diverting a larger volume of traffic to coastal shipping is being increasingly realised.

Drawback from Steel Pool

HOW hampering the shortage of steel has been can be seen from the speeches of chairmen at the annual general meetings of engineering companies and from the proceedings of the trade associations. Even so, it will come as a shock to many that even when the steel imports which have been promised from the middle of the year is regularly available and processed, the tin plate company, which have installed an additional rolling mill, will not be able to meet the demand. Metal Box have been currently importing 50 per cent of their total requirements. This raises cost—an aspect of shortage existing or anticipated which is not always widely realised. When supplies of essential raw materials are uncertain, prudent producers have to build up and maintain larger stocks than would be necessary, if the supply position were easier. It is therefore natural that while manufacturers welcome the increase in demand resulting from expansion of activities, they should also be disturbed by the fear of inflation and Mr Chiswell Jones (whose review appears elsewhere in this issue) thinks that signs of inflationary pressures which are already present could very quickly upset Metal Box's price structure.

That the burden on the company's cash resources which follows from higher raw material prices and bigger inventories should raise the prices of the products is understandable. But the impact of it on the export of the company's products to neigbouring countries about which Mr Jones complains, requires further elaboration. The imported cost of tin plate, or of tin plate manufactured partly or wholly from imported steel, could not present a serious price disadvantage, particularly if competition in these products in foreign markets demands the use of finer and therefore imported materials e.g. cold drawn sheets. The drawback of duty on imported sheets should normally present no difficulty and it is not the complaint that it does. What does Mr Jones really mean when he talks about drawback of the Steel Equalisation Fund contribution on tin plate used for containers exported from India? The price which consumers have to pay for steel from the steel pool is lower than that of imported steel but higher than the price Government pays to the steel producers in India. Of course, if exporters of metal products manufactured from steel could get their steel at the price paid to domestic producers, they would be in a better position to compete in export markets, just as cotton mills in India who pay for raw cotton a price a little below the world price for such cotton. The price advantage, of course, is confined only to textiles made from Indian cotton. Is that what Mr. Chiswell Jones wants when he says that concession made by Government of India would be more than amply compensated by foreign exchange earnings resulting from it? Some light on this question would be welcome.

Peking's Gesture

MR CHOU EN-LAI has repeatedly expressed Peking's preference for a peaceful solution of the Formosa problem. Peking has always denied that Formosa is an issue in dispute between Communist China and America. Peking has not abandoned the policy of liberating Formosa. But it has been consistent in its claim that it seeks to use peaceful means "as far as possible" for the liberation of Formosa. In pursuance of such a policy, Peking has sought repeatedly to initiate direct negotiations with the Kuomintang regime in Formosa. Mr Chou En-lai has now repeated his Government's willingness to negotiate with the Chinese Nationalists "on specific steps and conditions for the peaceful liberation of Formosa". Even as former unofficial overtures have been rejected, Mr Chou En-lai's official invitation has been promptly denounced by Taiwan.

Peking's terms and conditions for the settlement of the Formosa issue are not unknown. But Mr Chou En-lai's invitation for negotiation is accompanied by an assurance that Peking will not pursue a vindictive policy against Kuomintang personnel for their past "crimes". To convince Taiwan of Peking's sincerity, Mr Chou En-lai has guaranteed "freedom of movement" to those Kuomintang officials who may like to visit the mainland "to find out the situation". Mr Chou En-lai's official offer to negotiate poses an urgent problem for both America and Kuomintang. Washington now has another assurance of Peking's peaceful intentions. By accepting the offer, Kuomintang can not only ease the situation, but can join Peking in ridding the area of foreign influence. It would be wrong to emphasise that Peking's tolerant gesture stems from growing economic difficulties within the Chinese mainland. There can be no reconciliation of disputed issues if gestures by Moscow and Peking are explained away as signs of weakness.

Poznan Riots Not Foreign-inspired

IT is tempting to draw an analogy between the East Berlin riots and the violent demonstrations in Poznan. Riots in East Berlin followed as Malenkov's succession indicated a change in Moscow's attitude. Violent disturbances in Poznan may reflect the growing belief in some Eastern European countries that the crusade against Stalin is a sign of weakness. There may be some evidence to suggest that the Poznan riots may be inspired by some foreign countries. It is not denied that the emigre Polish Government has always been active. Disturbances were well timed to coincide with the Industries Fair. But neither the East Berlin rising nor the Poznan riots can be explained away as foreign-inspired subversive activities.

Moscow's possible reaction to these uprisings within Eastern European Communist countries is more significant than the causes of these violent demonstrations against the local Communist regimes. Within Russia, the denunciation of Stalinism is sincere and widespread. M Khruschev has repeatedly denounced political terror. During his recent visit to Warsaw, he urged the Polish Government to introduce individual initiative as well as to relieve economic discontent. Moscow's directive to Warsaw will necessarily be firm. But those who are anticipating a change in Moscow's attitude are likely to be disillusioned. Denunciation of Stalin has gone too far for the Russian leaders to retrace their steps. Besides, the break with Stalin is paying good dividends. This policy underlines the Russian leaders' determination to allow greater individual freedom. Even as a policy, such an attitude should help Moscow to ensure the co-operation of Russia's Eastern European neighbours.

Off the Record

Oil Makes a Dent

OUR attention has been drawn to two factual errors in the Delhi Correspondent's despatch on "A Policy for Oil" which appeared in the Weekly Notes in the last week. The first is about the prices at which the refineries are to sell petroleum products in India according to the terms of their agreement with the Government of India. In the despatch, the reference was to the 'Gulf rates'. Throughout its history, the f.o.b. price of Middle East crude oil has been closely linked to that of crude oil in the United States. What the Delhi Correspondent referred to was the principle of pricing based on this rate for crude oil and the further condition that India would not be entitled to ask for a reduction in the price of the product because of the economies, if any, arising from refining in India. That is to say, the prices of oil products will not be affected by the fact that they are now being refined in this country. The correspondent is not responsible for the mis-handling of his copy which makes the mis-statement that these rates are based on the theoretical cost of transport from the Gulf ports. The error is regretted.

The other error is that "petroleum occurs below the ground in a continuous sheet extending over several thousand square miles". It does not occur in a continuous sheet in the sense of there being a "sub-terranean river of oil", which knows no political frontiers" as mentioned by our correspondent. This is, however, a matter of choice of words. The reference clearly was to oil bearing strata of rocks which contain, under favourable conditions, reservoirs of oil. Individual reservoirs, however, as is well known, are never large. It is oil bearing strata which are extensive. Oil occurs only in pockets. The position was summed up by Dr. Krishnan in his Presidential address at the last Geological Conference as follows:

"As a result of exploration for several decades it is now known that petroleum is found in sedimentary rocks, mainly of marine origin. What sort of organism gave rise to petroleum and what particular processes control its characteristics are matters of controversy. When these sediments are moderately folded, forming domes and anticlines, they provide the necessary structure for the accumulation and storage of petroleum. The 'reservoir' rocks must be porus in order to be able to hold large quantities of petroleum and gas, and pervious in order to yield them readily when pumping is resorted to. The porus strata should have an impervious cover to seal off and to prevent the escape of the petroleum and the accompanying natural gas from the adjoining strata. The strata must be unbroken by faults and thrusts, for these afford easy routes for the escape of petroleum and gas."

Now the point about continuous sheets is the comparatively recent discovery which has led to geophysical exploration in the place of earlier wild cat drilling. Of course, the fact that "the Siwalik and the associated sub-Himalayan zone bordering on the North Indian plains belongs to the same sedimentary belt as occurs on either side of India in Iran and Burma", to quote Dr. Krishnan again, does not guarantee that we shall necessarily strike oil but it does justify geo-physical explorations and geo-physical prospecting which have produced such encouraging results in Assam.

On what evidence the Minister for Natural Resources has hinted at the possibility of India producing as much as 7 million tons of crude oil a year, and attaining more than self-sufficiency, however, has not yet been given out. But the Assam finds are probably firm enough to have enabled Professor Galbraith to make a dent, though yet only a minor dent, on the hitherto impervious Railway Board. For the first time, the Chairman of the Railway Board has designed to take notice of the suggestion that central traffic control system advocated by the Professor might be a substitute for doubling of tracks, which figures so prominently in the railway programme in the Second Five Year Plan. This is, however, only to dismiss the idea. "This question is being looked into, and if we can avoid the doubling of a section on a long-term basis, we shall certainly adopt the cheaper method." But though sub-judice, Shri Pande has no doubt in his mind that "the central traffic control system would prove economical only on those sections where the increase in traffic is not expected to be very heavy. On all sections where traffic capacity is expected to increase very substantially in this plan or by the next, the doubling of track right now would be the more profitable proposition."

Profitable, yes. But is it not high time that even the Railway Board changed its criterion of profitablity in order to accommodate the new fangled idea of phasing programmes, according to the availability of steel for example?

On the question of the relative merits of electric versus diesel traction, which the Chairman of the Railway Board dismisses on the ground that it cannot be considered unless ample reserves of oil are developed within the country, there also has appeared a dent. The Railway Board has decided to go in for diesel traction during the Second Plan period on a limited scale as it is a "must." The expansion of the electric railway system for Bombay has been abandoned in favour of diesel traction beyond the point which has already been electrified. This, Shri Pande underlines, is no concession to or acceptance of the greater economy of diesel over electric traction. But is it a measure forced by necessity alone? If, however, the decision has also been influenced by the fact of oil finds and the possibility of larger finds in the future, the dent in the Railway Board's thinking might be deeper than it appears on the surface.

The question, however, remains to be answered, and is worth pursuing, whether the import content of electrification is as high as is suggested by Professor Galbraith even after the development of electrical manufacturing units within the country, i.e. large enough to exceed the drain on foreign exchange which dieselisation would involve, if all the oil has to be imported.

While on the subject of oil, it is difficult to resist the temptation to speculate about the future of Assam Oil. Our Delhi Correspondent writes:

"In its negotiations with the Assam Oil Company, over the rupee company to be set up for exploiting oil in Assam, the Government of India is negotiating from a position of strength. The Assam Oil Company naturally wants that the new company to be formed with rupee capital, in which the Government of India is to have only one third share, should set up a refinery also. New Delhi, however, since the granting of the prospecting licence, has decided to keep oil refineries in the public sector.

"It is on this question of refinery that negotiations got stuck earlier. The case of the AOC is that it has been engaging itself in the entire process, from drilling to marketing of oil and that the new rupee company in which it is to have two-thirds share should also do the same, instead of stopping midway. Of course, the Government of India can drive a coach and four through the new Industrial Policy Resolution, if it wants to, but it does not want to and stops firmly at refining. It is no longer in the same position in which it had to offer tempting terms to foreign oil companies for setting up oil refineries. It has now realised that it can mobilise both capital and technical skill for developing the oil industry in the public sector. Delhi's changing attitude has brought forth increasing competition, not only from French and German interests but also from Soviet Russia and Rumania. The Communist countries have also developed oil technology like the others. The oil installations left by the Russians in Austria compare favourably with those in the West. Both Soviet Russia and Rumania are interested in oil prospecting and the former has thrown out hints that it could, if invited, build a refinery or two. French and West German interests are ready to step in, and are only waiting for the green light. Three West German experts are expected to arrive in November on a three-month visit, the purpose being "to study and advise the Government in matters connected with oil production". On the top of all this, there are the Canadians and Americans who are at present engaged in oil prospecting in the two corners of the country, Jaisalmer and West Bengal.

"In the circumstances, the Assam Oil Company should not expect to win all the points. Not that it has no special claim on Assam oil; surely it has priority over others. It knows the Assam area much better than anybody else and it has done prospecting and test drilling intensively. Remittance of profits will raise little difficulty, in the case of this company and political considerations also may go in its favour. It is, therefore, likely that the Government of India will do its best to accommodate Assam Oil Company. If neither of the parties prove unreasonable, a compromise may not be difficult to reach. A rupee company with controlling shares in the hands of the Government for exploiting Assam oil from extraction to marketing may be a possible solution. It will involve no breach of the new Industrial Policy and at the same time, it will secure the economy of not separating oil refining from oil production."

But that's where we started from, when Maulana Azad made that statement about Government insisting on holding 51 per cent of the share capital way back in March last. What a progress report!

Coming Up in a Big Way

Mukund Iron and Steel

THE Mukund Iron and Steel Works Limited have come up in a good big way under the able stewardship of Shri Kamalnayan Bajaj who has been on the Board of Directors for the last seventeen years and is now the Chairman, and of Shri K D Nevatia, Managing Director. The company has passed through many vicissitudes as its main factory was in Lahore before partition. But with the development of its factory in Bombay, the company has now been restored to a position where it can look to the future with optimism.

The accounts of the year ended March 31, 1956 shows what great progress it has made, since out of its current profits it is in a position to pay off arrears of dividends for the last seven years, after writing off the loss of Lahore assets of nearly Rs 2 lakhs and making substantial contributions to the Depreciation Fund (Rs 5½ lakhs) and setting up a Rehabilitation and Development Reserve of Rs 5 lakhs.

The company has a paid-up capital of Rs 30½ lakhs and reserve of Rs. 7½ lakhs in the two new funds created during the year and another Rs 25 lakhs in Depreciation Fund.

Against these assets, the company has a liability of Rs 21 lakhs for loan secured from the Industrial Finance Corporation and another loan to Allahabad Bank amounting to some Rs 32 lakhs.

According to its terms of agreement with the Industrial Finance Corporation, which required an amendment of its articles to that effect, the company is debarred from paying in any one year arrear dividends on preference shares for more than two years. As happily the financial position of the company is now comfortable enough to enable it to clear the entire arrears, it is seeking permission from the Industrial Finance Corporation to do so and to re-amend its articles accordingly. A general meeting of the shareholders will be called for the purpose in due course, after the approval of the Corporation has been obtained. Rs 2½ lakhs are being transferred from the profits of the year to the Dividend Equalisation Fund. Out of this fund, the arrears of dividend can be paid, when the necessary sanction is obtained.

Of the two main activities of the company viz. steel re-rolling and steel casting, re-rolling has suffered in the past from the chronic shortage of billets. The present policy of the Government to promote regional development and de-centralisation of industries is expected to help the company in future and until the supply position of steel is eased by production from the new units, the programme of substantially increased imports will meet the interim requirements.

In casting, the company has reached its present capacity and is actively considering further expansion for which it is trying to enlist the co-operation of foreign firms for technical assistance. Casting is a highly skilled job in which such assistance is still essential. The programme of construction of wagons for the railways is so large in the Second Plan that expansion of casting capacity should be more than worthwhile.

The Balance Sheet is very well produced and its contents fully justify the sumptuous production and get up.

Our Delhi Letter

The Food Imbroglio

HARDLY ever before did a department of the Government of India expose itself to the charges of chicanery and humbug as did the Central Food Ministry at the States Ministers' conference in Mussoorie. Few commentators will use these strong words lightly but if there has been any occasion to use them, the Food Ministry provided it. The details now available, of the manner in which the food targets were arbitrarily scaled up and down, are shocking. The printed copy of the Central Food Minister's speech contains corrections in ink in its most crucial paragraphs. "From the study made in the Ministry for increasing the production of cereals," he said in the original copy, "we have come to the broad conclusion that the production of foodgrains can be increased by 13.5 million tons in 1960-61 over 1955-56 as against the figure of 10-million tons proposed in the Second Five Year Plan". The corrected version substituted 16.5 million tons for 13.5 million tons. It is to be remembered that the National Development Council has recommended a couple of months ago that the agricultural targets should be raised and the Planning Commission had circularised a letter to the State Governments asking them to study the possibility as early as on June 5. Since then the Central Ministry of Food and Agriculture has been processing suggestions for higher targets. It came to the conclusion, on the eve of the Mussoorie Conference that the target envisaged in the Second Five Year Plan could be raised by 3.5 million tons, provided an additional allocation of about Rs 100 crores were made. This was embodied in the printed version of Shri Ajit Prasad Jain's speech. But the target was suddenly changed at a midnight conference in Mussoorie without further study. It was then decided that an increased target of 6.5 million tons was attainable with an additional allocation of merely Rs. 111 crores. Now this sum is sought to be rounded off to Rs. 115 crores. Even a superficial scrutiny of Shri Jain's speech, however, would reveal that he juggled with figures without regard to their relevance to facts.

Take the break-up of the target. The printed version of Shri Jain's speech read:

> "Through the acceleration of the seed multiplication scheme and its expansion to cover all the N E S Blocks in the first three years of the Second Plan, we believe it would be possible to achieve an additional production of 1.9 million tons. The expansion af facilities for minor irrigation is likely to give an additional production of 0.7 million. Schemes for intensification of distribution of fertilizers and better use of farmyard manure may add another 0.9 million tons."

Since these figures total up to only 3.5 million tons, to Shri Jain's speech the following words are added in ink:

> "and the balance may be obtained by the general improvement in agricultural practices".

How this "general improvement" is to yield as much as 3 million tons when schemes for which firm resources totalling Rs 115 crores are being allocated will, in all, account for only 3.5 million tons passes comprehension. Besides, it is noteworthy that when the Second Five Year Plan was prepared , the targets of additional production set by the States totalled only 8.5 million tons. The target was however rounded off to 10 million tons in the expectation that 1.5 million tons would be attained through "general improvement in agricultural practices" though the increase in output expected from every item of such improvement (e.g. from better seeds, etc.) had already been counted in arriving at the total of 8.5 million tons. The Ministry has now taken credit for the same factor for a third time, and how liberally!

The question is: what did the representatives of the States have to say to this jugglery? All reports indicate that they were flabbergasted. Many State Ministers refused to commit themselves. Some laughed at the concept of the "human element" that the Central Ministry propounded to make its arbitrary figures acceptable. One State representative was asked how much additional production he expected by plant protection measures? "How can I say", he replied in justifiable confusion, "there may be no insects to protect the plants from".

The Central Food Ministry was, therefore, hardly able to have its way. All the targets that it propounded were regarded as "tentative". They will be subject to confirmation by the State Governments who have the final say, for it is the States which have to grow the food, not the Centre.

One the other hand, the Central Minister for Planning, Shri Gulzarilal Nanda, firmly and categorically told the conference that there was no possibility of increasing the financial outlay for cereal production. Between his colleagues in the States and his confrere at the Centre, Shri Jain could get nowhere.

Indeed the only hope of the country to get out of the food imbroglio is in the lap of the Gods. A couple of good monsoons may still do the trick.

The Minister for Agriculture, Dr P S Deshmukh, however is pinning his faith in the "human element". Despite the inefficiency of his departmental officials and lack of official imagination both of which he admits, Dr Deshmukh believes that the farmer will play up. He is taking increasingly to the Japanese method of cultivation, more manures, and better methods of farming. The higher production that may be achieved by an awakening in the rural masses will compensate, in Dr Deshmukh's view, the possible floods and draught. One can only hope that he is right. Meanwhile the high level of food imports planned for the next 3 years is not quite reassuring.

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Letters to the Editor

Export of Cotton Textiles

PLEASE refer to the article under the title "Cotton Piece-goods Boom—Exports Decline" by Shri Angad Singh Bisen in your issue of June 2, wherein the author has given certain export statistics of Cotton Textiles from India for the years 1954, 1955, 1956 for the period January to June. The figures given by the author do not seem to be correct. They cannot relate to January-June because the June figure would not be available before the end of June. Naturally, the figures must refer to some other period; it appears they refer to January-April, 1956.

Will you please clarify to which period these statistics refer as also the source from which they have been taken?

R K Bhaumik
Statistical Officer,
The Cotton Textiles Export Promotion Council.

Cecil Court,
Apollo Bunder,
Bombay 1.
5th June, 1956.

[The author of the above had also drawn our attention to the heading of the table which had been wrongly printed. The statistics are for the months January to April, *not* January to June. The error is regretted and we are thankful to the Statistical Officer of the Cotton Textile Export Promotion Council for kindly drawing our attention to it.

The figures in the table are those of cloth passed for shipment through the Port of Bombay and were collected from trade sources.—Ed.]

Gas from Cowdung

I NOTICED an item in one of your Weekly Notes in the issue of June 2 on the subject of utilisation of cow dung. Perhaps you are aware that the Ramkrishna Mission at Belur and Shri Satish Chandra Das Gupta at Sodepore made extensive experiments on cow dung gas as domestic fuel.

While I was in the Community Development Project, we installed quite a number of plants in various places. The pity of these machines is that cow dung is a very messy thing and the machines, especially the pipes and channels, need continuous cleaning.

Moreover, plants of this nature need an initial capital outlay in the shape of drums, containers, pipes, gas burners etc., which an ordinary home cannot afford. Actually it is this question of the initial outlay for this equipment, estimated at something like Rs 35 to Rs 40, which stands in the way of the acceptance of the excellent scheme.

One other trouble was the difficulty of maintaining pressure of the gas. The flow of the gas becomes very temperamental, owing to the unevenness of the pressure maintained at the top of the storage drum by improvised weights. We set up one cow dung plant for a small hostel. The gas pressure was so low that food would not cook within the appointed hour. These were of course, remediable defects.

But I am appalled at the statistics that you have given of the actual figure of cow dung used. I would never have thought of that.

Asok Mitra

Dept of Commerce & Industry,
Government of West Bengal,
Calcutta.
June 21, 1956.

Uncivic Calcutta

FLIBBERTIGIBET has every right to feel and think whatever he chooses to feel and think about any country or nation under the sun, and he may also have the rudeness to write it out, but you as an Editor may find it difficult to explain why you had to publish it, I mean the Calcutta Diary in your issue of June 2. His dissertation on Calcutta and its citizens, with conclusions about the characteristics of Bengal as a whole, is a personal affair based on what he sees through his jaundiced eyes. It is hardly necessary to refute it, but since you allowed it to be published, one or two glaring misstatements of facts may be pointed out.

The City of Calcutta shelters too many people for its too few trams and buses to cope with. Roads within the city can hardly allow many more vehicles for public conveyances. The number of people dependent on this city for livelihood is beyond the capacity of the Census to enumerate. Most of the offices, business and Government are in and around Dalhousie Square. The only surprise is the low rate of accidents, in spite of the most 'uncivic'—rush of people in and around the city. But the 'uncivic' rush is a matter 'of course', about which one can write loftily, but for which one can hardly suggest any remedy. The low rate of accidents is a pointer that though 'uncivic', people of culture are practical; they go and they let go.

In the history of the recent growth and development of this city there is a period which can never be fully recorded. This is the period of war, famine, riots of 1946, and the partition of the country. These waves, one after another, made this city a bit shaky. The psychological and the physical impact of the flow of displaced persons from the East on this city is still with us and the city of Calcutta is even now absorbing the shock. It has been able to absorb the shock because of the lessons it learnt in the past. The lessons it learnt taught Calcutta to do without the finer civic virtues and do only what is practicable for its very existence.

Flibbertigibet has yet to learn his lessons about Calcutta. Innocence by dissociation is a fine theme for teachers of morality to dilate upon in the class room, but in applying it so erroneously, he cannot even ask for our thanks.

As to the refugees from the East, Flibbertigibet is requested to remember that when one cannot help it, one must find fault with it. Neither the Centre nor any other State has been very helpful in rehabilitating refugees either within or outside West Bengal. Let me give an example. Saurashtra is the farthest off State from the shores of Bengal and it has only recently offered to rehabilitate some fishermen families from East Pakistan. Representatives of displaced fishermen welcomed the offer, went over to Saurashtra, saw things for themselves, and in spite of obvious difficulties (sea fishing is completely different from river fishing and life in East Bengal is in no way similar to that in the desert of Saurashtra), this rehabilitation work is already in progress. It is not possible to discuss in detail this aspect of refugee rehabilitation here. One can only say that Flibbertigibet is not correct in his assessment of the character of refugees from East Pakistan, however convenient and fashionable his assessment may be.

S R

Calcutta
June 11, 1956.



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A Calcutta Diary

A Day Off on Saturday

LAST Saturday was not a half-day in Calcutta. A couple of committees working for linguistic reorganisation of States had decided that West Bengal would observe yet another hartal on the day, and theirs was done. The representative character of the committees has been questioned, with reason. All the popular newspapers wrote pointedly against the hartal, and overheard conversation at street corners rather indicated that, for once, the Press had indeed spoken for the people. The Communists, the most active group on the Left, went into the business with ill-concealed reluctance. They signed the appeal for a hartal only after an odd assortment of parties called the Paschim Banga Rajya Punargathan Samyukta Parishad had done so. Like the Spartans, the Communists followed so that they might lead; there was not much leading needed—as will be shown later. Meanwhile the Government of West Bengal openly opposed the hartal and announced that the police would be out in force to see that there was no coercion, believing, rightly, that there was no popular enthusiasm behind the hartal. It had occurred neither to the Press nor to the Government that apathy is as potent a political factor as enthusiasm.

That the hartal was not a complete success is only technically true. The trams preferred the safety of their depots, and only a few State Transport buses put in an appearance on the roads in the morning. Taxis were scarce, and the shops closed. In the apolitical central area, inhabited mostly by non-Bengalis, some shop fronts seemed unsure of themselves; their doors were ajar, and would have been banged at the sight of the slightest trouble. Few of the offices had anything like a working attendance, and very little work was done. It is of limited interest that the success of the hartal was thus qualified. What is of immense significance is that there could be so successful a general strike with so little popular support.

* * *

The straight question to ask is: Who leads West Bengal? The straight answer is: Nobody. This is giving the game away, for most of us have a vested interest in some institution or another which fancies itself to be the leader of the people. The Congress is in power, popularly elected, and is entitled to claim that it represents the people; it does, but only in a limited, and negative, sense. The Left parties are intellectually superior, but their numerical inferiority makes nonsense of such electoral unity as they produce now and then. The parties on the Right have shown, with this hartal on Saturday, that they too can bring the life of the city to a standstill. Each party thus has something to show by way of success in political action. That this apparent success is in reality the sum total of their joint and several failure is the basic truth about the Bengali political scene today.

Let us go over the facts again. It was an unwanted hartal. The majority of the political groups participating in it did so only because they dared not stay out—the elections are coming. The advice offered by the newspapers that the strike should be called off, and the people should work—was ignored. The Bengali Press once used to be unprosperous but influential with its small readership; today it has circulation, a measure of solvency, but no influence either with the intelligentsia or with the people. The Government of Dr B C Roy has many qualities, but the "popular touch" is not among them. In the absence of effective leadership, the citizens of Calcutta proceeded to be led by man's innate aversion to sweating his cursed brow any more than he must. The strike was successful because the organisers had asked the people to do a relatively simple thing—nothing.

* * *

The political parties behind the hartal are congratulating themselves on their success. The Government is pleased that the success was to some extent qualified. Both may be congratulating themselves too soon. What has triumphed is not political action, but the Bengalis' growing political apathy. They would not mind the transfer of a few more areas from Bihar to West Bengal, which was the ostensible cause of the hartal on Saturday. Called upon to stage a general strike, they would also make it successful by omission. It is doubtful whether any political party in Bengal today, or any combination of them, could set before the people a programme of action and then see it carried out. I am not referring to political rowdyism; that lurks only a quarter of an inch below the surface of life in Calcutta, and can be let loose by a score of determined mischief-makers. Politics is irrelevant to their activities; at best it provides an excuse for going into action, and secures for mischief a political cover. The Government knows it, and hence the thousand arrests before every hartal. That part of the people which can be described as politically conscious is now small and unresponsive to any of the recognisable parties, who must themselves know their impotence. People's apathy is their only ally.

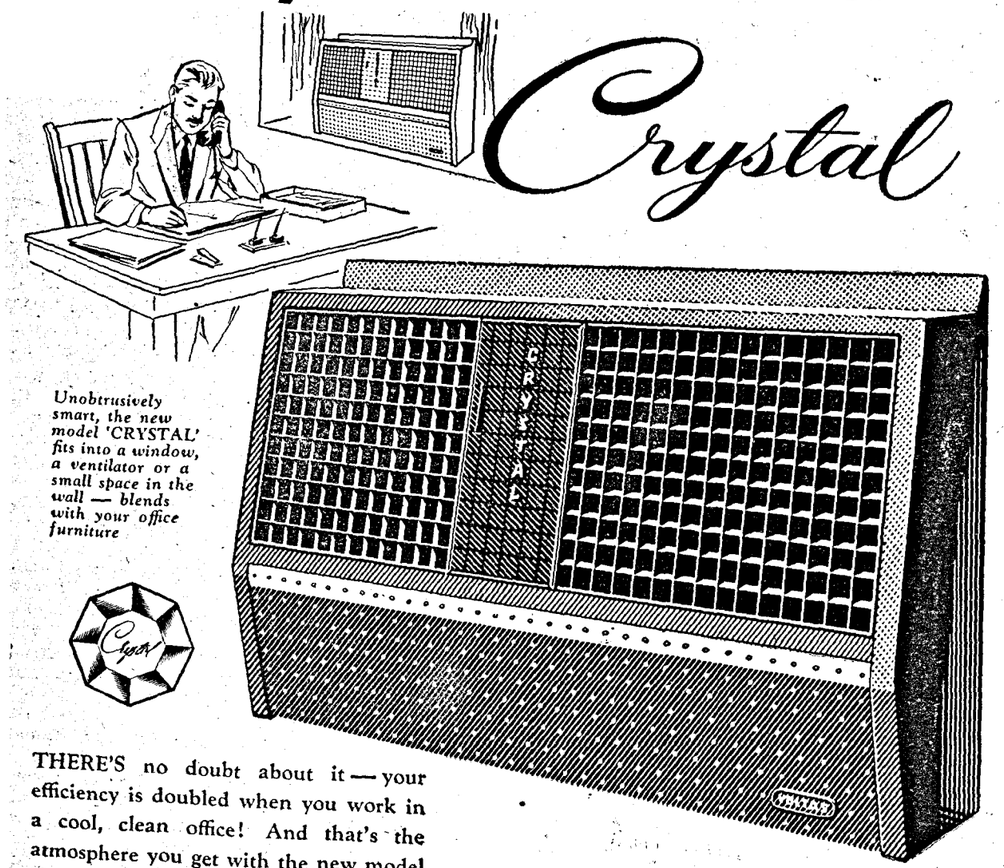
Here is cause for reflection. It has already been submitted that apathy is a major determinant in the political evolution of a community. It now remains to examine the nature of this political power wielded by apathy. Other things being equal, it helps the party in power stay where it is, for the people have not the energy to effect a removal. Other things, however, are rarely equal even in the most stagnant of political pools, which explains the uneasiness discernible in the less complacent Congress quarters. There are stirrings to be heard on the Left now and then, but not much vigorous thinking which, however, is not always an audible process. It is—is it not?—fascinating to muse on the many uses some politician could make of this massive apathy. To spur it into energy will be hard work, and it is possible to think of adventurers who would consider it unnecessary. With the people unwilling to bestir themselves either to end what they do not like or to bring in what they do, the scope for pulling a fast one on the people is unlimited. Fascism could do it; so could Communism. It is a measure of the pervasiveness of Bengali apathy that neither is a force in the State. Many will rightly consider this a good thing; it is. Which does not take away the fact that, potentially, apathy may be a more dangerous political quantity than agitation.

—**Flibbertigibbet**

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From the London End

Unemployment and Flexibility

THE gathering storm now shows signs of breaking loose. In a brief period of two weeks, following the announcement of reduction of about 10,000 workers in two British motor manufacturing firms, a large number of workers have been sacked in a whole series of industries which are connected in one way or another with automobile production. In a number of cases, short-time working has become the rule—mainly with a view to avoiding the stresses (and publicity) which outright unemployment would create. The Society of Motor Manufacturers now admits that 11 per cent of the industry's labour force is on short-time.

This is a particularly serious situation for an industry which by common agreement has come to be regarded as a vital indicator of the level of overall economic activity in Britain. And yet the redundancy measures, particularly those of the British Motor Corporation, have come as a sudden shock to the nation. Mr McLeod, the Labour Minister, complains that the sackings have been made "without warning" and of the sudden "flooding of the labour exchanges". All the Ministers find it difficult to understand why the **Financial Times** should claim all of a sudden that "the Ministry of Labour is the authority responsible for finding redundant workers new employment." And yet the basic fact of the Motor Industry, known all along, is that while the production of cars has risen at the rate of about 150,000 a year over the past five years, exports have roughly remained at the level of 1951. The reappearance of a free market in 1951 (with the return of the Conservative Government) and in particular, the abandonment of the previous restriction on the number of cars sold on the home market, had certainly created the conditions for the expansion of the motor industry. And now when the home market shows signs of saturation or alternatively, has become restricted via the credit squeeze and the controls over hire-purchase, contraction of a decidedly cumulative nature sets in.

This is the cold mechanics of the present retrenchment movement and there can be little doubt that this position could well have been forecasted about one year ago. And yet the "suddenness" of it and the absence of "warning" are made as an excuse for the current impasse. However, the more one reflects upon the statements made by the authorities and in particular of their special pleadings, the more one is driven to the view that the current retrenchment movement is welcomed by the Government. Have they not spoken often of the need for "flexibility" and for "overcoming wage rigidities' in the economy? In any event the phenomenon of full-employment and Tory freedom" as the **New Statesman** put it recently, was too good to be true. Maybe the present tendencies working from the contraction of the motor industry proves the ultimate incompatibility of the free market economy with full employment.

An illuminating debate in the Commons this week brought out the main lines of the Government's thinking—although in the opinion of Mr Harold Wilson, of the Opposition, Government's policy did not reflect thinking but "bedlam economics". The Chancellor believed that his policy was succeeding. This policy involved the reduction of home demand for bringing about a major shift of resources from consumption to increasing exports. The Government found that all the indicators—employment investment, consumption and the balance of payments—favoured this policy. While the Government conceded that considerable "painful human problems" were involved in times of slack-employment but, in its view, the switching of labour from one industry to another was a necessary process towards attaining the flexibility which the policy aimed to bring about. All this is no doubt in accord with the Government's designs. What appeared to be flatly contradictory and in some ways hypocritical, was the explanation for the contraction of the motor industry;

> "The truth was that the motor industry could not expect to maintain the proportion of world trade which it had a year or two ago, and therefore there must be some shifting of resources from it."

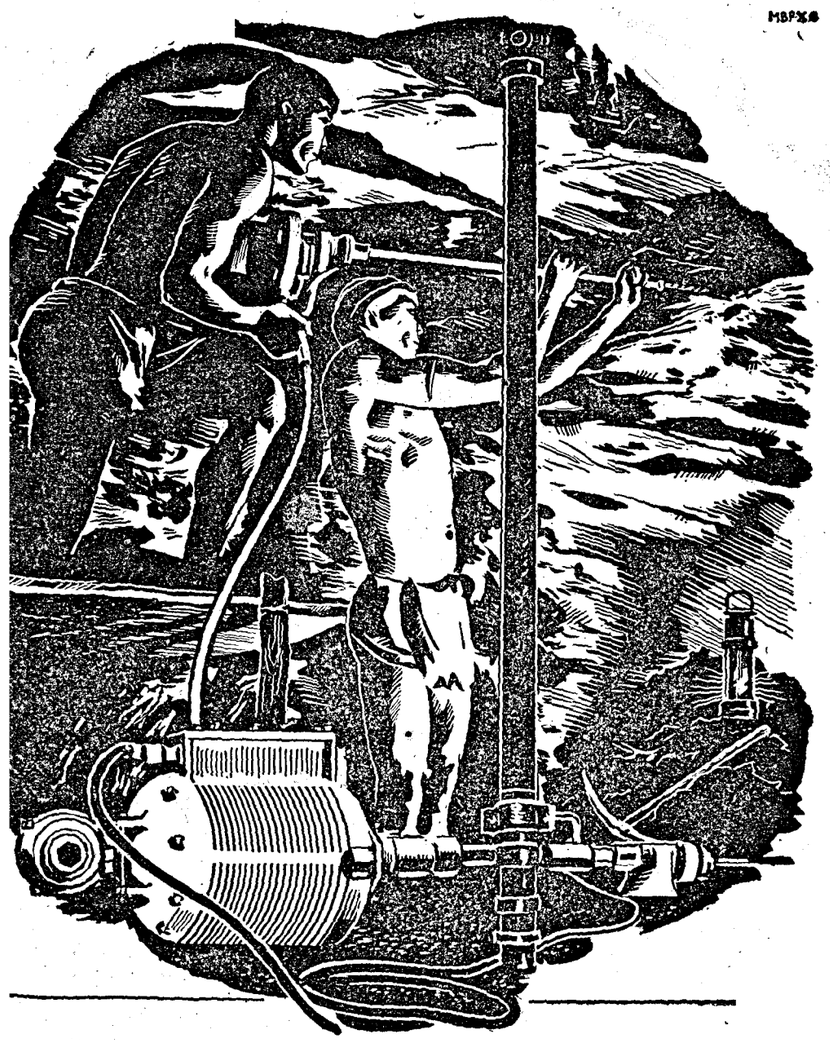
And yet it remains a fact that in the past two years a major volume of the nation's resources have been directed for investment in the motor industry. And so, too, appears the investment intentions of the industry. The firm making the Vauxhall car hopes by its current capital outlays to double its production in two years; Fords have a current expansion programme of £65 mn and another firm is busy constructing a new large factory. The pertinent feature of the motor industry in the last 4 years of 'free' market has been the war between motor car manufacturers for the home market. The war is no longer being waged in foreign markets. And the casualties in this car war are inevitably the smaller firms and, more important, the redundant workers—the so-called "social casualties".

The drive towards "flexibility" however, has two consequences—the prospect of a decline in employment and industrial production and, secondly, the greater militancy of the trade unions. The first consequence is being fully reflected in the motor industry. Mr Paul Einzig now tells us (in **The Banker**) that an increase in production must cause prices to rise and counterwise, a fall in prices can only be achieved substantially by a decline in production. Already the index of industrial production reflects a weakening of total activity and output has now stagnated to the level of a year ago. The corresponding fall in prices in general has not come about yet, but the Government hopes to forestall trade union action by its call for a "price plateau" in industry. The second consequence is rearing its head in a manner which portends a severe wage battle in the very near future. Workers in the steel industry are threatening to strike—they have already banned overtime working; the railway union has announced its intention to make a new wage claim and coal miners are thinking in similar terms. The costs of flexibility are high. Nevertheless, it appears that the Government aims not to be diverted from its grand design for the country.

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Book Reviews

Study of Environment, Not of Operation

Industrial Enterprise in India. By Nabagopal Das, ICS. Orient Longman, Calcutta, pp IX + 200. Price: Rs 8,

Reviewed by **George Rosen**

THIS book is theoretically a second edition of a book which was published originally in 1938. In fact it is almost an entirely new book bringing the developments in industry up to 1955 and the new companies law. The title is the same as the original title. This may be desirable as indicating the connection with the previous book. It is perhaps too broad a title for what the author intends to do—and succeeds in doing. Essentially this is not a study of the operation of industrial enterprise in India. This is a study of the financial and legal environment, and the changes in the environment, within which industrial enterprise operates in India.

The book begins with a brief historical chapter pointing out the relationship between British policy and the lack of industrial enterprise in India. This is a summary and adds little to what has already been done.

It is followed by a discussion of the methods of financing industry in India, as well as a comparison of British and German methods of finance. Two points are worth stressing—first, from the British tradition, the separation of commercial and industrial finance in India, and second, the recent development by the Government, or with Government encouragement, of special institutions to provide long-term industrial finance. Here there is also a discussion of financing methods peculiar to India—the role of the managing agents and of indigenous bankers; and the use of private deposits with industrial firms to provide financing. The key role of the managing agents as sources of capital is rightly stressed, and those abuses of that role which led to the various companies laws are pointed out. There is then a summary discussion of the development of company law in India, culminating in the most recent Company Act and its provisions. The relationship between managing agents and finance today might have been explored further by discussing the relationship between the larger managing agents and industrialists, with the major private financial institutions. However any such discussion should aim not only at describing the situation, but the reasons for it.

Following this is a discussion, buttressed by statistics, of the growth of the joint stock company in India, and, what is of special interest, the recent development of private limited companies and the problems these pose for regulation and control. Finally, and inevitably, there is a discussion of the public sector, the relationship between the private sector and the public one, and the effects of Government business policy and the policy upon the private sector.

The discussion is at all points equable—the author has no "axe to grind" and examines various controversies calmly, dispassionately and without prejudice. His conclusions are usually reasonable, although they may be questioned and argued about.

The book is a good summary of the statistics of growth, of the present legal situation and of the problems of industrial enterprise. It does not however live up to the promise of the title. One would have wished more discussion of how private enterprise in fact operates. There are certain key questions for the future development of India's industry:

(1) First, where capital is presumably scarce, as in India, the structure of the capital market. But this should not be in terms of the laws, but an analysis of the availability of credit in fact to different groups within the economy. There is no shortage of capital for the large industrialist, and interest rates are low. There is a shortage for the medium and small-scale industrialists and interest rates are high.

(2) A second question, though related to the first, deals with the plethora of government regulations, requirements of licences for industrial entry and expansion and for imports, direct government price controls, government distribution of scarce supplies, government control of credit, and government orders. It is obvious that the Government is a main factor in determining the life and death of industrial industries and even firms. How has this operated in fact during the past five to ten years?

(3) Finally, who are the entrepreneurs in Indian industry? Is abolition of the managing agency system likely to change the people taking the risks of expansion and enterprise? What changes are taking place in the attitudes of entrepreneurs as industrial development proceeds?

These are major questions of India's future economic growth, and the role of the private sector in it. Das' book is of interest and great value in presenting objectively the framework within which industry operates. It only skirts the second and more interesting question, except in a few areas, of how it does, in fact, operate today. This is perhaps only another way of saying that it did not do what the reviewer would have preferred and what the title implied it would do. It did nevertheless accomplish its more limited objective clearly, thoroughly and objectively.



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★

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Village Study—Portraiture or Analysis?

An Indian Village by S C Dube. Routledge and Kegan Paul, London. 1955, pp 248.

IF description is cultural anthropology, then this is an excellent treatise on the subject. The description, never uninteresting, frequently rises to the beautiful and is everywhere detailed, objective and seemingly accurate. Dr Dube has given an excellent portrait of Shamirpet, the Telugu village located about 20 miles from Hyderabad city. Its setting, the composition of its population by caste and economic groups, the customs and rituals of the people, their family and home life, inter-group and inter-personal relations are described in detail, and the description always has a warm and human touch about it. The book gives an excellent idea of who the villagers in this central part of the Indian Peninsula are, how they live, what ceremonies and festivals they perform as they go through life or pass through the different seasons of the year; what food they eat (or tell others what they eat), and how they cook it. Similarly, relations between man and wife, father and son, mother-in-law and daughter-in-law, among brothers or between brothers and sisters are described at length. Considerable space has been given to describing how the ways of the villagers are changing —in food, dress, mannerisms, means of recreation—with the coming of education and increasing contact with life in the city of Hyderabad.

As the study largely derives from a survey conducted by a team of specialists from the Osmania University, one would have expected it would contain a lot of statistics. But it is interesting that very little of the quantitative data collected in the survey has been presented in the book. Most of the description of village life can be considered general, at times casual, observation with which the average Indian reader is already familiar.

Important though description is to any science, no science can make much progress if it does not go beyond description and does not seek to bring out the factors which lead to the situations described. This need for analysis is as vital to cultural anthropology as to any other science, inspite of the current fashion in India of describing in great detail readily observable phenomena but without much attention to bringing out the causes which brought these about or the inter-relationship between the various factors or phenomena observed. It is in such analysis that this book is really deficient. For instance, where did all these people come from; how long ago; how have the different groups iter-acted upon one another through the centuries; what are the reasons for many of the customs which are found in the village; which are the cultural values which are really abiding and which are changing, and why; what have been the social, economic and especially historical factors which make Shamirpet what it is, and its inhabitants think and act in the way they do. These questions which are vital to understanding the 'Culture' of the village are left unanswered. Even a systematic treatment of the past history of the village has been omitted.

In the reviewer's view, description concerned in the large part is with the fairly obvious, although it may be of great value to foreigners and urbanised educated Indians who have lost contact with villages, will not do much towards gaining the kind of understanding about Indian village life which the country needs as aids to the programmes of development and reform which are being carried out. From an Indian author, we expect much deeper insight into the life and culture of the village people and the answers to some of the 'whys' and 'hows' mentioned above. It is to be hoped that Dr Dube and others who are doing similar work will not be content with description alone and will analyse the data emerging from village studies on questions of the type posed above in some of their later contributions.

—V N

Government of India

3¼ per cent Bonds 1962. Issue Price Rs 98 per Rs. 100 (Nominal). Repayable on the 16th of July 1962.

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(4) Branches of the Bank of Mysore Ltd., in Mysore State.

For full particulars apply to any of these offices or branches, or treasuries.

Language Controversy in Ceylon

Moni Chatterji

THE anti-Tamil riots which broke out in Ceylon recently brought to the surface the malaise that the island has been suffering from, the struggle between the two groups speaking the major languages—Sinhalese and Tamil. The Sinhalese had been agitating for the official recognition of their language as the sole state language and the Tamils for parity with Sinhalese. The situation became a great deal worse when the Tamil-speaking people who are settled in the northern and eastern parts of the island, went to the extent of demanding a separate homeland for the preservation of their language, frightened by the prospect that Tamil might not be recognised at all and that Sinhalese might be imposed on them. However fantastic the demand for a homeland for the Tamils might be, nevertheless, it posed a threat to Ceylon's newly-formed Government.

The immigration of Tamil-speaking people from the southern parts of India had been going on for hundreds of years and Tamilians have established themselves in the business, commerce and industry of the island to such an extent that today they have become an integral part of Ceylon's economic life. They have retained their own language, culture, religion and mode of life none of which ever clashed with those of the indigenous population. Tamilians, however, did not merge with the Sinhalese. For some time past, the relation between the two groups has been strained and each has remained a separate entity.

The total population of Ceylon according to the latest census is 7.1 million of which 5.6 million are Sinhalese and 900,000 are Tamil Hindus. Besides, almost half of the island's 496,000 Muslims are Tamil-speaking. Roughly, therefore, 27 per cent of Ceylon's population is Tamil speaking, while 69 per cent speak Sinhalese.

Despite their smaller number, the Ceylon Tamils had their say in the past in the affairs of the island. The British recognised both Tamil and Sinhalese as official languages. As early as 1943, the Ceylon State Council had passed a resolution that steps should be taken to effect the transition from English to Sinhalese and Tamil with the object of making both these languages the official languages of the country. It may be mentioned here that when the language issue was raised in the State Council in 1944, only five of the members voted in favour of Sinhalese being the only state language. The recognition of two state languages has also been the programme of the United National Party since it assumed office in 1947. The leader of the Party, the late Mr D S Senanaike, stated in 1948 in a memorandum to the Minister of Education that

> ". . . it should not be forgotten that our essential task is to create a nation and that our people speak not one language but two or perhaps three . . . Language distinction must be continued because we are not prepared as a nation to lose any part of our cultural heritage, Aryan or Dravidian, but those distinctions must be kept on a cultural plane and not be allowed to create communal distinctions in spheres where they are irrelevant. Whatever be the medium of instruction we must ensure that Sinhalese, Tamils, Muslims and Burghers shall be able to serve in any part of Ceylon".

In 1951 the United National Party (UNP) appointed the Official Languages Commission with the clear direction that Sinhalese and Tamil would be the official languages. At its annual conference in 1954, the UNP reaffirmed its resolve to make Sinhalese and Tamil official languages throughout the country. In the same year, in a note to the Commission on Higher Education appointed by the Ceylon Government, the Governor-General said: ". . . it is the accepted policy of the Government that Sinhalese and Tamil should be the official languages of this country and any examination of this policy would be contrary to the terms of the Commission's reference". As late as October 1955, the then Premier of Ceylon, Sir John Kotelawala, declared in the Ceylon Parliament in no uncertain terms that Sinhalese and Tamil would be the official languages throughout the country. He made it clear that no one should be afraid that the language spoken by 80 per cent of the people could suffer any disadvantage.

An examination of the language question in Ceylon and of the claim of the Tamils would show that there are basic reasons for supporting such a policy. The Tamils in Ceylon form a national minority as different from a linguistic minority. The distinctive feature of a national minority is "the existence of a national consciousness accompanied by linguistic and cultural differences". Their different cultural and linguistic characteristics, religious outlook and racial origin from that of the Sinhalese make the Tamils a distinct national minority. That they are conscious of their separate entity is evident from their demand for a separate state for themselves. However much we may decry it from the point of view of Ceylon's larger interests, the demand for a separate homeland is a reflection of their mind. The problem facing Ceylon today, therefore, may be compared to that of other multi-national states.

The policy of some of the multi-national states with regard to their minorities, particularly on the question of language, may help to indicate a possible solution for Ceylon. In Switzerland although German was the official language for a long time, as a result of the growth of national consciousness of the different minorities the three principal languages of the country were adopted as official languages in 1848. Similarly French was the official language in Belgium for a long time. But due to persistent agitation on the part of the Flemish speaking people, Flemish was also adopted as an official language. In Finland, although 90 per cent of the population speak Finnish and only 9 per cent speak Swedish, Swedish was recognised as one of the official languages. The French-speaking people in Canada constitute only 25 per cent of the Canadian population who are mostly English-speaking, but both English and French have been given official status. South Africa is another example of a country which faced with the problem of choosing between two contending languages—

English and Dutch—has accepted both as official languages. In all these countries, it may be noted, the problem was one of choosing between two languages and almost all of them went in for bilingualism—a lesson which may profitably be learnt by Ceylon.

In countries with numerous languages like India, Burma, Indonesia and the Soviet Union, the decision to adopt one state language has been taken after much deliberation and with the consent of the minorities. In the case of Ceylon this consent is impossible to get. Moreover, in all these states one state language has been adopted more because of the great number of languages and the practical impossibility of having all of them as official languages than on any principle of establishing the language of the majority. Furthermore, as in the case of the Soviet Union, although Russian has been recognised as the only official language, in view of the large measure of autonomy given to the various autonomous regions and states, it has been possible for the different languages to function adequately within their respective regions. Under the Ceylonese constitution, there is hardly any scope for Tamil for no such privilege has been given to it.

The solution of the language problem in the multi-lingual and the multi-national states mentioned above has been based not on the principle of majority rule but on that of reconciling the predominance of the majority with the liberty of the minority. Democracy cannot always travel on the set path of majority rule. In a country with distinct national minorities, the imposition of the majority rule on a conscious minority becomes a clear case of tyranny and despotism. This is particularly so in the case of a language, suppression or non-recognition of which deprives the minorities of their fundamental human right of self-expression. Only a compromise of the rights of the majority and the minority can prevent that.

In a multi-national state, such a compromise can be effected either by the process of bilingualism as has been done in Canada, Finland, Switzerland etc, or by federalism as in the Soviet Union and elsewhere. The problem of Ceylon being identical to that faced by the multi-national states, the solution seems to lie in one of these methods. Far from encouraging Tamil separatism, the two-language solution would ensure co-operation between Tamils and Sinhalese, since most of the Tamils regard the demand of a separate homeland as only an extreme step and a last resort, to be adopted when all other attempts for the recognition of their just claims have failed. Moreover, by accepting bi-lingualism, the Government will not have to face the impossible task of making the Sinhalese learn Tamil and Tamils learn Sinhalese. In fact the Government has only to catch up and follow a process that has already been working in Ceylon. Many Tamils living in Sinhalese areas and Sinhalese carrying on business in Tamil areas have a working knowledge of both languages. The Census of 1946 showed that as against 6.5 per cent of the population who could speak English, 8.8 per cent of the population were able to speak both Sinhalese and Tamil. Moreover, parity does not mean that majority of Sinhalese would have to learn the Tamil language. It means Sinhalese language for Sinhalese people and Tamil language for the Tamil people. In case this solution is unacceptable, the only alternative lies in federalism with complete liberty to Tamil-speaking people to use their own language in their region.

Although after the Ceylon Language Bill was passed by the Ceylon Parliament making Sinhalese the sole state language, the controversy between Sinhalese and Tamil seems to have been silenced, the lull is deceptive and can at best be temporary, as could be guessed from the speeches of the Tamil leaders in Parliament protesting against the passage of the Bill. Time is probably contributing to the consolidation of the Tamil group, and it is possible that there will be a fresh outburst, stronger than ever before. Already the Federal Party has come out with a plan to resist the imposition of Sinhalese language on Tamil-speaking people and to start a 'national liberation movement' for Tamil-speaking areas. This poses a serious threat to Ceylon's newely-formed government of Mr Bandaranaike of which much is expected. The position was well underlined by the Trotskyite leader, Mr Gunwardene, when he told the Ceylon Parliament that the Language Bill would create every possibility of the country being divided —a situation most satisfactory to imperialist powers who want to keep their bases intact in Ceylon, despite Bandaranaike Government's opposition to it. The signs are ominous and sooner the gravity of the situation is realised the better for Ceylon's new progressive Government, the success of which the great majority of the people in this country most devoutly wishes.

Clive Row

AMONG miscellaneous shares quoted on the Calcutta Stock Exchange, Clive Row have been remarkably steady in recent weeks. Working results of the Clive Row Investment Holding Company, Ltd., for the year to March last were good. As a result, the dividend has been raised from 7½ to 13¾ per cent. In January 1955, the shares of the Company were made available to the general public. The dividend recommended is the minimum to avoid the liability, under the Finance Act, 1956, to super-tax at eight annas in the rupee on any part of the Company's assessable profits not distributed as dividend. But the Company has to pay dividend super-tax as the recommended dividend is in excess of six per cent of the capital. The directors are critical of this aspect of the Finance Act.

Tea company dividends, included in the Company's accounts, are for 1954. Such dividends will be lower for the 1955 season. But current prospects are not unsatisfactory. Directors are optimistic about the demand for paper as literacy grows. They are less optimistic about the outlook for the jute industry. Here, the problem of the spinner's margin remains. It is as yet too early to say whether the private sector in the coal industry will be nationalised. But the directors are hopeful of the coal industry's prospects during the Second Plan period. They express the hope that industrialisation during the next four years will help the miscellaneous industries in which the Company is interested.

The Economics of Ambar Charkha

K A Naqvi

From the data published by the All India Khadi and Village Industries Board, the conclusion is inescapable that the method of production of Ambar Charkha is inefficient both in terms of capital-output and labour-output ratios.

A real choice could arise only if the capital-output ratio were lower and the labour-output ratio were higher.

Even if de-centralised economy be the ideal, there are surely better and quicker ways of attaining it by ensuring that the investment is more productive than it is in the case of Ambar Charkha and ensuring further the eventual reinvestment in productive development of what little surplus may arise.

IT is a generally accepted proposition that the aim of planning should be the progressive development of an economy at a fairly rapid rate. In the following discussion it will be assumed that we desire the highest possible long-term rate of growth of our economy, consistent with certain minimum requirements of consumption.

The rate of growth of any planned economy depends on the magnitude of the additional investible surplus. If, for the moment, we ignore the property incomes (rent, profit, interest)*, the magnitude of the additional investible surplus depends on the difference between the value created by the worker and his consumption. To be more exact, the investible surplus per worker is the difference between the net productivity per worker for a certain period and the consumption per worker during the same period.

Given a certain magnitude of investible fund, and also given a certain standard wage per worker (based on what is considered the desirable level of consumption, which is a policy decision) the proper utilisation of the investible funds means the creation of the maximum possible additional investible surplus. A given magnitude of investible fund may create the same amount of additional investible surplus through two sets of technique:

(i) that yields higher surplus per worker but less employment and

(ii) that yields lower surplus per worker but greater employment.

In an economy which suffers from scarcity of labour technique (i) would be more suitable, while an economy which abounds in unemployment and underemployment, technique (ii) is desirable. If, however, one set of techniques gives a lower surplus than another, the set yielding lower level of surplus must be discarded.

It would be useful to develop the concept of "surplus effect of investment" which is the ratio of surplus to investment. (If the surplus is 20 units with an investment of 100, the "surplus effect" is 0.2.) It is obvious that techniques having negative surplus effect are extremely wasteful, because, instead of augmenting the investible surplus, they reduce this surplus created in other branches, and thus retard the rate of economic growth. It is obvious that it would be economically indefensible to invest in those techniques which require greater volume of capital for securing the same output. If, however, a certain technique compared to another required greater volume of capital for securing the same output, and also has negative surplus effect, its adoption is the surest way of drastically reducing the rate of growth of the economy.

The Negative Surplus Effect of Ambar Charkha.

It will be interesting to examine the surplus effect of the modified Ambar Charkha programme, as announced by Shri T T Krishnamachari in his Press Conference on June 18, 1956.

It is proposed to produce Ambar yarn necessary for the production of 300 million yards of handloom cloth, that is, 75 million lbs. According to the estimates of the All India Khadi and Village Industries Board, **The Ambar Charkha Programme, Economics, Bombay.** 125 lakh Charkha sets are required to secure 20.6 million lbs of yarn. On this reckoning, about 4,55,000 Charkha sets will be needed to secure 75 million lbs of yarn.

At Rs 100 per charkha set, the total cost of these charkhas will be Rs 4,55,00,000.

The cost of training spinners, etc, would be Rs 6,20,44,000. (op cit p 18)

The loan requirement of spinners would be Rs 9,04,56,000.*

Since the subsidy per lb is Rs 1-4, the total yearly subsidy would be Rs 9,37,50,000.

The yearly added value will be Rs 3,28,12,500.**

To sum up, then, a total investment of Rs 19.8 crores (cost of charkhas and of training spinners plus loan given above) would yield a yearly output of Rs 328,12,500, or roughly Rs 3.3 crores, the output—capital ratio being 1:6. Further, Rs 9,37,50,000 per year would be withdrawn from the national investible surplus to meet the consumption requirements of the spinners, even when the wage is, on an average, as low as 12 annas per day (It has been suggested that the wage may be as low as annas 8 to 10 in certain regions—ibid p 28)

It may also be noted that one worker, producing 8 hanks (1 hank : 840 yards) per working day of 8 hours, would earn only 3 annas per day, and a subsidy of 9 annas per

* Some of these property incomes can be entirely eliminated (rent, and the excessive interest, particularly in the rural sector, as also excessive profits in trade and commerce) and the remaining are so handled that the bulk of these incomes become available for investment. Since attempts are already being made in this direction, it may be assumed that more vigorous measures will produce better results.

* The cost of training and loan requirements have been calculated on the basis of "Statement I: Summary of Estimated Expenditure". Ibid, pp 44-45. Actually, the magnitude of expenditure would be higher because of more or less rigid overhead costs.

** The per lb wage and subsidy being Rs 1-11 and Rs 1-4 respectively, the value added per lb is annas seven. I am indebted to Professor Charles Bettelheim for clarifying this point.

day would bring his wage to 12 annas per day. (In view of (a), in the next para, at the rate of 1½ as per hank the wage would be annas 6 per day, the real earnings being only 1½ as per day.)

The above calculations are based on the idea that the output per charkha set would be 164.8 lbs. of yarn, which is very unrealistic because:

(a) it has been estimated by experts that the output per worker would be, on an average, 4 *hanks per day*, instead of 8 hanks assumed above; and

(b) the framers of the programme declare that the Ambar Charkha is meant to provide part-time employment to the agriculturist, which would obviously bring down the output per Charkha set.

In view of (a) and (b), the assumption that one Charkha would produce ½ lb of yarn per day and the charkha set would be used for about 330 days should be modified. At best, the output per charkha would be half of what has been assumed above. The cost of charkha and the cost of training would be doubled; the loan requirement, presumably, will remain the same (Rs 9,04,56,000). The total investment, thus, would be Rs 30,55,44,000. The value added, however, will remain the same (Rs 3,28, 12,500), bringing down the output-capital ratio to slightly more than 0.1.

The investment required for producing the same amount of yarn (75 million lbs.) would be less than Rs 6 crores if this yarn is produced by mills (spindlage:4.5 lakhs), the value added being over Rs 3.28 crores: the output-capital ratio would be more than 0.5.

For about 10,000 workers who will be employed in the mill, the total wage bill would be Rs 1.46 crores and the investible surplus would be Rs 1.82 crores.

The total immediate (immediate, because we are not taking into account the investible surplus that would have been created by rational investment of these *funds*. This aspect is partly taken into account later on) wastage of funds involved is thus:

(i) Over Rs 24 crores additional investment; and

(ii) About Rs 9.4 crores per year of subsidy.

(iii) And about Rs 1.82 crores per year of the possible investible surplus.

The Employment Potential

It is claimed in the Ambar Charkha *Programme* that 36,31,300 workers will be employed when 25 lakh charkha sets are produced, i e, about 13.2 lakh workers will be employed if 9.1 lakh charkha sets are produced. Those who consider this potential level of employment to be an overwhelming argument must remember that there is a world of difference between genuine employment and spurious employment: the *former is one* which guarantees a minimum wage to workers and generates investible surplus, while the latter is that employ*ment which keeps* the workers on a starvation wage, and, worse still, not only does not create any investible surplus, but swallows a part of the investible surplus created in other sectors. Further, if we could produce 75 million lbs of yarn per year with the help of about 10,000 labourers and instead choose to produce it with the help of about 13.1 lakh workers, the supposed additional employment is spurious in character. *Indeed, it* is a very complicated, and a very costly method of distributing doles. This is the truth behind the "gainful, full-time employment" whose "political social and moral significance" we are called upon to appreciate.

This distribution of doles (to the tune of about Rs 9.4 crores of subsidy and Rs 1.82 crores of possible investible surplus foregone) is sometimes called "equitable distribution of income". It is, in reality, a wonderful *method of* wasting the scarce and valuable investible fund.

Even the above analysis, however, does not present the total picture of the wastage involved in even the modified Ambar Charkha Programme. Some idea of the wastage involved may be got by finding out the total volume of yarn production possible through the *contemplated* level of investment in the modified Ambar Charkha Programme. With a total investment of about Rs 30 crores *spinning mills* (spindlage 22.5 lakhs) could produce 375 million lbs of yarn, directly employing (at a wage of Rs 4 per day, which is more than five times the average of annas twelve contemplated in the A C Programme) 50,000 workers, producing an investible surplus of Rs 9.1 crores. In other words, less capital is required for the production of mill yarn necessary for the output of 1,400 million yards of cloth (*about Rs* 28 crores: spindlage 21 lakh) than what would be required to produce Ambar yarn necessary for the output of 300 million yards of cloth.

Such huge wastage of investible funds, in the name of employment, is the greatest stumbling block in the path of an increase in genuine gainful employment. For, in future, we will have less capital to invest, and hence lesser number of avenues of employment would be created. In the *long-run, then,* the Ambar Charkha Programme defeats its own purpose.

Impressive Results of Metal Box

GOOD working results of the Metal Box *Company* of India, Ltd., prove that miscellaneous industries are faring well, and are likely to do better during the Second Plan period. There has been a gradual expansion in the containers industry as the demand for packaged goods has improved. Prospects for the canning industry are *promising as* the investment target for fruits and vegetables has been raised from Rs 1 crore to Rs 9 crores. For the year to March last, sales and profits of Metal Box showed increases. In consequence, the dividend has been raised from 12½ to 16¼ per cent. Prospects for the current year are considered to be satisfactory.

Development plans of the Company are making good progress. There has been an expansion in the demand for aluminium pilfer-proof seals; the manufacture of these in Calcutta has started. There has been continued *progress in* the manufacture of polyethylene bags. There is considerable potential demand for products out of this material. Two world-famous manufacturers have plans to produce polyethylene flakes, the needed raw material, in India. Additional equipment for the manufacture of industrial components have been erected. Metal components are manufactured by the Company for numerous manufacturers in the electrical, radio, automobile, bicycle and duplicating machine industries.

Balance of Payments and the Second Plan

THE attached table shows the average annual balance of payments position *during the Second* Plan period. The earlier estimates as given in the Draft Plan-frame and the Draft Outline are also given so that one can get an idea how the various estimates have changed during the process of formulation of the Second Plan. Since all these estimates are *based on* the balance of payments performance during 1954-55, that year's statistics are also shown in the table.

The estimates for the imports of machines, iron and steel manufactures, vehicles, and food, it will be seen, have been revised upwards, while those for other imports have been revised downwards during the Plan formulation process. Total imports, however, are a little lower in the final estimates than in the Second Draft *Plan* estimates, though they are higher than the Draft Plan Frame estimates.

The estimates for exports roughly remain the same; but those for invisibles have been scaled down. *Consequently*, the final estimate for the total current deficit during the Second Plan period is higher than the first estimate, though it is about the same as the second one.

This total current deficit of Rs 1120 crores is to be met mostly from exports and partly from private foreign investment of Rs 100 crores, drawing down sterling balances by Rs 200 crores, unutilized grants and loans of Rs 94 crores, and grants and loans for which commitment is already made of Rs 76 crores (Russian and British aid for steel plants). This leaves a gap of Rs 650 crores which is intended to be covered by the following means:

a) Floating public loans in foreign money markets;

b) Arranging for bankers' credits and export credits for supply of goods from foreign countries;

(c) Loans from the World Bank;

d) Loans and grants from other international institutions and friendly governments; and

e) Direct private foreign investment.

Other capital transactions are expected to be in balance so that no further foreign exchange resource would be required for that purpose.

Balance of Payments During the Second Plan Period

(Rs crores)

	1954-55	Annual Average for the Second Plan Period: Draft Plan-Frame	Draft Outline	Second Plan
Imports				
Machinery, vehicles, and Iron & Steel manufactures	151	300	360	386
Food	84	44	34	55
Others	446	497	507	427
Total	681	841	901	868
Exports	596	596	601	593
Trade Balance	— 85	—245	—300	—275
Net Invisible (excluding donations)	77	77	77	51
Current Balance	— 8	—168	—223	—224

Second Plan Period—Total for 5 Years

(Rs crores)

	Draft Plan-frame	Draft outline	Second Plan
Current deficit	840	1115	1120
Private capital	100	100	100
Use of Sterling Balances	150	200	200
Grants and loans unutilised so far	—	—	94
Grants and loans for which commitment is made	—	—	76
Aid needed	590	815	650
Total foreign exchange required	840	1115	1120



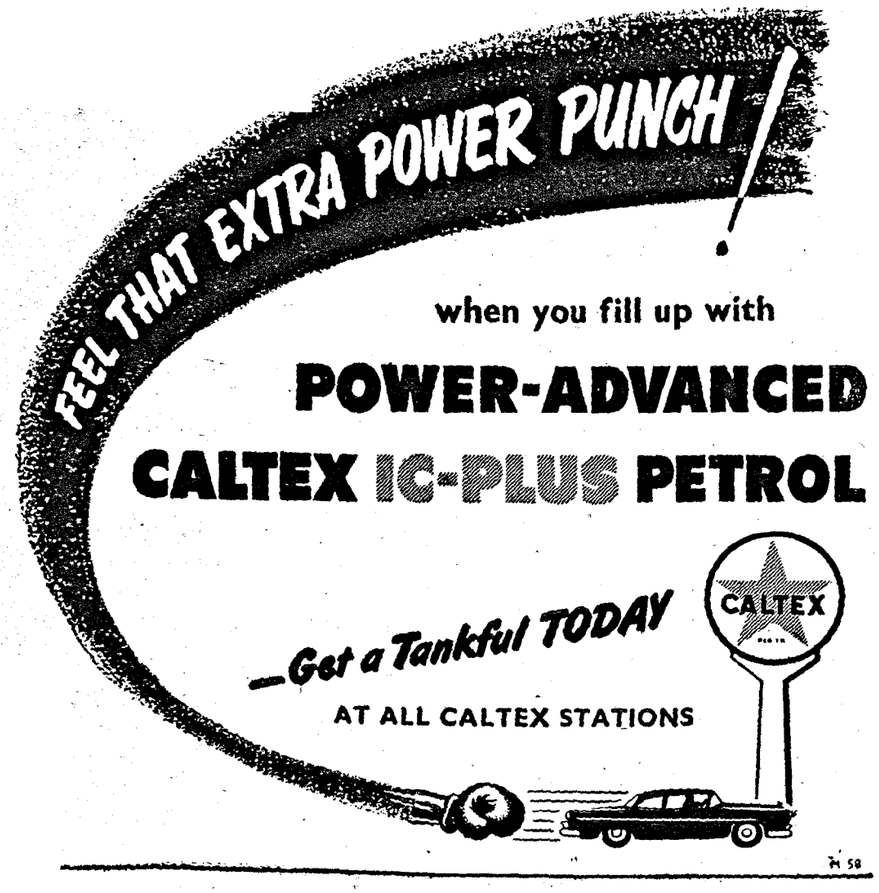
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Company Meeting

THE METAL BOX COMPANY OF INDIA LTD.

CHAIRMAN Mr. H. CHISWELL JONE'S REVIEW

THE 23rd Annual General Meeting of The Metal Box Company of India Limited will be held on Wednesday, July 18th 1956 at 59C, Chowringhee Road, Calcutta.

The following is a copy of the Review by the Chairman, Mr. H. Chiswell Jones, which has already been circulated to the members.

SALES

During the year under review there was a high level of investment in national development. Investment activity created a rising demand for packaged goods—paints, pharmaceuticals, babyfoods, processed fruits and vegetables, lubricating oils, etc. Enterprising salesmanship and efficient production enabled us to play a significant role in satisfying this demand.

National investment during the Second Plan will create an expanding level of demand and the supply of goods to satisfy this will be a condition both of the success of the investment programme and of continued political stability. To this end your company and its customers have a major contribution to make; the processed food industry in particular is strategically placed. It is to receive active encouragement in the Second Plan and the allocation for horticulture has been increased from Rs 1 crore to Rs 9 crores. These measures are to be welcomed as the addition of processed fruits and vegetables to the national diet will make for important improvements in public health and preventive hygiene. The development of this industry involves co-operation between large and small scale industry since the safe preservation of food requires precision-made cans that only high-speed equipment—equipment inseparable from large scale industry—can produce while at the other end horticulture is a part of intensive small scale agriculture. This pattern of co-operation is already established between the canners, the horticulturists and ourselves.

During the year we made solid contributions to the food and the other industries we serve. In Bombay we commenced manufacture of open top cans for the canning industry. The work of the newly opened Research Division at Calcutta on materials and finishes contributed effectively to improved quality and our access to the extensive research laboratories of our Technical Consultants in the U K continued to provide an invaluable part of our service.

There are, however, some ominous signs: the programme of taxation, increases in railway and ocean freights and the rise in food prices are implied threats to purchasing power. Transport and the shortage of steel and cement are capable of braking the country's economic growth. We have made a good start in the current financial year but there is no room for complacency. We are planning in a spirit of optimism tempered with caution.

PROFIT

The increase in sales of nearly Rs 1½ crores and the further diversification of our business resulted in a return to the more normal profit levels obtaining when the public first acquired an interest in the equity capital of the Company.

Prospects for the current year are good and it is hoped by virtue of increased turnover to maintain this profit level notwithstanding the increased costs referred to later.

RAW MATERIALS

It has been another year of anxiety in the matter of tinplate supply. Indigenous tinplate production remains well below demand and although The Tinplate Company have installed an additional rolling mill, they have not been able yet to obtain the extra tonnage of steel to operate the mill. Supplies of imported steel have been promised for the middle of this year but even when this is regularly available and processed, the extra 10,000 tons of tinplate produced will still leave a large gap between supply and demand. Our own imports are currently 50% of our total consumption.

Because of the time taken to obtain shipments from abroad we have had to raise our stock levels of raw materials thus increasing the strain on our finances. The price of materials and transport has risen during the year and part of the increases had to be passed on to our customers.

We are reluctant to pass on to our customers anything, but direct increases in the price of tinplate, which is our main raw material, and we have met increased costs by production economies made possible by greater overall demand. Nevertheless, there is a limit to our ability to absorb price increases of a general nature and there are presently signs of inflationary pressures which could very quickly upset our price structure. Government are clearly aware of these and have indicated that they have weapons with which they can speedily deal with the problem should it assume serious proportions. I hope they will not hesitate to do so.

There are two aspects of recent price increases which I must stress. The first is the heavy additional burden on the Company's cash resources which follows from higher raw material costs and bigger inventories—the second is that we find ourselves completely priced out of a number of export markets in neighbouring countries. The cost to Government of a drawback of the Steel Equalization Fund contribution on tinplate used for containers exported from India would be small—the gain in foreign exchange would be substantial; very much more so if extended to filled as well as empty containers.

INDUSTRIAL RELATIONS

From May 1955, when work was resumed at Calcutta after the disturbances there, we have had a period of complete industrial peace and at all factories negotiations and consultations with our employees have been conducted in an atmosphere of harmony and a keen desire to reach understanding. The excellent relations throughout the year have materially contributed to the satisfactory trading results and I am happy to say that we recently concluded with our employees a Prosperity Bonus Agreement covering the next three years.

Training of staff continues to receive our careful attention. We have an excellent cadre of young Management Trainees and each year we

send more Indian officers abroad for training. Our Technical Consultants recently sent the Head of their Staff and Personnel Division to discuss how they can best serve us in this all important matter of training. His visit was of the utmost value.

To a degree the success of the Second Five Year Plan will depend on an adequate supply of technicians. We are making our contribution by offering facilities for practical training in our factories to students and graduates from universities, engineering colleges and technical training centres. We have also offered our co-operation to Government in the encouragement of training in scientific management.

Labour Welfare continues to engage our attention. We are operating a most successful Scheme under which sick leave not utilised during the year is offered by employees to a Pool and such leave, to a maximum of 4 months, may be used for the benefit of any employee unfortunate enough to contract T. B. In the treatment of serious cases the Company also meets 75% of the cost of special drugs and medicines. In the two years working of the Scheme more than 20 employees have been completely restored to health and have been able to resume their employment with us. A Benevolent Fund is in operation at all Branches, the Company's contribution being based on the total amount subscribed by the employees. We have also extended recreational facilities to include sports, cinema shows and libraries.

DEVELOPMENTS AND NEW PROJECTS

We have made good progress in our new developments. The expansion in demand for aluminium pilferproof seals has been satisfactory and manufacture in Calcutta, foreshadowed in my last Review, has now commenced with consequent savings in freight costs to many customers.

Progress in the manufacture of polyethylene bags has continued, some printing machinery has been installed and more is on order. The potential demand for products made from this material is considerable and plans have been announced by two world famous manufacturers for the production in India of polyethylene flake—the basic raw material required.

Additional equipment for the manufacture of industrial components has now been installed—we have a substantial order book and a large number of new enquiries which augur well for the future. We are presently producing metal components for numerous manufacturers in the electrical, automobile, radio, duplicating machine and bicycle industries—the list will extend in the near future and we are proud of the contribution we are making to the expansion of these vital industries.

Plans have been completed for the erection of the new manufacturing and office buildings at Calcutta adjoining the new printing factory. We expect the new buildings to be ready in about twelve months time and this will permit us greatly to improve our plant layout, provide adequate office accommodation and generally achieve better working conditions. An extension to the Madras factory is under consideration and we plan to install additional printing equipment there to meet the growing demands for lithographed containers in that area. The Research Division in its first year of operation has made a valuable contribution towards the improvement of indigenous metal decorating materials. The Division has established close technical liaison with our principal suppliers and standardized numerous specifications covering both supply and application resulting in improved container quality. In line with our policy of purchasing indigenous materials wherever possible, the Division has assisted suppliers in satisfactorily producing a number of materials hitherto imported—others, still under test, show considerable promise.

I wish to acknowledge our indebtedness to our Technical Consultants, The Metal Box Company Limited, London, for their continued advice and guidance in all matters affecting the progress and well-being of our Company. We are most fortunate in being able to call on their vast store of knowledge and experience.

STAFF

This has been a year of intense activity and unremitting effort on the part of the staff. The excellent results achieved would not have been possible without their sustained enthusiasm and loyal support. The Board join me in expressing our thanks to them all for their splendid efforts.

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(b)	To maintenance & development of the Mines ..	30.3%
(c)	To the State in Taxes and Freight ..	23.8%
(d)	To the owners ..	5.5%
(e)	To the management ..	3.2%

6. The owners comprise many little shareholders—50% hold less than 10 shares of Rs 10 - nominal each 96% hold less than 100 shares. The management is by a corporation with similar composition.

7. Trading in Manganese is a complicated technical business involving many grades of ore. Great experience and confidence between seller and buyer is a prerequisite.

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IF STATE TRADING DOES NOT RESULT IN GOOD, WHICH OF ALL THOSE ABOVEMENTIONED WILL SUFFER MOST; AND WHY?

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Agricultural Credit and the State Bank

D L Gupta

THE problem of agricultural credit is an age old problem. The Indian cultivator is not getting adequate credit and what little he gets, it is only at a very high cost. Yet cultivation cannot go on without borrowing. Government has now assumed the responsibility of supplying adequate credit to the agriculturist on reasonable terms. It is a difficult obligation to discharge, for agricultural finance is both risky and costly. Agriculture is a speculative business, in which success often depends on factors which are beyond the agriculturist's control. Crops may fail for want of rain; while they may be damaged by excessive or untimely rain. Again crops may be too good and prices may fall headlong. When an epidemic breaks out, livestock may be decimated. As a result of all these uncertainties, advances often get frozen and recovery becomes impossible immediately, and difficult even in the long run.

Agricultural credit is more costly than industrial or commercial credit. To supply it and later on to recover it from borrowers scattered over a wide area, is a difficult task. It requires more staff, involves more labour, and takes more time—all of which mean more cost. In view of the high risks and cost, interest to be charged on agricultural finance should naturally be high though there is a limit to it.

Usury in Ancient India

In ancient India, the law makers laid down such limits. According to Vashistha, a professional money lender may charge 15 per cent per annum from his debtor. The law-giver Manu allowed a maximum rate of interest of 24 per cent per annum, and warned that it would be a sin to charge more. Besides, a responsibility had been imposed on the King to see that the peasantry of the country was happy and got the necessary credit at a reasonable rate.

Inspite of these injunctions, however, the professional money-lender used to take full advantage of the pressing need and helplessness of the farmer. In addition to charging very high interest, frequently other charges were imposed under different names. Such undesirable practices have always been known, though they evoked severe condemnation from all quarters.

The Government of India has also tried to check the exhorbitant rates of interest and the malpractices of the money-lender through:

1. Legal control over private money-lending; and,
2. Expansion of institutional credit, through co-operative societies.

A legislative remedy was attempted first in 1879 by introducing the Deccan Agriculturist Relief Act. Subsequently the Indian Contract Act was amended, and the Usurious Loans Act was brought into force. Later on, at the suggestion of the Royal Commission on Agriculture almost all the provinces and States passed some more legislation. These include:

1. Licencing and registration of money lenders;
2. Maintenance of accounts in prescribed form;
3. Furnishing of receipts and periodical statements of accounts to debtors;
4. Fixing of maximum rate of interest;
5. Protection of debtors from molestation and intimidation; and
6. Penalties for infringement of the provisions.

In practice, these acts, instead of giving any relief to the peasants, affected them adversely. Interest rates rose steeply, and credit facilities contracted considerably.

The money-lenders' point of view was that the rate of interest had been fixed very low, while nothing had been done to reduce risks. Moreover, the provision for furnishing receipts and statements of accounts to debtors increased stationery and clerical expenses. Further, it was argued that the various Acts had been framed with a view to favouring the farmers only, without safeguarding the interests of lenders regarding the timely and smooth repayment of their dues. Thus, respectable money-lenders gradually confined their operations to the relatively less risky borrowers. Others adopted various malpractices to evade the law and dealt only with those who would not disclose such practices to others, and would not oblige them to take recourse to a court of law.

50 Years of Co-operation

Co-operative credit was adopted by the Government as an institutional system in 1904. Initially only primary credit societies were set up to raise funds from members and loans from Government, non-members and other co-operative societies, and distribute them in loans to members and other co-operative societies. The Act of 1904 was amended in 1912, in which provision was made for central co-operative banks to finance the primary societies, and to act as balancing centres. Co-operation extended its activities rapidly upto 1929. In this period, enthusiastic co-operators made advances indiscriminately to a very large body of borrowers, disregarding the fundamental principles of co-operative banking. When the Great Depression came many co-operative banks could not meet the depositors' demands and the movement collapsed, particularly, in provinces like Bihar, Bengal, C P and Berar, and in States like Travancore and Cochin. Thereafter numerous schemes for the revival of the movement were tried, but without much success.

In 1935 came the Reserve Bank of India, with an Agricultural Credit Department, with powers to make advances to provincial co-operative banks in British India against government and other approved securities, promissory notes and bills supported by documents of title of goods, and to discount their agricultural bills maturing within 9 months for financing seasonal agricultural operations. But in view of the unsatisfactory financial condition of the movement the Bank extended very little credit at this stage, though it guided the movement and helped it to establish sound banking traditions.

Revival Since World War II

World War II infused new life in the movement. Agricultural prices increased and the repaying capacity of borrowers improved. Since then the movement has not only survived but even expanded considerably. Further, periodical amendments of the Act have enabled the Reserve Bank to extend greater credit through the State Co-operative Banks, including banks in Part B States, on liberal terms and at a concessional rate of interest of 2 per cent below the Bank Rate i e at 1½ per cent per annum, on the following lines:

1. For financing seasonal agricultural operations or marketing of crops, payable within 15 months of the date of the pronotes, and against the security of pronotes executed by good Central Co-operative Banks or Agricultural Co-operative Credit Societies or Marketing Societies and endorsed to the State Co-operative Banks. Loans may also be made against the guarantee of the State Governments concerned.
2. For medium term loans against the guarantee of the State Governments. These facilities encouraged the State Governments to establish State Co-operative Banks. All the Part A and Part B States (except Kashmir), and a majority of Part C States have established such apex banks, and have participated in their share capital, and granted certain initial subsidies and other financial aids to them.

The Reserve Bank's loans to the State co-operative banks are intended to provide them with supplementary funds for meeting the increased needs of the cooperative societies through central cooperative banks, or even directly in certain cases. But some State banks, particularly the new ones, are treating them as the principal source of funds. They have become indifferent in securing deposits at the prevailing high rates of interest as the Reserve Bank is lending to them at a concessional rate. It appears that some banks have utilised their own funds, or those received from the Reserve Bank, for earning interest by employing these in Call Deposits and commercial advances instead of advancing them to cooperative societies. Such misuse of facilities provided by the Reserve Bank requires to be effectively checked. Despite the facilities from the Reserve Bank and State Governments, the State Co-operative Banks, execept in Bombay and Madras, have not been able to develop the agricultural credit movement substantially.

After the sad and costly experience of the 1930's, the cooperative banks adopted a safe, and to some extent a conservative policy in making advances. They have generally granted advances only to the creditworthy, and against the security of land or of sureties owning sufficient unencumbered lands. Many have not been able to get credit from the cooperatives, thus leaving no scope for labourers to become tenants and for tenants to become owners at any time in their lives. Such conservatism is to be deplored.

Socialistic Planning and Co-operation

With economic planning so much in the air, it has become necessary for the Government to provide credit facilities to the non-creditworthy as well, for productive purposes, and against the security of the borrower and of his growing crops. A bank, whether commercial or cooperative, deals with the depositors' money, and thus has a primary obligation towards the depositors. So it must play safe when making advances. It normally refrains from making advances to a cultivator with no tangible security to offer, except his personal capabilities for raising crops, or for the maintenance of the borrower and his family and for construction and repair of his residence and purchase of cattle etc. Cooperators, therefore, expressed their inability to make advances in the desired manner unless the State Governments or the Reserve Bank were prepared to: (i) provide necessary funds, and (ii) establish an authority to under-write the risk involved in such advances.

Moreover, as regards supporting the Government's scheme of credit development, responsible cooperators definitely said,—"the plan which, in a large measure, the cooperatives are expected to carry out should be of their own making. In the light of this, it appears strange that we still hear remarks that cooperatives should carry out the financial or other policy of the State. It must be clearly understood that the cooperatives cannot carry out any policy which is not their own."

Reorientation

In view of these observations, the Committee of Direction of the All-India Rural Credit Survey recommended:

1. Nationalisation of the Imperial Bank of India, to place its large resources and organisation at the disposal of Government; and

2. The establishment of various funds particularly:—

(a) National Agricultural Credit (Long-term Operations) Fund:

(i) to make long-term loans to State Governments, to purchase shares of cooperative credit institutions, mainly designed for giving rural credit;

(ii) to grant long-term accommodation to land mortgage banks by way of direct loans or by purchases of their marketable debentures, and

(iii) to allow medium term loans.

(b) National Agricultural Credit (Stabilisation) Fund and Agricultural Credit (Stabilisation) Fund—to convert short-term loans into medium-term loans, if the former could not be realised at any time owing to draught, famine etc.

Short-term accommodation will be supplemented by the Reserve Bank of India as usual. The long-term and medium-term loans will be granted by the Reserve Bank of India out of the above funds, against guarantee by State Governments. Government have accepted these suggestions, and have implemented some of them.

With these measures, Government will install a forceful competitor to the private money-lenders, and there is no doubt that they will yield successful results if all the recommendations of the Committee are implemented.

Criticisms

Two questions were asked in the press about the above new, and almost revolutionary suggestions, namely:

1. When the Reserve Bank has been supplying the necessary credit to the co-operatives through the State co-operative banks, why set up the State Bank of India?

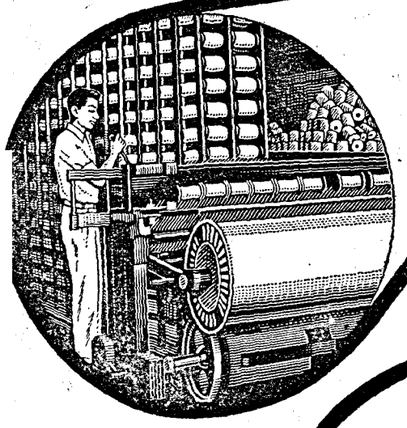
2. When the State Bank will in due course have about 1,200 branches all over the country, why not allow it to make advances to agriculturists?

Whatever theoretical merits these criticisms may have, they have no practical weight. The Reserve Bank is a Central Bank and as such it has to discharge many important functions, like the management of currency and credit, public debt and foreign exchange etc. In addition to all these, it is doing much more in respect of agricultural credit than any other Central Bank. It would not be advisable to divert more of its energies towards agricultural credit alone. Again, the question is not only of the supply of credit, but also of its proper guidance and control.

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Central cooperative banks are the main links between the apex banks and the societies, and the right type of credit expansion depends on good management of these banks. Their present structure in most of the States appears to be weak. They, therefore, require expert guidance in the new set-up. In this respect, the following suggestions of the Committee of Direction are relevant: (i) The central bank's office should be in the premises of the local State Bank of India; (ii) The State Bank should be the sole banker of such banks and (iii) The local agent of the State Bank of India should invariably be nominated on the Board of the central bank. The State Bank of India, therefore, with its numerous branches would be in a better position than the Reserve Bank to guide the activities of the central banks.

Regarding the second criticism, it should not be overlooked that the cooperative societies know the requirements of the local agriculturists and so they are in a better position to grant loans without much delay. Besides, they can conveniently follow up the loans as regards their uses and repayments in time. For the State Bank of India, this will be a costly affair. Besides, the cooperative societies have prior rights, under the various State Cooperative Acts, to recover their dues from the crops, and in certain cases from lands, of their members, which the State Bank has not. It is, therefore, more economical, convenient and safe to make advances through cooperatives.

Moneylenders and Rural Credit

One more important question remains to be discussed. Would it be possible for all the agriculturists to join the cooperative movement, no one borrowing from the private money lenders? That is impracticable. Institutional credit, with all its liberal attitude, will be available only according to certain principles and procedures. Most agriculturists are so poor that they cannot be regular and systematic borrowers from an institutional agency. Consequently, most of them will go to moneylenders, who will continue to exploit them, if government does not take the right type of protective measures.

Besides providing institutional credit, it is necessary to create healthy competition between good and rapacious moneylenders as well as between moneylenders and other well-placed persons in rural areas who may invest their money in financing agriculture. This can only be done by reducing the risks of agricultural finance. For this, the recovery of agricultural loans, if made at rates of interest prescribed by law, should be assured by giving prior charge to the licensed moneylenders in the Money Lenders Act, as has been given to the cooperative societies. It is perfectly justified to safeguard the interests of the moneylenders against dishonest borrowers.

During the early part of this century, it was difficult at one time to supply seeds to agriculturists for raising crops in the Kota State. Most moneylenders refused to make advances as they were not certain of their recovery. Government had a prior charge on the crops to recover the land revenue. Agricultural prices were so low that the land revenue was absorbing most of the sale proceeds. The then Kota Government, therefore, recognised the prior right of the moneylenders to recover their advances made in the form of seeds and food plus 25 per cent interest. In addition, the revenue collectors were required to see, before recovery of land revenue, that the dues of moneylenders had already been paid by the cultivators. This measure encouraged the moneylenders to make seed and grain advances.

In this respect, the Committee of Direction of the All-India Rural Credit Survey recommended: "The remaining problem will be that of devising a scheme of control over the moneylenders' activities. This will have to be more realistic than can be said to be the case with the prevailing scheme of control under the moneylending legislation of different States. Only under a proper scheme will the better type of moneylender have a chance to perform his function without having recourse to evasion of law and black market moneylending."

Further to guide and control both the borrower and lender, and to maintain a fair relation between them, a separate and independent agency should be established in each State viz a Registrar of Moneylenders, who should have all necessary powers and facilities like the Registrar of Cooperative Societies. The posts of Registrar of Cooperative Societies and of Moneylenders should not be combined as one person would not be able to discharge effectively these two functions particularly when the cooperative movement is to be reorganised and vastly expanded under the Second Five Year Plan.

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Around Bombay Markets

Selective Rise on Bonus Issue

Thursday, Morning

ALTHOUGH the week opened on a steady if not a firm note, the subsequent performance was disappointing. The leading bulls were indifferent with the result that excepting for occasional spurts in individual scrips, the general trend was cheerless. Due to the lack of follow-up support, especially at higher levels, particularly in steels and cotton mill shares, higher levels could not be sustained. In the event, the stock exchange suffered an all round recession towards the close of the week on tired bull liquidation and scattered bear selling. It appeared in retrospect that the pronounced weakness of Indian Iron had adversely affected the general market sentiment.

There were, however, some exceptions. Thus, for the greater part of the week, automobile shares were in demand in anticipation of favourable results following the Tariff Commission enquiry. There was also sustained and influential buying in Premier Construction in view of the report that the capital structure of the Company would soon undergo some changes. The shareholders are reported to have already put up a proposal before the directors to that effect. The promoters' shares, it has been proposed, should be converted into ordinary shares and that directors should recommend, after conversion, a bonus issue at the rate of two bonus shares for every ordinary share. The present capital of the Company consists of 17,500 ordinary shares of Rs 30 each. The number of promoters' shares is 35,000 of the face value of Rs 3-8 each. The idea is to convert the promoters' shares to 11,666 ordinary shares, drawing the necessary sum from the reserves. If the bonus issue is to be made in the ratio of two shares for every share held, it would result in the creation of 173,320 new ordinary shares of Rs 30 each. In other words, after reconstruction, the share capital of the company would amount to just a little over Rs 51 lakhs as against the company's reserves exceeding Rs 80 lakhs.

Bombay Burma also firmed up towards the close of the week on sustained and informed buying. Here also, the prospects of reconstruction of the company's capital structure, besides those of an early announcement of a higher interim dividend, were contributory factors accounting for the strength.

The recent rise in prices of Tata Oil had been initiated by anticipations of higher dividends. These anticipations were realised when the company announced a dividend of Rs 3 per share for the year, as against Rs 2 per share last year. The directors also announced their decision to capitalise a part of the amount standing to the credit of the premium account of the company and to utilise the same for the issue of fully paid ordinary shares of Rs 25 each in the ratio of one bonus share for every five shares held. The bonus issue awaits finalisation, pending the sanction of the Controller of capital issues.

Towards the close of the week, the general trend of the market improved and leading textile issues benefitted materially. The closing quotations recorded fair gains over the week.

Cotton

Import Prospects Restrain Activity

THE week opened with the announcement by the Government of India inviting applications from importers and mills for the import of 40,000 bales of American cotton length 1 1|16" and above. It was stated that licences against these applications would be issued under Public Law 480 at the appropriate time. Thereby hangs a tale.

Public Law 480 is only another name for the Agricultural Trade Development and Assistance Act of 1954 administered by the Department of Agriculture in the USA. Title II of this Act, to be administered by the Foreign Operations Administration, authorizes the use of Commodity Credit Corporation stocks of agricultural commodities for relief assistance to friendly foreign countries up to a maximum of 300 million dollars.

The reason for inviting import of American cotton of the specified staple length is obviously to offset the rising tendency in prices of cotton which might well prove embarrassing, if the present scarcity of quality cottons is any indication. In fact, readers of this column will easily recall the consequences that followed a steep rise in the price of cotton futures towards the end of last year. The Government, in its anxiety to stop any further speculative rise in prices, has decided upon importing US cotton under Public Law 480. While officially India is to import only 40,000 bales of US cotton, according to US shipping circles, it is probable that India may in fact go in for large scale imports of American cotton. US shipping interests report that India has requested for $300 million assistance under Public Law 480 for the purchase of commodities chiefly cotton and wheat.

Although there is no official confirmation, according to some market observers here, the proposal for importing US cotton has arisen from the reported triangular deal in cotton textiles between India, Burma and the USA. In this connection, it is authoritatively learnt that a four-member delegation consisting of top officials is already in Rangoon for discussing the terms and conditions of the deal whereby India is expected to receive 37,000 bales of American cotton from Burma (who would have received a sizable quantum of it in the first instance) for being processed by cotton mills in this country.

Marketwise, ever since the announcement of American cotton imports, there has been a distinctly bearish trend which has been further accentuated by good rains and the prospects of better crops. However, towards the close of the week, cotton futures tended to firm up a bit on reports that rains had been rather heavy in the cotton growing belts giving room for fears of some damage to the crop.

In the spot market at Sewri, hardly any business of note passed during the week, though occasional deals in quality growth were reported off and on.

Around Calcutta Markets

Prices and Equities

Wednesday Evening

EQUITIES continue to drift lower. On settlement days, prices go up slightly on technical grounds. But the spurt proves short-lived. Investors remain away from the market. In the absence of support, equities climb down gradually. Fluctuations in clearing shares may have aggravated the recent downward trend. But speculation in clearing shares is no longer responsible for the consistent decline in equities. Deeper influences are at work.

It is clear that the proposals included in the last budget are having belated effects. Many companies have since declared dividend in excess of six per cent of the capital. But companies are not likely to continue this practice which involves payment of a dividend tax. As the indirect limitation on dividend payments takes effect, investors will, naturally, be unwilling to make fresh investments unless equity prices go down further. This is one of the main influences which is depressing stock markets.

Price Trend

No less intriguing is the rising trend of prices. From the last quarter of 1953 to the last quarter of 1955: equities were booming. One of the explanations for this boom was the falling trend in the prices of food and of industrial raw materials. By the third quarter of 1955, Tea shares toppled down as average auction prices fell sharply. This had a temporary effect on equities in general. But there are other reasons why equities have failed to resume the upward trend confidently.

By the end of 1955, it became evident that food prices were rising. This trend became pronounced during the first quarter of the current year. It was during this period that stock markets became conscious of the effects of the rising trend in food prices. Dearness allowance is related to working class living costs. As the rising trend in food prices raised dearness allowances, industry's wage costs started spiralling up. This is a development which continues to plague industry, and, hence, stock markets.

Coal Prices

Possible effects of uniform prices for steel and the higher uniform prices for cement have been discussed in these columns last week. Though only the distribution aspect of the cement industry is now to be controlled by the State, fears persist that major industries like cement and iron and steel may be either taken over or so strictly controlled and supervised by the State as to make the difference between State and private ownership a distinction without a difference. There is, besides, the price aspect of recent Government policies.

Iron and steel prices are now uniform throughout the country. This affects the existing industries around Calcutta and Bombay. Higher uniform cement prices affects industry throughout the country. And now coal prices have also been raised. Higher coal prices will raise further industrial costs of production. Industry in eastern India is coal-based. Thus, higher coal prices will impose a relatively higher burden on industry in this part of the country. Equities continue to be hesitant as production costs tend to rise.

Coal Shares

While coal prices will raise production costs for the major industries, the coal industry, apparently, remains unsatisfied with the increase in prices announced by the Government. It claims that the rise in prices now allowed will not offset the higher wage burden as a sequel to the recent award of the Industrial Tribunal. This is one of the reasons why Coal shares continue to fall. Incidentally, the industry has been promised a further review of the price question in the near future. Nor is it without significance that a responsible section of the industry is optimistic that the Second Plan offers ample scope for development in the private sector of the industry.

As the settlement expired today, Indian Iron developed a steadier trend. It was partly due to settlement considerations. But recent experience suggests that speculative investors are interested in entering the market for Indian Iron around Rs 35. With the proposed right issue at a premium of Rs 3½ per share, it is, certainly, worthwhile to accumulate Indian Iron at around Rs 35. There has been interested support to Indian Iron in the last two days. Along with Indian Iron, other clearing shares have also steadied-up.

Trend Changing

But cash scrips remain hesitant. If clearing shares continue to move up, cash scrips may respond some days later. For one thing, Miscellaneous and Engineering shares are now well below the best levels touched in the latter half of last year. Any change in the market sentiment will certainly be reflected in revived demand for Paper shares. It is encouraging to note that recent weekly tea auction prices are registering a gradually higher trend. As these shares look up, investors may be tempted to re-enter the market for Coal shares.

Even then, Jute shares may remain depressed. Re-sealing of 2½ per cent of jute looms has had no effect on Jute shares. Jute goods have tended to steady up mainly due to recent buying orders firm Argentina and Australia. Even so, jute goods remain depressed. Meanwhile, raw jute prices continue to be steady. Re-sealing of looms should have had a softening effect on raw jute. But prices remain steady as doubts spread about the extent of the recent flood damage to the crop. As the spinner's margin continues to be unfavourable, Jute shares refuse to move up.

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Dead-wood and Danger

THE Bill for amending the Reserve Bank Act which passed its first reading in the Lok Sabha and was referred to a Select Committee falls broadly into three parts. The first relates to foreign currency reserves as a backing against note issue, re-valuation of the gold held by the Bank at the current official rate being a part of it. The second relates to the reserves maintained by the scheduled banks in cash or in interest free balances with the Reserve Bank against their deposit liabilities. The third is concerned with the abolition of Local Boards which have for so long functioned in an advisory capacity. Of minor importance, and largely technical, is the amendment relating to Reserve Bank advances from the National Agricultural Credit Fund to enable co-operative banks to lend to cultivators for acquiring shares in co-operatives.

The first two are major changes which should normally deserve the most careful consideration. The issues, however, are not being threshed out de novo on the floor of Parliament. In fact, so far as the backing against the note issue is concerned, the Government and the Parliament had taken a firm decision long ago. This they did when they approved of the basic principles of the Plan which included not only deficit financing but also the broad pattern of the balance of payments of the country for the next five years. The Bill largely makes de jure what is de facto; it implements the decisions on policy which have already been taken.

As instruments for carrying out these broad policy decisions, however, the amendments invite certain criticisms. To take the foreign exchange and gold reserves first. It has been decided that resources for development to the extent of Rs 1200 crores in the next five years will have to be found from budgetary deficits. This will mean currency expansion of a certain magnitude against which it is neither possible nor desirable to maintain proportionate reserves as laid down under the present Act. Far from expanding such reserves against the currency expansion that is contemplated, it has further been decided to draw down the sterling balances and utilise the surplus above a minimum that may still be maintained for meeting the foreign exchange requirements of the Plan.

The question that arises is, therefore, the narrower one of the amount of the minimum reserve and the manner in which it should be held. The Bill provides that the minimum should be Rs 400 crores in foreign securities and Rs 115 crores in gold (which would be the value of the present holding of gold after re-valuation). This minimum, however, can be reduced by a hundred crores with the previous sanction of the Central Government for a period not exceeding six months in the first instance, and subsequently for periods not exceeding three months at a time, with similar sanction. This concession to convention is unmeaning. After all, what are reserves for, if they cannot be touched when they are needed most? By making it obligatory for the Reserve Bank to obtain previous permission from the Central Government, when the reserves have to be touched, the Bill implicitly assumes a separation between the Finance Ministry and the Reserve Bank and the independence of the one from the other which is just not there. Again, by making the reserves of Rs 300 crores of foreign security 'untouchable' except with the legislative sanction of Parliament, the Bill assumes that the relationship between legislature and executive is quite different from what it is today or what it is likely

to be in the near future. True, the ultimate restraint against executive excesses lies with Parliament. But surely the latter need no special powers to exercise it? Abolition of proportional reserves it has been complained, will undermine the strength of the rupee by weakening the confidence of the outside world. If this is sheer nonsense, it is equally nonsensical to maintain outmoded currency reserves when the latter no longer serve the function of restraining or regulating the volume of currency in any way. It is high time that such dead-wood were removed from our statutes.

More important for the future of monetary policy is the provision relating to reserve ratios of scheduled banks. Central Banking has developed in this country on the British model of fixed minimum reserve ratios. Indian banks have not, however, been able to keep to these minimum ratios because we did not, and do not, have a short term money market with infinitely elastic demand for credit. Cash ratios, however, have lately come down and with the increasing demand for bank credit, scheduled banks have been able to reduce their excess reserves to a large extent. How far the demand for credit arises from the needs of planned development and has therefore to be met, and how far it arises from speculative holding of stocks which has to be prevented in the interest of planned development, it is not possible to decide at sight. The Banking Companies Act, however, gives wide powers to the Reserve Bank to keep a close watch on all banking activities and check those activities which go against 'stability' and planned development.

Amendments to the Reserve Bank Act would be justified only if they help the Reserve Bank to implement the broad policies that have already been decided upon. The policy in respect of foreign exchange is reasonably clear; but no monetary policy for planned development has been laid down yet beyond what is supposed to be conveyed by the blessed word 'stability' which at least needs to be defined and brought down to earth. Have the larger powers that the Reserve Bank is now seeking been suggested by its own experience of monetary control? If they have it should be possible to check up against the Report on Currency and Finance for 1955-56 which has been published during the week.

The Report does not end on a hote of cautious optimism as is usual with Government publications. It is honest enough to point out that though, taking the First Plan period as a whole, progress has been satisfactory in that money supply with the public has risen by 10 per cent (along with a 25-30 per cent rise in industrial and 20 per cent rise in agricultural production) while wholesale prices have declined by 13 per cent, the symptoms of inflation which appeared towards the close of 1955-56 "require careful watching" and that "the considerable inflationary potential arising from developmental expenditure" should be held in restraint. Now, which of the developments are inflationary that should be restrained and how best can they be restrained? The Bank has to see that adequate credit for desirable developments is maintained. How to separate the chaff from the grain? Is qualitative control, which the Bank is in a position to exercise, not adequate for the purpose? Variable reserve ratios came into fashion in the thirties. They are now respectable and have found a place in text books. But instruments cannot be dissociated from the purpose for which they are used. The Reserve Bank report shows no awareness of the purposes of control. Whether credit control can be satisfactorily enforced or not, and credit apportioned to right places and in right proportions without completely changing the present system of trade and exchange have not been answered. Experience, however, should suggest future lines of development and action. As bank credit is largely for trade and the requirements of trade have hardly been integrated into the Plan, a big gap remains in the thinking on the subject.

There may be harm in arming the Reserve Bank with powers for varying reserve proportions, when it is difficult to say how this is going to help the Bank. The kind of situation that arose at the time of the Korean boom could be met more easily by impounding foreign exchange earnings or their rupee equivalent for the time being. This could be done by requiring scheduled banks to lodge in a special account such sums as the Reserve Bank may consider necessary in the light of current credit conditions. In less exceptional circumstances, further powers, if at all necessary, should be an extension of those which the Reserve Bank already possesses under section 21 of the Banking Companies Act for controlling advances. If the wide differences among the scheduled banks are borne in mind, particularly the conditions under which they work and the nature of their business, road-roller methods of control would hardly appear to be warranted. So why not wait, and let the Reserve Bank gain some experience in qualitative control which should suggest the lines of further extensions in the direction of rationing of credit? To arm the Bank at this stage with powers of varying the reserve ratios will only impede progress in the right direction but will not help the Bank in any way.

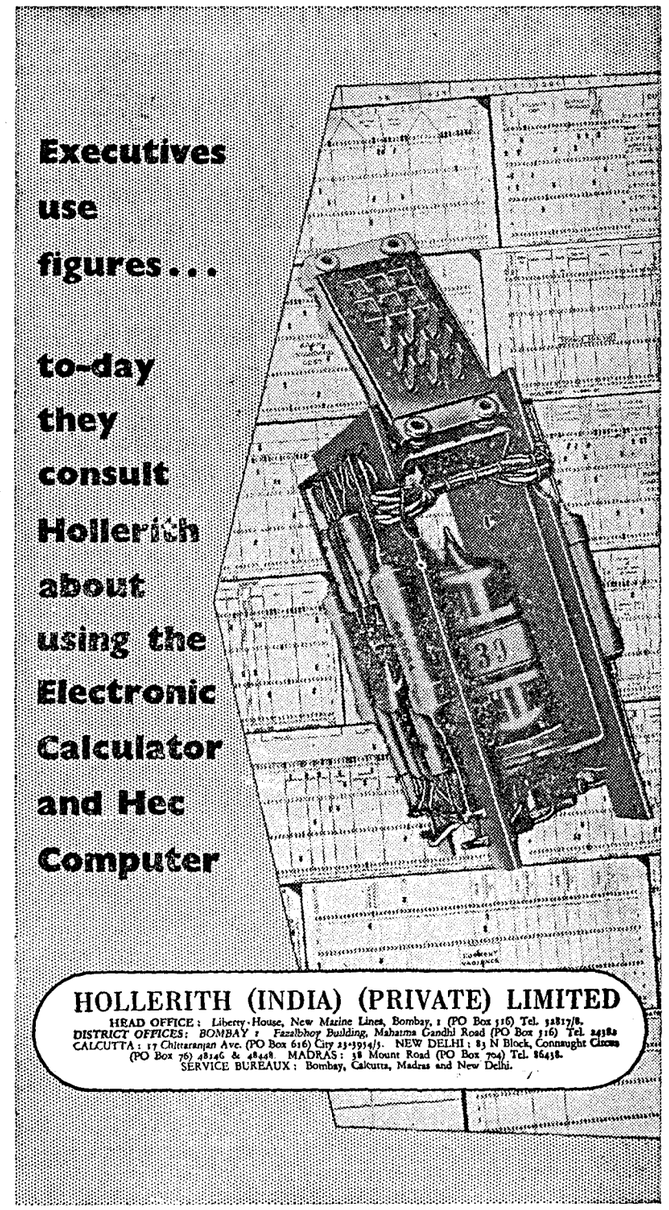
Disarmament

DISARMAMENT is an essential condition of world peace. Both Russia and the Western Powers have reached an understanding not to start an atomic war. On the basis of this understanding, it should have been comparatively easy to reach an agreement on disarmament. In the absence of such an agreement, the "cold war" continues. Political developments in Russia since the death of Stalin combine with the nuclear stalemate to make the continuation of the "cold war" illogical. Why, then, is an agreement on disarmament not yet in sight? Can it be because the Western Powers, and particularly America, are aware that, in the absence of thermo-nuclear weapons, the balance of power must continue to shift to the Communist bloc? This gradual shift in the world balance of power is inevitable on the assumption made above. This may explain Washington's insistence on perfecting nuclear weapons as a perpetual deterrent to aggression. But such a policy can, at best, perpetuate nuclear stalemate. It cannot ensure world peace.

Mutual jealousies and suspicions obstruct any agreement on disarmament. Russia is opposed to President Eisenhower's plan for "open skies" as she suspects that the plan will be exploited, in the absence of an agreement on disarmament, for a surprise attack. President Eisenhower, in his turn, proposed the "open skies" plan in order to minimise the chances of any surprise attack. M Gromyko is logical in his argument that aerial inspection cannot lead to any reduction either in armed forces or in armaments without a prior agreement on disarmament.

There are reasons why the Western Powers are interested in limiting armed forces as a first step to an agreement on Disarmament. Three years ago, the Western Powers proposed a plan for reduction of armed forces in the sure knowledge that they had gained superiority in nuclear weapons while Russia continued to enjoy an advantage in ground forces. To-day, the West is proposing a plan for limitation of armed forces for entirely different reasons. Russia has now made phenomenal progress in the race for nuclear weapons. Therefore, the superiority of her armed forces has again assumed significance. There is another reason why the Western Powers are now anxious to reduce the armed forces of the major Powers. For them, a reduction in armed forces and conventional weapons has become an economic necessity. Defence expenditure not only hampers their internal economic progress. It limits their capacity to aid economic development in underdeveloped areas. Russia and America alone can maintain the current level of defence expenditure, and yet offer aid to underdeveloped countries. Equally understandable is Russia's prompt acceptance of the West's plan for limitation of armed forces of the major Powers. She is now economically strong but not as strong as America. She has every interest, as have Britain and France, to curtail her military expenditure so that more resources can be available for her internal economic development as well as for aiding progress in poorer countries, in which she has an ultimate and abiding interest.

Meanwhile, recent discussions of the Disarmament Commission indicate some progress towards limitation of nuclear weapons. Though Shri Krishna Menon has not succeeded in convincing the Disarmament Commission of the urgent need of banning tests of nuclear weapons, there is growing support to the move for regulating and limiting these tests. Available scientific information supports Shri Menon's passionate plea for banning nuclear tests. It is clear that the regulation and limitation of nuclear tests must be a step towards disarmament. But this preliminary step does not necessarily require a control organ, as, under the present scientific and technical conditions, nuclear tests can be detected. It is wrong to suggest that Russia is opposed to any system of control and inspection of phased disarmament, though she is opposed to the "open skies" plan. When Russia proposed that the ban on nuclear weapons must be the first step towards disarmament, the Western Powers opposed the suggestion. To-day, Britain concedes that prohibition and limitation of nuclear weapons should be the first essential step, and is prepared to discuss this aspect of disarmament separately. "No nation", the American representative to the Disarmament Commission endorsed Shri Menon's challenge, "has the right to blight the genetic heritage of man". Therein lies hope that Russia and the Western Powers will reach an agreement on disarmament soon. Not only underdeveloped countries, but the whole world will welcome such an agreement as a prelude to lasting peaceful co-existence.



Weekly Notes

No Protection to Authors

THE Copyright Bill, which was referred to a Select Committee by the Lok Sabha this week, contains so many objectionable features that one wonders whether the Education Ministry, which sponsors the bill, is aware that the primary purpose of copyright legislation is to protect the producer of artistic works and to assist him in asserting his rights.

The bill, which is intended to replace existing legislation, provides for instance, for the registration with a special Copyright Registrar of material in which copyright is claimed and makes such registration compulsory before any legal action can be taken by the holder in case of infringement. This is obviously a needless burden which will make enforcement of his rights so much more difficult for the poor author.

A particularly obnoxious feature of the bill is the provision that when permission for the publication of a translation of a copyright work is refused by the holder, the Registrar of Copyright may grant such permission, though a fee to be fixed by the Registrar will be payable to the rightholder. In what sense this provision can be considered to be an additional protection to the producers of artistic works, it is difficult to imagine. Besides, this would make the Registrar a judge of literary merit, both with regard to the standard of translation and the value of the original work!

Under the provisions of the bill, it will be necessary for the author or artist to contract out when assigning his copyright, if he wishes to make an assignment for any specific purpose only. Similarly, copyright in any material produced by an employed person outside his employment will vest in his employer, unless the employee deliberately contracts out. Here is a highly dangerous provision affecting thousands of free-lance writers who might hardly like to demand from their employers a written release from the operation of this provision. The right of the author to the fruits of his own work are thus denied by the bill.

Flying in the face of the international conventions to which this country is a signatory, the bill reduces the term of copyright from 50 to 25 years after the death of the author and further makes this term, in the case of a joint work, operative from the death of the first co-author to die. It also gives confiscatory power to the Registrar by way of the right to grant permission for publication or performance against the copyright holder's wishes. In its provisions regarding enforcement of rights, again, it allows for presumptions of law not in favour of but against the author.

The only favourable feature of the bill is one which extends the period of protection against translation to the full term of the original copyright. The Select Committee will have to eliminate many objectionable features of the bill, if it is to be acceptable.

Transport Bottleneck

Our Delhi correspondent writes:

THE edifice of the Second Five Year Plan has been constructed on admittedly an inadequate and, therefore, insecure transport base. Shri K C Neogy and the railway authorities believe that the expansion of transport facilities will be directly related to the financial allocations for the railways and the phasing of traffic at the ports; there is nothing else to it. Some economists, however, feel that a more scientific or rather utilitarian application of the limited funds at strategic points in the railway system will yield better results than the railway technicians, with their natural desire to acquire the best, care to concede. They have been advocating a thorough scrutiny of the railway plan with a view to establishing investment—output, norms on the lines of the surveys to which some of the bigger hydel projects are being currently subjected.

There is another group, however, which sees the solution of the transport problem in the diversion of rail traffic to coastal shipping. Pressure on rail transport compelled Government to move several million tons of coal by sea during the war but the experiment was short-lived. The reason is that shipping is more expensive than rail transport.

The cost of transport not merely determines the comparative demand on shipping and the railways but also the development of the economy generally. To give an impetus to industrialisation in the less developed areas of the country, Government has instituted freight pools for fertilisers, cement and steel. But that is merely the beginning. Two expert committees are dealing with the related issues of radically revising the freight structure of the rail-sea transport. The institution of freight pools is understood to be under the active consideration of both.

Postage Stamp Rate for Coal Also?

The Railway Freight Structure Enquiry Committee is studying the desirability of pooling the transport cost of coal so that the basic raw materials—cement, steel and fuel—may be available in every part of the country at standard prices. The Committee for the coordination of rail-sea transport is examining the possibility of pooling rail and sea freights so as to subsidise the quantum of traffic that may be diverted to shipping by raising the charges for goods moved by rail. It is believed to be of the view that a part of the rail traffic in cement, steel, coal, mineral oils and salt could be earmarked for coastal shipping. Freight equalisation has been tentatively recommended, but the final report of the committee is not likely to be available in less than a month. The railways are presently estimated to be moving goods at the annual rate of about 130 million tons of which a little less than half is coal traffic. Coal diverted to coastal shipping during the war years amounted to some 6 million tons, it is stated, and this figure can be reached again without difficulty.

There is little doubt that the proposition, if seriously mooted, would mark a radical departure from the existing modes of thinking on the transport problem. It is also likely to meet with stiff resistance from the Finance and the Railway Ministries which may fear a dimunition in the total demand, as a result of higher transport charges. The producing States, particularly Bengal and Bihar, have already served notice that they would resist freight equalisation of coal as the industrial belt in the eastern region would be the worst victim of the move. The fact that price pooling of cement would benefit the Bengal-Bihar region and reduce the strain on transport by making rationalisation of movement possible may however be increasingly appreciated in time.

Competitive Co-existence

BOTH the political and economic implications of the communique issued after the talks between Pandit Nehru and Dr Adenauer deserve emphasis. It is not quite clear from the communique itself whether the West German Chancellor now admits that unification of Germany must follow, and not precede, an agreement on world peace. But the reference in the communique to disarmament as one of the most urgent world issues is not without significance. Reports of talks between the two Heads of State indicate, according to versions supplied by news agencies, that there has been a shift in Bonn's approach to the two related problems of German unity and European security. Dr Adenauer is reported to have expressed the opinion that any reconciliation of East-West conflict could hasten re-unification of Germany. This is what Moscow has been arguing for a long time. There has never been any doubt that Paris endorses Moscow. If Pandit Nehru has succeeded in impressing on Dr Adenauer the wisdom of such a policy, the Indian Prime Minister has achieved much in his mission of peace. Only Washington now seems to insist on a different approach to these two related issues.

India's foreign policy is based on the fundamental assumption that there can be no global prosperity without world peace. For poor, under-developed countries, peace is an essential condition of plenty. Though the Western Powers and the Communist bloc have not yet reached an agreement on peaceful co-existence, some of its beneficial consequences are already in evidence. Economic co-operation between India and West Germany started before Russian economic overtures to under-developed countries. But Russian offers of economic help have provoked West Germany to outbid the former. India's first steel plant within the public sector is being built through West German co-operation in men and money. West Germany has now proposed to build and equip, besides supplying the teaching staff, a technological institute in India. Bonn has also offered scholarships and other monetary facilities for "a greater number" of Indian students to attend German colleges.

Russia and West Germany are keenly competing with each other to help economic development in south-east Asian and West Asian countries. India, along with all poor Asian countries, will welcome such evidences of competitive co-existence. This was one of the issues discussed recently during the Commonwealth Prime Ministers' Conference in London. They agreed about the need for increased economic intercourse between Commonwealth countries. America has not been ungenerous in aiding economic improvement in backward areas. But the current debate in America on the Foreign Aid Bill emphasises her political approach to economic problems. Washington's lack of response to developing political and economic events within Russia only lends weight to Pandit Nehru's fears that its policy could split the world into two hostile camps.

Too Little, Too Late

RECENTLY, Commonwealth Prime Ministers proclaimed to the world their respect for aspirations of self-government in all parts of the Commonwealth. If Sir Anthony Eden's announcement of his Government's plans for Cyprus is a direct sequel to the recent London Conference, it is a poor reflection of Britain's, as well as of the Commonwealth's, respect for self-government. Lord Radcliffe has been appointed as Constitutional Commissioner. His task is "to consider the framework of a new liberal constitution for Cyprus . . ." This new constitution will not come into effect until law and order has been restored. Lord Radcliffe is now on a preliminary visit to Cyprus. This proposal has had a hostile reception in Cyprus. Cypriots have announced their decision to boycott Lord Radcliffe. Informed opinion even in Britain concedes that the offer means too little, and has come too late.

There are complexities in the situation. But suspicions deepen that Sir Anthony and his Government are pleading the safeguard of minorities and the prevailing disorder as excuses for delaying the grant of self-government to Cyprus. London is evidently eager to woo Ankara. It will be conceded that the problem of the Turkish minority in the island will have to be harmoniously reconciled. But the right of Cypriots to self-determination cannot be denied. Strategic considerations can be overemphasised. Both Ankara and London are suspicious of the future political leanings of Athens. Moscow's overtures to West Asia deepen these suspicions. Strategic considerations may not be ruled out altogether. But, as the international tension eases gradually, these considerations should not be allowed to override the basic issue of self-government for Cyprus.

Letter to the Editor

The Choice of Technique

MRS ROBINSON would like to know how much of the surplus accruing to the capitalist in the form of profit can be expected to be reinvested. In my opinion, however, it is not a question of expecting but of making decisions. It is upto the planner to decide what share of the profit should go into reinvestment and then ensure that the decision is carried out. If the planner means business, neither export of capital nor speculatary activities should be allowed and luxury consumption by the capitalist should be severely restricted.

But we need not discuss these questions in the context of the problem of technological choice. Mrs Robinson assumes that factory production must necessarily mean production in the private sector. But what prevents it being in the public sector? I am not suggesting nationalisation of existing industries—only that the additional production of items of essential consumption (e g cotton textiles) might be obtained through factories to be established in the public sector. Two birds, then, could be killed with the same stone: a large amount of surplus going straight back into investment; and complete control over the supply of essential consumer commodities in the hands of the planner. This second consideration alone should dispose of the alternative suggestion of relegating the task of supplying the essential consumer commodities to the as yet unorganised small scale industries.

What can be the objections to such a plan? The cost will not by any means exceed Rs 200 crores— the sum earmarked for the small scale industries in the Second Plan, a substantial part of which will go to cover the expenditure on organisational and administrative activities. Objections can only be based upon the principle that all profitable light industries must be left to the private sector, the State undertaking only such enterprises as may be necessary for the development of the country but not sufficiently profitable for the private sector to take interest in.

A Rudra
Indian Statistical Institute,
Calcutta.
July 12, 1956.

A Calcutta Diary

Personality Cult: Calcutta Style

MOSCOW is not the only city in the world to have seen the cult of personality in action, and those of us in this country who commented glibly on the noisy end of the phenomenon in the Soviet Union do well to take a closer look at ourselves. Perhaps we are idolaters all; that elusive thing called national character — the Germans are thorough, the Americans are efficient, the French are emotional, and so on — manifests itself only in the forms idolatry takes under different skies. They made quite a cult of Churchill during the war, but the British, being British, knew when to retire a war leader—just before the war is over. The record of the Germans and the Italians in this department is too recent to need recalling. We Indians are not bad at it either; nor is the practice restricted to the Right. Of an undying element in Indian behaviour my most vivid recollection is the sight of Communist procession taken out a day after Stalin's death. Near Hazra Park in the south some fifty students, unmistakably Bengali Hindu middle-class, carried a photograph of the dead leader, and sang what sounded like a kirtan, the traditional tune for funeral processions. Deputy Minister Tarun Kanti Ghosh, a devout kirtaniya, could not have sung more dolefully. Not all the Marxist doctrination had succeeded in exorcising the Bengali of his innate vaishnava streak.

It is of another kirtan soiree that I have to speak today. This was held two Sundays ago at Writers' Buildings, the West Bengal secretariat. The occasion? Dr Roy's birthday; he was 75 on July 1st. Amongst those present were Dr H C Mookerjee, Governor, Dr Roy himself, and a number of high officials. The Governor is a Christian, the Chief Minister a Brahmo. Not a few of the officials, who thought of this birthday present to the Chief Minister, are also Brahmos. Details of the life of Krishna, which were the subject of the intensely religious opera sung that evening, cannot possibly have the same appeal to a non-Hindu as they have to a Hindu believer, and the purely aesthetic approach to religious music is ruled out. What then brought Dr Roy to this function? What made the organisers think of this piece? Lord Krishna, it must be admitted, was an irrelevance in Writers' Buildings on that Sunday. The worshippers who foregathered there were offering their homage to a living deity, Dr Bidhan Chandra Roy.

This is as it always has been. I, who saw vaishnavism at Indian Communists' mourning of the death of Stalin, should have seen nothing noteworthy in this further manifestation of the Indian character. I should have dismissed it as only natural. I would have done, except for one thing. It is not the Congress Parliamentary Party which organised the kirtan in the secretariat; nor was it the largely non-Bengali business community which had earlier donated considerable funds to the West Bengal Congress Committee so that the latter could present a cheque for Rs 1 lakh to the Chief Minister. It is the permanent officials who organised this evening, and this they would not have done even a few years ago. The present writer knows an ICS man who, when in charge of a district, declined to receive a Minister who had gone thither for electioneering, and thus earned the politician's everlasting enmity. A year or two ago the Calcutta newspapers published photographs of a meeting held at Congress Bhavan on Dr Roy's birthday, and in the first row was seated the Chief Secretary of West Bengal. None of his predecessors would have been seen there dead.

It is not so much the political contamination which should worry us. I do not think that has yet taken place on a serious scale. (And a permanent official's politics is, generally, very impermanent.) There must be exceptions. One has heard of recent appointments, at the village and district levels, which were made with an eye to the coming elections. At the higher level, I think, the bureaucrat's contempt for politics and politician's is still real. No, I cannot see West Bengal Chief Secretary overnight turning a devout Congressman or the Home Secretary becoming a secret member of the Communist Party of India. If an official today wrongly favours a Congressman, it is not because the former is partial towards the latter's party; in nine cases out of ten, that favouritism will be found to have been initiated by pressure from a Minister. Only, in saying all this in defence of the West Bengal bureaucracy, I am not sure that I am not damning it the more. For, in deviating from his standards of fairness, a bureaucrat may be actuated by motives more reprehensible than personal political convictions.

Mark you, I am not repeating the usual moan on the loss of idealism in our civil service. I prefer my bureaucrat without idealistic dressing. Personal advancement is an important consideration with him, and should be. It is not his business to become vastly popular so that he may be elected to Parliament and then to power. He is in power, by virtue of his academic and other qualifications. It is this basic requisite of a bureaucratic career which does not obtain in West Bengal today. It is no longer enough to be efficient and honest; these qualities may even be handicaps; what is required for assured advance is to be in the good books of one person, Dr Roy. Which brings us back to the personality cult.

You could trust India's tried civil service to devise precise formulae for pleasing the newcomers to power. Work they do not want, and they must not be bothered with it. Flattery they like, and oodles and lashings of that shall be arranged. Perhaps it is the same story in most State capitals; in Calcutta the bureaucracy's task has been made easier by the fact that there is only one man to be pleased. (Not even the Public Service Commission can remove you if Dr Roy is happy. When he is short of higher posts, he can help you in the matter of going to the Centre.) Hence the assembly of twenty to thirty people, all senior civil servants, every morning at Writers' Buildings round the Chief Minister's horse-shoe table. Business is discussed, but there is time for such exchange of compliments as that Dr Roy is extraordinarily well preserved for a man of 75, which is true, or that Dr Roy is a master of English prose, which is less true. The morning's prayer done, the civil servant can go to the Indian Coffee House for the rest of the day. He often does.

— Flibbertigibbet

Book Review

Analytical Framework

Planning for an Expanding Economy. By C N Vakil and P R Brahmanand. Vora & Co., Bombay. Pages 399. Price Rs 8.

SAVYA SACHI sometime back complained in this Weekly that the Indian economists were too much obsessed with authority and as a result did not display a creative attitude of mind. The authors of this excellent book, however, have tried to analyse the Indian problems regardless of the eminent authorities in the field of economics and have succeeded in a large measure in developing an analytical framework suited to the needs of the economic reality in India.

As is natural, they start with the peculiar characteristic of the Indian economy, namely, disguised unemployment. A large part of the work force in India is just redundant, if some organisational changes are made. These disguised unemployed, however, consume, though they do not contribute to output. (This is Nurkse's 'savings potential' of the disguised unemployed.) The obvious question that arises is: Why not make these unproductive consumers work in output producing activities?

This is not possible. For the consumption of the unemployed is less than what is necessary for working efficiency. Given the wage goods output, therefore, it is not possible to increase employment, even though there is an abundance of population of working age. And this state arises entirely on account of the wage goods deficiency. An unemployed could be converted into a worker, only if his additional necessary consumption could be provided for. At this stage, the authors develop the concept of an **employable unit.** A worker with his necessary consumption 'labour plus wage goods' forms an employable unit. If the wage goods output is given, the number of employable units is determined. In an underdeveloped economy, like India, though there is an abundance of people of working age, there is no corresponding abundance of employable units because of the wage goods deficiency.

But then there is a certain advantage in this situation too. Supposing wage goods necessary for one worker are somehow made available. With this, it would be possible to employ one person, from among the unemployed. This would release wage goods (to the extent that real wages are held at the subsistence level) that he was so far consuming. Assuming that the consumption of a worker is twice that of the unemployed, it would be possible now with the help of the released wage goods to provide for the additional consumption necessary for employing another unemployed. Thus if one worker's consumption could be provided for, it would be possible to give employment not merely to one person but to two persons. Thus the total increase in employment is a multiple of the initial employment. This relationship between the initial employment and the final employment is described by the **consumption goods multiplier,** which is by far the most significant concept developed by the authors. Thus if consumption necessary for one worker is provided for, this increase in wage goods would enable the economy to release potentially enough wage goods to employ finally not one but two persons. The consumption goods multiplier here is 2 and is defined as the inverse of the difference between the consumption of a worker and that of the unemployed, divided by the consumption of a worker.

Thus then the existence of the unemployed or the unproductive consumers enable the economy to expand employment and investment at an accelerated rate provided, of course, the initial increase in wage goods is somehow obtained. These multiplier effects of an increase in wage goods, it may be noted, depend upon the difference in the consumption of a worker and that of the unemployed.

To obtain these multiplier effects in employment and investment, it is necessary to have an initial increase in the wage goods output. If population is growing, this increase in the wage goods output should be greater than the population increase to avail of these multiplier effects.

From this analytical framework, the authors draw the following important conclusions:

1) For the cumulative process of development, it is necessary to have some forced savings in terms of wage goods in the beginning.

2) For speeding up the process the surplus per worker in the consumption goods sector should be maximised. Therefore, the present inefficient labour incentive methods should be replaced by more capital incentive methods.

3) Initial investment and employment should be concentrated on producing capital goods which are necessary for the wage goods industries.

4) Production of other types of capital goods should be deferred to the later stages of planning.

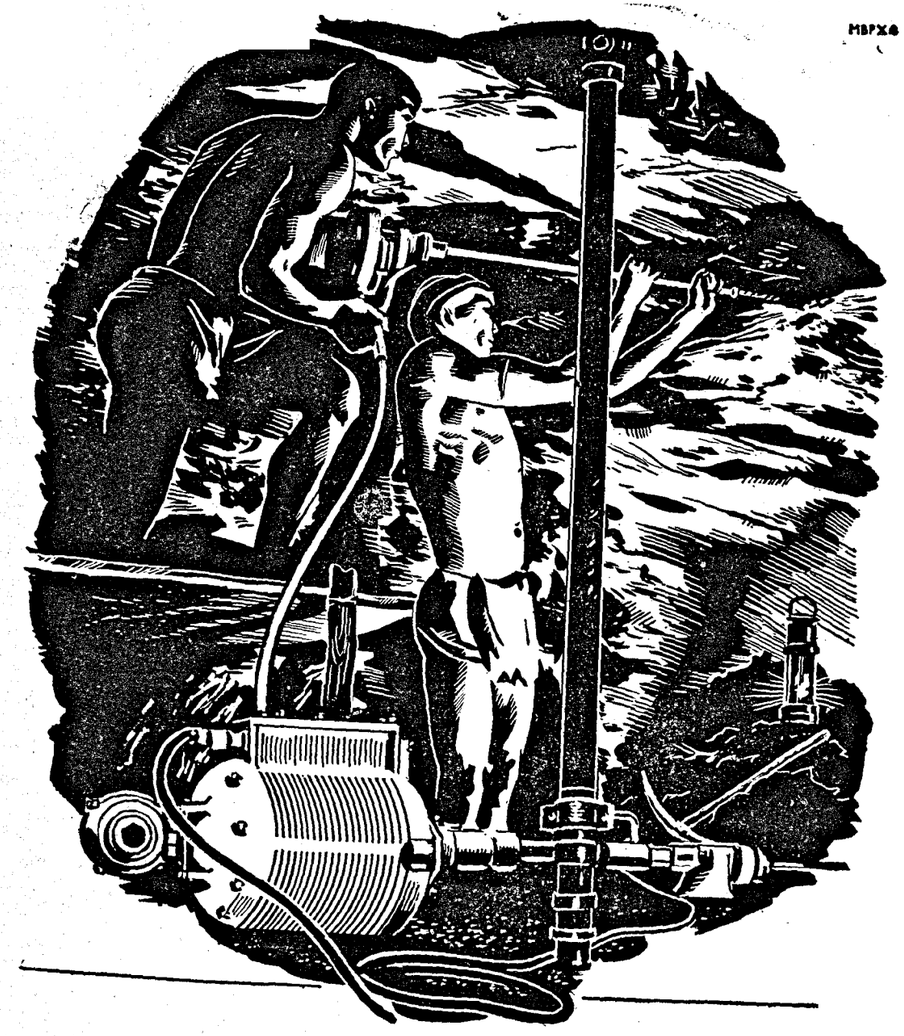
5) Autonomous forces may prove to be very weak in initiating this process and therefore the motive power will have to be supplied by the State.

In the light of this analytical framework and these conclusions, the authors examine the Second Plan. They find that the Plan is not based on the right analysis of the economic situation in India. There is no integrated thought structure behind the Plan. As a result, the priorities with regard to the various projects are not properly assigned. Further, the authors point out that there does not seem to be any real resource planning. The Second Plan in their opinion is not a Plan at all. It has been more like an exercise in which manipulations of a few ratios have played an important part. The authors question the appropriateness of the values of these ratios and find that they have no real basis. The aggregative model on which the Second Plan is based has also been subjected to a lot of criticism.

But what alternative priorities do the authors suggest? A more 'balanced' model of growth pitched on a lower key, though the authors, as mentioned later, do not seem to be aware of the social choice involved in this.

In a note appended to the volume, there is an interesting discussion on the models of Ricardo, Marx, Marshall and Keynes and the relevance

(*continued on page 870*)



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Official Papers

Developmental Aspects of Mining

Non-ferrous Metals in Underdeveloped Countries. Department of Economics and Social Affairs, United Nations, New York, 1956. Pages 124. Price 10 sh 6d. Available from Oxford Book and Stationery Company, Scindia House, New Delhi.

HOW can underdeveloped countries exploit their mineral resources to the best advantage? While the exploitation of minerals could assist these countries to raise their standards of living, this could also be done in such a way that they would be deprived of an wasting asset without having developed themselves in any way . The non-ferrous metals form one of the most important groups of minerals in these countries.

The present report forms one of a number of studies connected with minerals which have been issued during recent years by the United Nations. It is not, however, concerned with geology, metallurgy or engineering, or with the measurement of reserves or with the standardisation of terminology. It attempts a general analysis of the economic aspects of the non-ferrous metals industry and is of particular interest to under-developed countries, because "much of the report is concerned with the manner in which the mining and smelting of the ore — as distinct from the export or local fabrication of the metal — may stimulate other economic activities". The report covers the five major non-ferrous metals — copper, lead, zinc, tin and aluminium— as well as some of the minor ones such as colombium, vanadium, molybdenum, tungsten, chromium, nickel and cobalt, which are used chiefly for the production of iron and steel alloys. The inclusion of five maps showing the locality of mines and smelters of the major non-ferrous metals in underdeveloped countries adds considerably to the utility of the publication.

It is well-known that while the underdeveloped countries are important sources of many non-ferrous metals, they do not consume these metals internally in any substantial quantity. In fact, even if these countries industrialise themselves rapidly, most of them are unlikely to consume more than a small proportion of their output in the foreseeable future. This is so not merely because these countries are rich in mineral resources, but because in their search for supplies of raw materials for their own highly developed industries, the advanced countries have concentrated their capital flows into these countries in the past in these fields of activity.

This means that the major portion of the mineral output of these countries will continue to be exported in one form or another and therefore the study concludes that the direct physical effect of the minerals industry will continue to be less important than the benefits derived from its role as an earner of foreign exchange. Granted this, the question still remains: in what form should the metals be exported? The study does insist on the desirability of smelting and refining the ore within the country. It stops at that stage, however, and does not examine the possibility of using the metal for fabrication within the countries concerned even if it be for the purpose of export. This may perhaps be considered the principal limitation of the study, though it appears to be a self-imposed limitation which does not imply any judgement about the possibility of developing fabricating industries within the underdeveloped countries.

As already indicated, the work is concerned primarily with the developmental effects of the process of mineral exploitation on an underdeveloped country's economy. These depend upon a number of conditions. The report points out:

"Among these conditions, the most significant are the nature and location of the mineral and the method of mining; the stage to which processing is carried within the producing country; the extent to which the industry yields raw materials that can be used in local production, the extent to which it provides a field of employment and training for local labour which might otherwise be unemployed or less productively engaged; the extent to which it brings into being ancillary facilities, such as transport and power, which are capable of serving sectors and purposes other than mining; the extent to which it creates an internal market for various types of goods and services and thus promotes diversification in the economy; the extent to which it yields a saleable export product (or the replacement of a previous import) and hence a source of foreign exchange available for financing other imports; the extent to which it provides funds for private investment; and not the least, the extent to which it contributes to public revenue, directly or indirectly, furnishing the Government with funds for the financing of its development programmes."

These determinants of the developmental effects of the mining industry are then classified into two broad groups: (1) the direct and indirect physical outgrowths of the mine itself and (2) the results of the various monetary flows generated by the industry. The analysis of each of these involves a more detailed examination of the various factors listed above.

The monetary flow is based on an examination of the effects of various types of taxation on minerals and mining, and the foreign exchange aspects of the problem. Different methods of collecting the revenue have different effects Thus a royalty payable on the volume of ore removed is likely to discourage the extraction of low grade ore; an export tax on concentrates will encourage domestic smelting; insistence on a mining company handing over the foreign currency equivalent of its local costs is likely to bring about a reduction in its local expenditure; a tax on mining income which allows rapid writing off of capital expenditure tends to encourage new investment. The most common tax is on profits and while it is generally the best from the point of view of its effect on the economy, it has the disadvantage that the revenue from it is subject to the greatest fluctuation.

The study stresses the significant role of mining as a foreign exchange earner. "The more such foreign exchange proceeds are used to import capital goods," says the report, "the greater is likely to be the benefit in the long run for the resource country".

Summing up its examination of the various physical and monetary factors in operation, the report says, "the process of maximizing the de-

velopment potential of the non-ferrous metals industry to the mutual benefit of both the resource country and the mining company is essentially a problem of making as fruitful as possible the various income flows generated by sale of the output, chiefly in external markets, while at the same time ensuring not only that the ore bodies are worked with the greatest efficiency, but also that the most effective use is made of those products and by-products of the mining process which are consumed internally".

To bring this rather general analysis down to earth, the report makes a detailed study of the production, consumption and supply of specific non-ferrous metals. Since the greater part of the output of these metals goes into durable goods, the demand for these metals depends largely on the activities of the industries producing such goods, in particular the electric, transport and building industries. Again, as a large proportion of these goods is used in the process of investment, the demand depends upon and varies with the rate of new investment. This, in turn, tends to fluctuate far more violently than total consumption. A high degree of instability is thus introduced into the market for the non-ferrous metals. Demand for these metals is also generated by armament production and stockpiling, which tend to distort the pattern of consumption according to changes in the international situation.

Lastly, demand is influenced by substitution and technological change which are continuously and erratically affecting the situation. The study illustrates the influence of substitution and technological change by a number of examples. The relationship between technological progress, demand and price is very close and mutually interacting. In the short run, technology probably exerts a dominating influence on substitution between metals. In the long run, however, even though the demand for non-ferrous metals as a whole is fairly inelastic, the fact that substitution of one metal for another is technically possible, tends to throw the emphasis on relative price as a determinant of demand for a particular metal.

These facts are of great significance from the viewpoint of the underdeveloped countries, for the advanced countries which provide most of the demand for the non-ferrous metals have abundant supplies of the four "new" metals, aluminium, titanium magnesium and zinc. Magnesium and silicon are generally available. The possibility of using low-grade clay for the extraction of aluminium will reduce the demand for bauxite. Similarly, technical developments in the production and utilisation of plastics are likely to reduce the international demand for the non-ferrous metals. It is true, of course, that technical developments are constantly affecting utilisation possibilities of different metals as well as relative ratios of costs of production.

An important feature of the production of non-ferrous metals is the high degree of concentration of the output amongst different countries. The degree of concentration for the different metals is examined in detail in the study. The pattern of trade in these metals is determined by the fact that consumption is concentrated among the advanced countries, few of which are significant producers. One chapter of the report is devoted to careful studies of the working of international control schemes in aluminium, copper, lead, tin and zinc.

This is a useful report, which could be further supplemented by a study of the possibilities of developing the metal fabricating industries within the underdeveloped countries. A more detailed analysis of the movement away from the non-ferrous metals to which the present report draws attention should also prove of interest to the latter.

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On Choosing One's Technique

Amartya Kumar Sen

THE discussion on technological choice in the **Economic Weekly** initiated by Dr K N Raj (April 7 and 14) has been very successful in drawing our attention to certain problems connected with the choice,—in particular that of including in the costs of a more mechanised technique, expenditures necessary to maintain workers displaced by it (emphasised by Dr Raj himself), that of the necessity of balance in the inter-commodity structure (tackled by Dr A Rudra, May 12), and that of the important distinction between the rate of profit and what we may call the rate of re-investment per unit of capital (discussed by Mrs Joan Robinson, June 23).

A problem which has however been rather neglected in the discussion so far is that of the valuation of capital from the point of view of growth. Money costs have so far been used to calculate the rate of surplus. Now, the maximum rate of investible surplus valued that way would give the maximum rate of growth only if the amount of investment that can be undertaken is fixed in terms of direct money outlay. That this need not necessarily be so can be realized with ease if we make the simple assumption of different propensities to consume of the factors contributing to the capital investment. Let there be two techniques involving investments worth Rs 100 and Rs 110 respectively. If the income receivers in the first case consume three-fourths of their incomes and those in the second, half of their incomes, the additional supplies of consumer goods necessary to meet the demand of the income receivers must be Rs 75 in the first case and Rs 55 in the second. Thus the amount of investment that can be made in any given situation may not be fixed in terms of direct money outlay. Hence the maximum rate of surplus on the money investment outlay need not give us the maximum rate of growth for the economy.

Secondly, money costs are normally calculated at the existing prices. But the supply conditions may change with a changing amount of production. Hence calculation of the rates of surplus on the money costs calculated at the present level of prices may be very deceptive. The point is of more than academic interest. Most of the treatments of this question tend to give one the impression that either one technique or the other is preferable for any amount of production, as the factual tables are constructed at constant factor prices. In reality however in most of the development plans different techniques are utilised to produce the same goods, and the Indian Plan is no exception. This is because, among other reasons, the amounts of different inputs available are limited and with increased production some get scarce earlier than others. To tackle this sort of problem what one needs is not an estimation of money costs at fixed prices, but application to this problem of some thing like the Soviet Commodities Balances approach, or its Western counterpart in the shape of alternative combinations of "fixed-capital-stock" and "current-input-flow" technology matrices along with estimates of the amounts of various goods and services available at the initial moment. (This is of course not to deny the value of the illustrative purpose of Dr Raj's table specially in clarifying the important distinction between maximising the rate of output and maximising the rate of surplus.)

Finally, the importance of varying import contents of various techniques have so far been rather neglected, as it has been customary to deal with models of closed economies. But foreign exchange requirements have very important implications on the choice. Let us for the time being forget our objections to the use of money costs and look at the following table.

In Rupees

	Technique (I)	Technique (II)
Capital per worker	100	200
Surplus per worker	100	250
Rate of Surplus per unit of capital	1	1.25

One prefers technique II following the rate of surplus criterion. Now let us assume that the capital goods required for technique I can be produced in the home economy, but those for technique II have to be imported from abroad. Unless we have a surplus of foreign exchange, we have to expand our exports to pay for this extra amount of imports. And unless the elasticity of foreign demand for our exports is infinity, an expansion of exports, will lead to a fall in the price of our exports, and the cost of the foreign machinery in terms of home resources will be more than Rs 200. If $\triangle M$ is the amount of additional foreign currency required to purchase the machinery, then the additional exports necessary to earn that amount of foreign currency is given at constant prices by $\triangle E$,

$$\triangle E = \triangle M \frac{e}{e-1},$$

where e is the elasticity of foreign demand. If the elasticity is such that for Rs 200 worth of foreign machinery, we

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have to export an extra Rs 300 at home prices, the real rate of surplus becomes 0.83 for technique II, and technique I turns out to be really more economic. (Again, if instead of expanding our exports, imports are cut to meet the additional foreign resource requirements of technique II, we have to take its social costs into account.)

Some observations can be made on this question. First, the breakdown of total costs into home costs and foreign costs tends to go against the more mechanised techniques, since they generally have a higher foreign-resource content, because of the lack of a developed capital goods sector in the underdeveloped economy. Secondly, how important this factor will be depends, among other things, on the elasticity of foreign demand. The less elastic the foreign demand, the greater ceteris paribus the weight against the more mechanised techniques. Thirdly, the value of the foreign-demand elasticity depends upon the absolute amount of extra foreign currency needed. Hence there is a sort of "diminishing returns" with increased production (and corresponding increased imports), thanks to the falling elasticity. Thus even if technique II is preferable up to a certain point, beyond that it may become less economic. This also tends to lead to the choice of a combination of diverse techniques.

Lastly, if at a certain level of production, handicrafts are preferred because of their lower import content, it does not necessarily follow that we should not build heavy industries to produce machinery for factory production of the same goods in future, since that would replace import content by hand production. (In our illustration the relevant rate of surplus with technique II is 0.83 when the capital goods are imported and 1.25 when they are made at home, assuming the same cost at home and abroad.) Thus we may, for example, find that on the one hand it is economic to build heavy industries to produce textile machinery and on the other it is also economic to produce some textile goods by handicrafts for the time being. The Mahalanobis thesis of very light light-industries along with the development of heavy industries may have its justification not merely on the level of employment in the immediate future, but on that of long run growth with due regards to foreign exchange.

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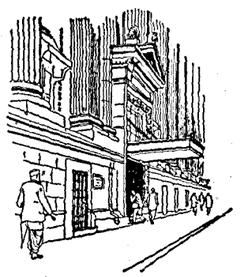
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Profile of a Southern State—Mysore

(From a Correspondent)

IN the thirties the legend flourished that Mysore was a 'model state', and legends die hard. Sir Mirza Ismail, who was then the Dewan of Mysore, had a flair for publicity which would have done credit to a Hollywood actress. He was an able administrator, and he enjoyed the confidence of Shri Krishnarajendra Wodeyar, the then Maharaja. He did not have to be responsible to a volatile party as Sri Hanumanthayya has to be. Autocracy sometimes makes for efficiency and Sir Mirza was an efficient and benevolent autocrat. It is true that he did a good deal for Mysore, but it is often forgotten that a firm foundation was laid for Sir Mirza's achievements firstly, by the efficient administrative structure which the British rulers built during the years 1831-1881 when they ruled the State directly, and secondly, by a series of able Dewans like Rangacharlu, Seshadri Iyer (under whom the first hydro-electric project in India came into existence in 1902), and that grand old man of Mysore, Mokshagundam Visweswarayya. A sound foundation is never seen while minarets and cupolas—for which Sir Mirza had an inordinate fondness—are.

In one respect, however, Sir Mirza was unique—he loved gardens and beautiful cities. He contributed a great deal to the beauty of Mysore State, and especially to its two capitals, Bangalore and Mysore. In Krishnarajasagar he designed an illuminated garden with flowing water and coloured lights, which is the pride of every Mysorean except a few cranky souls who prefer the dark and majestic beauty of the vast man-made lake to the tawdry magnficence of multi-coloured bulbs. There was another thing which Sir Mirza did—he sold the idea of Mysore being a 'model state' even to the people of that State. They came to believe that their state was **Ram Rajya**—did not the great Mahatma himself bestow the title? Good Mysoreans believed that Mysore was the best of all places on this earth. Incomparable climate, a potentially rich State greatly diversified in its beauty, cheap living conditions, and many State-owned industries—not only iron and steel, but paper, cement, sugar, sandalwood oil, soaps, fertilisers and several others. Mysoreans loved—and still continue to—their land so much that they preferred a bare living within their State to affluence outside.

Mysore University

Things have changed, however, over the years. And not for the better. The same people who were so irritatingly smug about Mysore a few years ago are now bitterly critical. Such talk is particularly common among the teachers in the University of Mysore. It should not be interpreted, however, that the quinine in their talk is due to a greater altruism or insight into the forces working in the State today. The University is not exactly a nest for brilliant minds. In fact, it is well-known that over the last three or four decades the University has been systematically trying to blow its brains out, and has succeeded in its task. Once upon a time the University boasted of such scholars as Radhakrishnan, Radhakumud Mukherji, K T Shah, A R Wadia, M Hiriyanna and several others less well-known but still very able. Today there are only two all-India names, Prof K V Puttappa, and B R Seshachar the Zoologist. The former, a distinguished Kannada poet, has just (15th June 1956) been posted as the Vice-Chancellor. That Prof Puttappa is an academic man to his finger tips is not denied by his worst detractors—but why should he be condemned to run the immensely-complicated affairs of an elephantine university? But then poets are not always content to remain unacknowledged legislators. Cleaning the Augean Stables should be child's play, comparatively speaking. It is as corrupt as a Chinese Heaven, and what it needs is a man who has a deep sense of academic values as well as the administrative ability of one of the abler ministers in the Union Cabinet. And, of course, power—which a Vice-Chancellor in Mysore does not have today. He does not have the power even to appoint on his own a lecturer on Rs 100 per month. Such an appointment, if the vacancy is of more than six months' duration, must be made by the members of the Public Service Commission.

Mysore University is one hundred percent a limb of the Government. There is no difference between it and, for instance, the Public Works Department. Vacancies are classified into 'A' and 'B' categories and advertised in the Mysore Government Gazette. Brahmins are not eligible to apply for 'B' jobs and Non-Brahmins include besides Non-Brahmins, Jains, Christians, Muslims, Parsis. Only one in five jobs is an 'A' vacancy—this does not mean, however, that every fifth job is one for which Brahmins may apply. That is what the simple-minded would think. Mysoreans are subtle. It is enough if the one-in-five ratio is realised over all the appointments made during a certain period. This often means that the classification of any particular vacancy as 'A' or 'B' is determined by a clerk—especially, if the officer is not alert. It is more likely, however, that the clerk in course of time coaches the officer to co-operate with him. Clerks are static while officers are mobile. And clerks can intrigue. A good officer listens to his clerks—if he wants to be happy and prosperous.

Falling Standards

If a man has enough influence with a high official or influential politician or minister, he tries to get a thing done through the latter. But then only a favoured few who belong to the right castes and, who are, in addition, related to important people, are able to get things done at that level. The rest have to cultivate clerks. Not an easy job as clerks are temperamental as well as poorly paid.

The candidates go before the Public Service Commission in which the non-official members are active as they regard themselves to be the watchdogs of the "backward castes". All non-Brahmin castes are "backward" including the powerful Lingayats and Okkaligas. Even in an 'A' vacancy, a better-qualified Brahmin may be turned down in favour of a non-Brahmin who has the minimum qualifications necessary for the post. A third class pass in the BA Honours gives a candidate 'minimum qualification' for a University lecturer's post. In brief, the mode of selection has ensured the weeding out of the brighter in favour of the duller. Yet, recently, a committee of the University Council went into

the question of falling standards, and reported that nothing was wrong with the staff!

The opinions of outside 'experts' are taken into consideration in the appointment of professors. But in India in 1956 AD experts are accommodating people. (And two non-official members are also included in Selection Committees for professors.) The things work in such a way that only local candidates apply for professorships. Let me explain. A candidate who has the necessary 'minimum qualification' becomes an assistant professor. (There is constant complaint that seniority is overlooked, but very few complain that ability is overlooked.) Assistant professors apply for professorships and the latter carry such low salaries that properly qualified non-Mysoreans are not tempted to apply. A professor's salary is Rs 400 p m and goes up eventually to Rs 700. Thus only local horses run for the local Derby.

The Pilgrim's Progress

Progress from a temporary lecturership to a professorship is indeed a difficult journey, though many people, not remarkable for their intellectual attainments, but possessing other qualifications, have arrived at the summit. Caste is of course the first qualification in this journey. If a candidate does not belong to the right caste, his confirmation may be delayed by several years and this handicaps him for ever in the race. Seniority dates from confirmation and not from appointment. From confirmation to assistant professorship is another long journey marked by visits to one's boss—who is at best neutral except when he thinks he can secure a benefit by supporting an influential candidate—and to one's politician-patron who is either a member of the University Council, or a Congressman whom the Chief Minister has to keep pleased because he commands four or five votes which may be crucial in a periodic vote of no-confidence against the Chief Minister from members of his own party.

The politicians who are members of the University Council have to be propitiated like the less gentle members of the Hindu pantheon. When they visit Mysore or Bangalore for a Council meeting, candidates (lecturers, assistant professors and occasionally, even professors) meet them at the station and accompany them to their hotel or friend's house ridding them of all the minor worries of dealing with porters and finding transport. The Council Members can never be seen without a little bunch of obvious admirers who keep them posted on the less publicised affairs of the University. Every matter comes under the scrutiny of this Council—appointments, promotions, examinerships, tabulatorships, increments, scholarships, transfers, leave, deputations, etc. A Lingayat member becomes the self-appointed promoter of Lingayat interests, a Brahmin member of Brahmin interests, and an Okkaliga of Okkaligas. Deals are struck between members, and a Vice-Chancellor usually tries to see that he keeps out of trouble and that his interests are not affected adversely. If the Council is meeting at Bangalore, he uses such leisure as he has in seeing ministers, and higher officials in the secretariat. They keep relationships oiled. His path is indeed a razor's edge.

Poor man, his lot has become unenviable after the advent of democracy. How greatly does it contrast with the position of the leonine and patriarchal Sir Brajendranath Seal, the only distinguished Vice-Chancellor in the history of Mysore University! But then he had prodigious learning, character and age, and functioned before the era of small-town politicians, and democracy. Nowadays, any departmental decision supported by the Vice-Chancellor might have to be reconsidered because a minister picks up the phone and talks to the Vice-Chancellor. And they are said to pick up the phone very often. But then how can they be blamed? They do want to get re-elected, and possibly have hopes of becoming even Chief Minister. When they go to their constituencies, they will naturally be asked, 'Did you help so-and-so?' Each favour refused means an enemy for life. When it comes to election, caste and local area are key factors especially caste.

The Lingayats

The Lingayats are in a special position—their strength is less than that of the Okkaligas in the present Mysore State but is expected to be greater in the New Mysore State. According to the States Reorganisation Committee Report, in the New Mysore, Lingayats will be about 20 per cent of the total population, Okkaligas about 13-16 per cent, and the Harijans 17-18 per cent. The Lingayats are better educated than the Okkaligas, and probably quite close to the Brahmins in the proportion of the educated to the non-educated. (But both Lingayats and Okkaligas rank as 'backward castes' and would fight to the last to retain their privileged position.) But while Brahmin dominance is a thing of the past and the immediate future for Brahmins is certainly bleak, Lingayat power and influence are waxing strong. They seem to have deeper roots in the soil than Brahmins, and many of them are wealthy landlords, traders and officials. They wield a great deal of political power. They have a reputation for great unity—it is said that no Lingayat will ever vote for a non-Lingayat. There is probably more poetic than literal truth in that statement. But in one respect the Lingayats are unique: they have a strong monastic organization, and the heads of the monastic orders not only look after the welfare of Lingayat souls but also after the political and economic interests of their flock. The head of one particular monastic organization figures largely in the conversation of University teachers—how he sends chits to Principals and Vice-Chancellors recommending Lingayat boys for free-studentships and scholarships, and about how in every election he whips up Lingayat votes in favour of Lingayat candidates.

Divisisons among Lingayats

Lingayats may be more united than the others, but this does not prevent the existence of sub-divisions among them. The sub-divisions usually occur on the basis of monastic affiliation, and there are several Lingayat monasteries in Mysore. Besides, the Lingayats of north-west Mysore belong culturally more to North Karnatak than to Mysore unlike their co-sectarians in Nanjanagud and Chamarajanagar. The Lingayats are also split up into sub-castes and this has political consequences. Again, some pride themselves on earlier conversion to Lingayatism than others. One very intelligent Lingayat teacher told your correspondent, "It is not every Lingayat who is in a favoured position, but only those who happen to be related to the few powerful families." He was, however, from north-west Mysore, and he seemed to think that power was unduly concentrated in a few related families from Nanjanagud and Chamarajanagar. (One Lingayat Minister hails from this area while the other comes from Shimoga.) But, by and large, Lingayats are in a favoured



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position, though the success of any individual Lingayat depends, if he is not from one of the powerful families, on his securing the patronship of a Lingayat politician. This can be had by persistent flattery and helpfulness. Allegations of graft are, of course, there, but they cannot be verified.

Supersession of Brahmins

To come back to the University. Everyone agrees that there is too much politics in the University, and 'politics' is used in two senses—one, in the sense of intrigue, and another, in the sense of the intrusion of the politics of the larger world into academic life. (That the same people who complain of 'politics' resort to it to further their interests is a widely-recognized truth.) Students divide themselves caste-wise, and a few years ago this became so marked during elections to the Unions that the University authorities had to 'kill' the latter by making their membership voluntary. A student is heard occasionally complaining that his low marks are due to the fact that the teacher wishes to favour a student of his (teacher's) own caste. This is very probably a rationalization of the student's frustration but it is true that teachers are very caste-conscious. Until recently the Brahmin teachers were probably the worst in this respect: they howled with self-pity at the injustices and humiliations they felt had been inflicted upon them.

The supersession of Brahmin teachers was common in the past and occurs even today. A young non-Brahmin with not even five years of service frequently supersedes his Brahmin teacher with a teaching experience of 10-15 years. (This does not, however, happen in the other departments of the Government.) The superseded teachers were cut up as both their purse as well as their pride were injured. And having put in so many years in the University they found that they had left local roots too deep to be easily uprooted. Also not everyone was wanted outside. Each instance of supersession added to the collective demoralisation of the Brahmins. Slowly the group came to be what they are today—embittered, self-centered and negative. The comparative success of those Brahmins who had quit the State fed their pride as a group and emphasised their defeat as individuals.

Demoralisation among Teachers

Only a few years ago the non-Brahmin teachers were pleasanter company than the Brahmins. They were up and coming, and hopeful. Some of them went outside Mysore, and even abroad, to enhance their academic qualifications. But soon troubles came their way also. The Muslims whose morale was high when Sir Mirza was Dewan, and the Christians when the late Sir T Thambu Chetty was Private Secretary to the Maharaja of Mysore, began harking back nostalgically to the past in their off-the-record talks. The years since Independence have made it abundantly clear that there are only three groups which are going to count directly in the State and the rest can only hope, at best, to count indirectly. They are the Lingayats, Okkaligas and Harijans. As I said before, the Lingayats as a group are more educated than the other two, and this means that more Lingayats, are teachers in the University than either Okkaligas or Harijans. Now Lingayats, Okkaligas and Harijans have started superseding everyone else including the many small non-Brahminical castes. It is necessary to explain here that there are Okkaligas and Okkaligas. During the 'thirties, the Kunchatigas, Telugu Reddis and several others were considered as Okkaligas. Nowadays the term is used in a purer sense which excludes the Reddis. Formerly, certain Tamil and Telugu non-Brahmin groups like the Mudaliar and Naidu, Syrian Christians from Kerala, Catholics from Mangalore and other heterogeneous groups, all sought shelter under the hospitable non-Brahmin umbrella. (Two of the leaders of the 'non-Brahmins' in the 'twenties and early 'thirties were Hamsa Hussain and Mathan.) Today, all such groups feel lost. Even the indigenous and economically backward groups like the Nayinda, Agasa, Beda and Bestha feel that to get on in modern Mysore one should be either a Lingayat or an Okkaliga. In the University especially, the self-pity which once characterised the Brahmins is now widespread. People who superseded Brahmins less than a decade ago are now themselves wailing about supersessions in which they are the victims and not the beneficiaries. Their sudden concern for falling standards is amusing, but what is more significant today is the widespread demoralisation among the teachers. An afternoon spent with them can be most depressing.

Selection of Students

No account of Mysore University, however brief, can afford to leave out the mode of recruitment of students to the technical colleges and to the more popular courses in arts and science. Until recently, the principals had to be guided in admissions by a council of non-official members and this meant again that candidates were chosen on the basis of caste. (Nowadays, however, the principals are assisted by a committee of senior teachers: a little less than a third of the seats are open to merit and the rest are decided on the basis of caste.) This mode of recruitment had certain consequences. Firstly, it led to the founding of private engineering and medical colleges where seats could be booked by paying an advance of so much per seat. (A newly-started medical college in Bangalore charged Rs 5000 per seat.) It meant that the poor people, except from certain castes, could not become engineers and doctors if they were not outstanding, whereas the rich parents of a mediocre boy could buy him a seat. The Avadi spirit is very much in evidence in Mysore.

Caste in Government

Fortunately, however, the situation outside the University is not as bleak. Government officials, in the Secretariat or elsewhere, do not wail as much as University teachers. Seniority does not seem to be disregarded there though in the initial recruitment of candidates to the Government posts, the caste of a candidate and his connections are not irrelevant. In an article published sometime ago in the **Economic Weekly** it was pointed out that in the Reddy Ministry each minister had a private secretary from his own sub-caste. What is surprising to a Mysorean is that this should be deemed worthy of being commented upon. Mysoreans have so completely accepted this principle that when a number of posts are filled they accept certain important castes to be represented in them and they are not disappointed. In the present cabinet, there are two Lingayats, two Okkaligas, one Harijan, one Brahmin and one Kuruba. The Okkaligas and Lingayats have two each because they are the "majority" castes. It is surprising that nobody has as yet given a

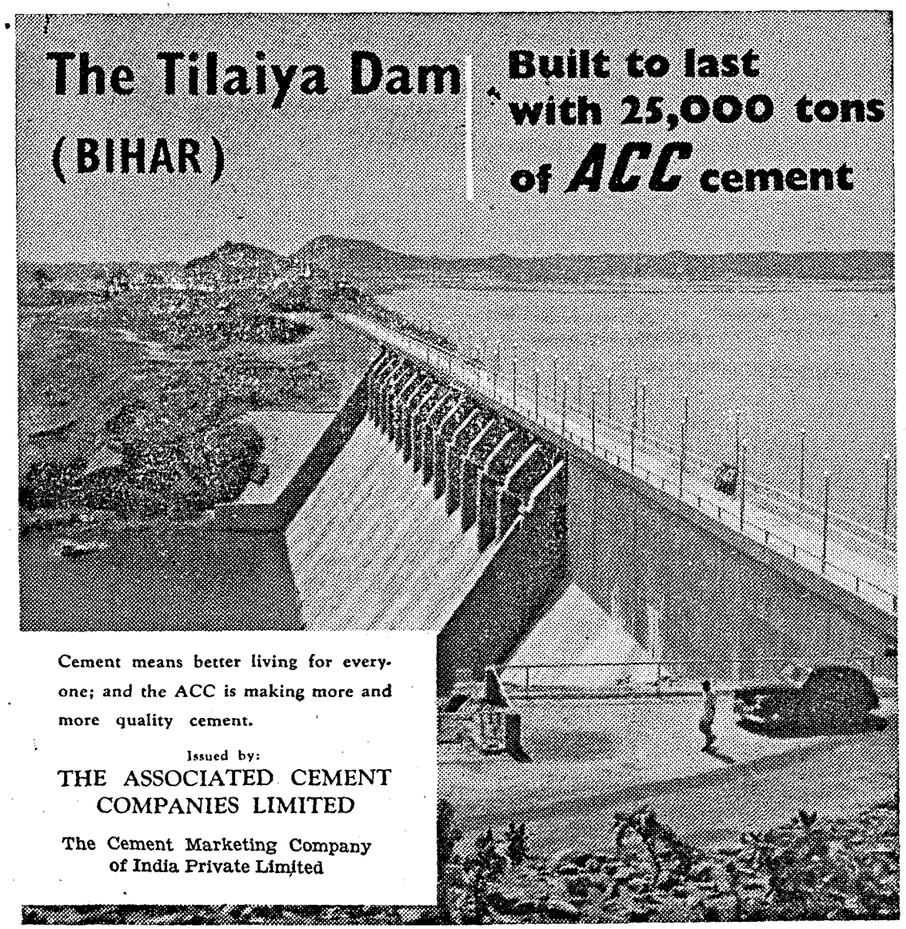
theoretical form to this idea—that the castes should be represented in the various departments of the Government in proportion to their number in the State. It would be a contribution from Mysore to Indian political thought.

How is it that the University has become such an important focus for forces of caste? This is a difficult question to answer. In one sense it is only natural that a University should give formulation to ideas current in the immediate environment. But that is not the case here. It is only in Tamilnad that the non-Brahmin movement has an ideology. During the 'forties a few young non-Brahmins in the university talked of 'social justice' by which they meant that the castes which had not had a chance till then because of Brahmin dominance, should be given a chance to come up at the expense of the Brahmin. But this idea was not developed sufficiently to merit being called an ideology. There was no need for it, however. The injection of non-teachers into academic life in the name of democracy, and the rules of recruitment, frequently unpublished, observed by the Public Service Commission and by other recruiting agencies, both ensured that Brahmins quickly lost their dominance in the government to the Okkaliga and Lingayat. Some of the younger Brahmins from the middle-class and poor families left Mysore of their own accord for jobs in Bombay, Delhi, Calcutta and elsewhere. This also helped.

Those Brahmins who were not able to leave the State, continue to complain whether they are in government service or not. For instance, lawyers complain that clients choose lawyers belonging to their own caste, and doctors (private practitioners) say the same thing about patients. There is probably a good deal of exaggeration in this—it may again be only a rationalization of the complainant's failure. Success even in modern Mysore is dependent upon such qualities as efficiency and honesty, and perhaps Brahmins are not yet reconciled to the fact that other groups too possess these virtues. One impressive fact in this connection—impressive because one hears exactly the opposite—is that personal friendship cuts across caste. Friends from the same village often help each other irrespective of caste. In fact, two friends from different castes exploit their respective caste connections to help each other. The Old School Tie and the sharing of common experiences bind together people. If this did not happen, and happen frequently, life would be intolerable.

Social Forces in New Mysore

Mysore is going to enlarge its boundaries pretty soon—certain parts of Bombay, Hyderabad and



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Madras are going to be included, and the entire State of Coorg is going to be merged in it. And, naturally enough, Mysoreans are given to frequent speculation on the shape of things to come in the New State. It may be recalled in this connection that Mysore showed a great reluctance to unite with north Karnatak, and one of the chief obstacles in the way of the union was the fear of the Okkaligas that they would be dominated by Lingayats. This fear was so prominent that it finds mention in the SRC Report. Even after the SRC had recommended the union of Mysore, Coorg and parts of Bombay, Hyderabad and Madras States, into a single State, Mysore continued to express its desire to remain separate. It was Shri Hanumanthayya's espousal of the cause of the new State which led to the eventual acceptance of the SRC recommendations. By his espousal Shri Hanumanthayya found new friends inside and outside Mysore but within his own party there was—and still is —a hard core of people uncompromisingly opposed to the enlargement of Mysore. Their opposition was so great that as an alternative they proposed the creation of Dakshina Pradesh. Here were people who, while straining at the gnat of Karnatak, were prepared to swallow the camel of Dakshina Pradesh, including new Mysore, Andhra, Madras and Kerala. The situation was indeed Gilbertian. But it is not really as absurd as it seems. In Dakshina Pradesh the Lingayats would be one of the many powerful groups whereas in the new Mysore they would be the largest single group. Stray remarks by people are quoted to 'prove' how Lingayats want to run the new State to their own advantage and to the disadvantage of everyone else. Poor Lingayats, they are now as unpopular as the Brahmins were formerly. The wielders of power inspire not love but the opposite sentiment.

The Chief Minister who at first supported the New Mysore later said that he was also in favour of Dakshina Pradesh but that he thought it was a bit immature. He even argued that new Mysore was the first step in the creation of Dakshina pardesh. Charges of opportunism have been levelled at him from members of his own party. It is well-known that there is a solid group in the Congress who wish to oust him, and newspapers report that there is at present a move to pass a vote of no confidence against him. It looks as though their efforts will succeed. And if they do, Shri Hanumanthayya might not even find a place in the new Mysore Cabinet. His chances of being 'kicked upstairs' like Shri K C Reddy, his predecessor, whom he displaced with undue haste, are slender indeed. (It is ironical to recall that Shri Hanumanthayya initiated three no-confidence moves against Shri K C Reddy.) Shri Reddy had tactfully cultivated friends in high places whereas even his best friends do not accuse Shri Hanumanthayya of tact.

Envy of Lingayats is widespread nowadays as many people believe that the raj will be theirs in the new set up. They are the subjects of much myth-making by the others. They are credited with unbelievable unity and deep cunning. They are even said to be trying to win over the Harijans to their side in an effort to ensure their dominance. This has naturally made the Okkaligas jittery—in fact, jitteriness is widespread. It is so bad that to many, even Brahmin dominance appears less horrible in retrospect. The statement, "The Brahmin had 2,000 years of culture which made him see right and wrong," is often heard. It is indeed surprising how quickly the Lingayats have roused the fears of everyone. If they do not do something to restore the confidence of the other castes, the pattern of allegiances to come in the New Mysore seems fairly clear. The Okkaliga will be leading an opposition consisting of all non-Lingayats. An interesting feature of the recent elections to the Mysore University Senate was the attempt of a few 'progressive' Okkaliga candidates to support a few 'progressive' Brahmin candidates in the hope of defeating Lingayats. This is a shrewd move, and shows that Okkaligas are also thinking ahead. The Brahmins as a group are educated and intelligent, and an Okkaliga-Brahmin combination might provide the answer to Lingayat dominance. But Brahmins will be numerically insignificant in the new Mysore, and unless the Okkaliga-Brahmin axis can win the support of a number of small castes, they are doomed to failure. It is very likely then that both Okkaligas and Lingayats will try to get the support of the minority castes. This means that the latter will not be swamped by the two dominant castes. The cause of 'democracy' will be saved, even if it be a new concept of democracy, the safeguarding of the rights of hereditary minorities.

But neither the Okkaliga nor the Lingayat seems to be sufficiently aware that a 'third force' might emerge and that its emergence might upset all their present calculations. The Harijans will be numerically one of the three most powerful groups, and are rapidly coming up in every way. They will support whosoever will offer them the most advantageous terms though their memories of the treatment received at the hands of the locally dominant castes, and the existence of sub-divisions among themselves might come in the way of their acting rationally in the interests of their caste. Anyway, they will be a power to be reckoned with, and their emergence will come as a surprise because all the important high caste groups, used as they are to think in a caste idiom, have been unable to envisage the possibility of Harijans becoming a power in the very near future.

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A Study in the Financial Problems of Small Industries

S K. Basu

SMALL scale industries do not refer to the size of the industries but to the size of the firms which constitute them. There has been a great deal of controversy as to what should constitute their distinguishing criterion—whether it should be the amount of capital assets, or the number of workers employed or the use of power. If any one of these criteria were used as the measuring rod, it might produce misleading results. A highly mechanised large-scale factory may appear small when judged solely on the basis of the number of workers employed.

The application of the 'number of workers' criterion has to be tempered by the stage of economic development attained by a country. In an industrially advanced country having an abundant supply of capital resources and employing capital intensive methods of production, the average size of factories on the basis of numbers of work people alone would appear to be smaller than that in backward underdeveloped countries, where scarcity of capital and large supplies of labour make for labour intensive methods. The application of a composite criterion—number of persons employed together with the amount of capital assets possessed by the individual units—may be a more reliable guide in distinguishing between the three broad groups of small, medium and large-scale plants. If figures of horse power per worker were available, the average horsepower per worker could clearly indicate the technical size of an average factory of a particular country.

Criterion of Capital Assets

The Board of the Bombay State Financial Corporation has defined, as a working formula, a small scale industry as a unit having capital assets upto Rs 5 lakhs and a medium scale enterprise as one having capital assets of more than Rs 5 lakhs but less than Rs 20 lakhs. In adopting this definition the Bombay Corporation has been guided mainly by the desire to demarcate the frontiers between the Directorate of Industries and itself on the one hand and the Central Corporation and itself on the other. The criterion of capital assets has, however, been coupled with number employed in relation to the grant of some loans by the State Governments. Thus small industries have been taken to be those industries which have a capital investment of less than Rs 5 lakhs and employ less than 50 persons when using power and less than 100 persons when not using power. A research worker has also combined the criterion of capital assets with that of number of workers employed but has argued in favour of units having capital assets upto Rs 1 lakh and employing upto 20 labourers as constituting small scale industries.

Whichever of the above definitions may be accepted, it is clear that in the industrial structure of India three more or less related sections of a particular industry may be broadly distinguished—an organised sector represented by the large scale factories, a sector of small factories and a third sector of widely dispersed cottage industries. It is the second group of industries whose financial problems are the subject-matter of this study. Within this group some industries are run on factory scale and even fall within the purview of the Indian Factories Act; some are worked as small entrepreneurial enterprises; and yet others are smaller still. These units mostly operate in urban centres and some of them are even ancillary to large industries, supplying their products against occasional orders. The existence of this category has also been recognised by the Karve Committee which, inspite of its main preoccupation with the village industries, has recommended an allocation of Rs 65 crores for the development of such industries out of a total of nearly Rs 260 crores. This is undoubtedly a very small sum and indicates a lack of awareness of the significant role these industries can play in the Second Plan period.

Proprietary Concerns Predominate

The types and sources of credit and capital utilised by small industries are largely determined by their basic characteristics and have to be sharply distinguished from those of large industries. Small industries are typically unincorporated concerns under owner-management, mostly proprietary or partnership establishments. A recent survey of small engineering industries of Howrah where 75% of small industries of West Bengal are located has clearly revealed the predominance of proprietary concerns. Out of 153 firms surveyed 77.1% are proprietary concerns, 19.0% are partnerships and only 3.9% are found to be either private or public limited concerns. (Problems of Small Engineering Industries—Bureau of Industrial Statistics p 10 (Statistical Survey Report). It was found from a survey of 49 firms in West Bengal that the majority of the plants with invested capital upto Rs 1 lakh are proprietary or partnership concerns. 50% of the firms are partnership concerns and 35.7% are proprietary ones. These small businesses are generally limited to a single locality and as such are not known outside the community in which they operate. The success of such concerns hinges on the efficiency of one or a few persons; in the event of personnel changes, continuity of efficient management can hardly be guaranteed. Detailed information is not readily available about their past financial performance nor about their present earnings potential. In short, the conventional standards for the proper appraisal of an investment project are not readily available to would-be investors. In such circumstances small localized concerns are unable to obtain their requirements of long-term loan capital or equity capital through the organized securities market. Hence they usually rely for such funds upon friends, relatives, local investors or financial institutions.

The preponderance of owned capital and the insignificance of loan capital are clearly revealed by the surveys of small industries that have been recently carried out in India. In the case of the small engineering industries in Howrah, among the 153 firms surveyed, owned capital comprised 50.5%, share capital 45.8% and loan capital only 3.7%, equity capital thus accounting for 96.3% of their total assets. (ibid). The same predominance of equity capital is to be witnessed in the case of the small industries of Calcutta. In the case of 28 firms surveyed, having capital assets of not more than Rs 1 lakh, equity capital comprised 86% of the total of business assets. In the case of 22 medium sized concerns with capital assets between Rs 100,001 and Rs 15 lakhs it was 72%. For the small concerns loan capital accounted for 8% of the total raised capital; while for

the medium sized enterprises it was 25.6%. Some of the 22 medium sized concerns surveyed were public limited companies but even then none of them raised its capital through sale of stocks and shares to the general public.

Equity vs Debt Funds

The size of a business has generally been an important factor determining the relative use of equity and debt financing. Large sized concerns have greater accessibility to equity funds than small businesses. They can make public offerings of "equities" far more readily than smaller concerns. They can also build up equity through retention of earnings for they have a higher and steadier profitability. But the small concerns have high proportions of equity capital for entirely different reasons. Their inability and reluctance to borrow on the terms currently quoted generally account for the insignificance of loan capital in such businesses. Various factors govern the nature of financing an enterprise and therefore the equity-dept relationship. The choice between equity and debt funds is influenced not only by the degree of accessibility to the securities markets but also by taxation policy and entrepreneurial expectations regarding the future earnings of the enterprise. The wide range of options available to large concerns with respect to the adjustment of their financial structure is inevitably denied to the small industries. (Jacoby and Saulnier, **Business Finance and Banking** pp. 33-37.)

The type of credit obtained by the small businesses is also determined by their ability or otherwise to satisfy the standards of creditworthiness as conceived by the lenders. Unsecured bank credit is easily available to customers who are considered by the banks to be the best credit risks. Large companies with their detailed balance sheets, frequent income statements and country-wide basis of operations are sometimes able to obtain bank loans without any security. Lenders may not insist upon collateral because they realize that too much insistence will drive the valued customer into the arms of a rival source of credit. With inadequate financial statements, limited sources of credit and no extended record of successful working, small industrial concerns are in a difficult position in this respect. They find it impossible to secure a loan of the desired amount without sufficient collateral. Hence otherwise sound and profitable concerns are unable to obtain their requirements from banks on as favourable terms as their conditions may warrant. They have to depend on more expensive types of secured bank loans, while the large concerns are often able to obtain low cost unsecured loans.

The degree of risk is not the only, or necessarily the major factor in determining the interest cost of bank loans to small industry. Higher lending cost rather than greater lending risk is often the crucial factor in this interest differential. The cost of keeping track of small loans or small investments in small business is very high. The cost of investigating and servicing many small loans is greater than that of a single large loan.

Bank Loans in USA

In our country the available data relating to business loans of commercial banks throw no light on the amount or number of such loans to various sizes of business. In the USA interesting studies have been made with reference to the business loans of member banks where breakdown figures in respect of various sizes of industry have been obtained. According to a survey carried out in 1946 it is found that advances to small business accounted for ¾ ths of the number and 1/5th of the amount of all business loans of member banks. In the case of the smaller banks 92% of the number and 82% of all outstanding business loans represented advances to small business. (C H Schmidt, Member Bank Loans to Small Business **Federal Reserve Bulletin**, August 1947.)

An important aspect of bank lending to business as revealed by these studies in the USA is that the character of business lending of banks of different sizes is related to the size of the business of the borrower. Large banks are inclined to lend to large industrial companies while small banks have the small concerns as their principal customers. The different economic and geographical characteristics of small and large lenders and borrowers account to a considerable extent for this direct variation of size of bank with size of business.

The credit needs of small local enterprises are best met by the smaller banks in the particular localities; while the larger banks located in the metropolitan areas have the necessary equipment to handle the credit needs of large companies operating throughout the country. More than 70% of the dollar volume of loans of banks with total deposits of less than $2 million each was made to business enterprises with assets of less than $50,000, while 75% of the dollar volume of loans of banks with total deposits of $500 million went to business concerns with total assets of $5 million or more. The size factor is also found to affect the industrial distribution of the loans of different size banks. Smaller banks generally lend to small manufacturers of food, tobacco etc., small service establishments and small retailers, while large manufacturers in the food, liquor, automobile, tobacco, petroleum industries and public utilities are serviced by the larger banks. (A R Koch, Business Loans by Member Banks, **Federal Reserve Bulletin**, March, 1947.).

Term Loans

A very large portion of bank loans to American small business was payable on demand or had an original maturity of less than one year. In the early post-war years, term loans to small business had achieved considerable importance, comprising 20 per cent of all member bank loans to small business. While term loans were generally secured by plant, equipment or real estate, 50 per cent of the short-term loans to small business had for security a cosignature or endorsement, 6 per cent was secured by pledge of inventories and another 6 per cent by plant or real estate. The small concerns frequently do not own any plant or marketable securities and their inventories are not of the volume or type which permit financing with standard warehouse receipts. The survey also showed that the interest rate charged by banks on each type of credit increased as the size of the concern declined.

The use of term loans for financing

UNITED ASIA

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the credit and capital needs of business has been an important development in American banking in recent years. Although term loans have grown to be an accepted type of credit for both small and large business, the vast majority of term loans have been extended to small and medium sized enterprises. (Duncan M C Halthahusen, Term Lending to Business by Commercial Banks in 1946, **Federal Reserve Bulletin**, May, 1947.) A relatively large proportion of the term loans is found to have been made to businesses with assets of less than $50,000. Term loans also comprised an important part of the total loans of small business, real estate constituting the security in many cases. (A R Koch, *op. cit.*)

An important type of short-term credit for small business in the USA is that extended by the suppliers known as accounts receivables. The use of this type of credit became important after the depression of the thirties. Non-bank lending agencies had developed financial methods based on this type of collateral earlier than the banks, which had to adapt their lending practices so as to include a wider range of collateral in an effort to meet the competition of the former in the sphere of business credit. The difficulty with this type of collateral is that the lender is inevitably involved in some cost in handling and supervising it. He has to pay considerable attention to the accounts pledged and see that accounts paid off are replaced by other receivables, unless the loan is correspondingly reduced. All this explains the higher average rate of interest on these types of loans as compared with most other secured types. Such loans mature within 90 days and have been used by the manufacturing, mining, wholesale and retail groups most of which were small, and by very small enterprises with assets below $250,000.

Credit Sources in India

The sources of short-term credit for the small and medium sized industries in India as revealed in recent surveys are (1) banks, (2) private money lenders and (3) "others", which term includes friends, relatives, customers and dealers. The small engineering industries of Howrah obtained 50.7 per cent of their credit from money-lenders, while others provided 30.4 per cent, and banks only 18 per cent. In the case of small lamp holder concerns 83.22 per cent of short-term credit was provided by private money lenders and only 16.78 per cent by banks. For hosiery concerns and saw mills surveyed, 100 per cent was provided by customers and dealers. Other sources have played a more significant part than banks in the provision of short-term credit to medium sized concerns also. The very low percentage of bank loans is accounted for by the banker's reluctance to consider most of these firms as creditworthy. (According to the results of a survey by Miss Sabita Banerjee.) Belting, chemical and electric lamp manufacturing concerns in the medium group in Calcutta appear to be important exceptions for they have obtained a considerable portion of their working capital from banks.

(To be continued)



Focus on Tea

TO the people who have imbibed it longest, tea is both a ritual and a social ceremony, the correct observance of which calls for a great deal of refinement. The Chinese have been cultivating the tea habit since the days of Mohenjodaro civilisation—its history goes back to 3000 years before Christ. To sell tea, therefore, is to propagate a certain attitude towards life, if not an entire philosophy. The manner in which tea is prepared, the delicacy with which it is served, the shape and texture of the tray and the eggshell China that is displayed on it, the light amber colour of the liquor, all these are so carefully guided by convention that sloppiness or the slightest deviation from it is regarded as shameless gaucherie. All this can be read in a book of tea which belongs to a genre of literature, and is a world of its own, the access to which is open only to the discerning who have the delicate sensibility and the cultivated taste for such things.

Tea caters to a variety of tastes. According to the way it is made and taken and depending of course also on the kind of tea, the effect it produces differs. Tea can refresh and be warmly filling. It can also stimulate and sharpen ones sensibilities. It is cooling in hot weather even when drunk hot and it warms one up, in the bitterest cold. All this even the novices know. But how many of those who drink tea know the different varieties of tea, each with its distinctive flavour, taste and aroma—Darjeeling tea grown within the sight of the snowy ranges, the varieties grown in the damp, moist Dooars, the thick liquoring varieties that grow in the highlands of Assam or in the undulating hills in the South? How many different ways there are of making tea and serving it, each appropriate to its own time and environment. The tea bricks that are exported to Tibet are made into a drink that few will relish, specially when it is served with blocks of rancid butter. But read the testimony of those who have drunk this strange decoction in cold, snow covered Tibet after a long and exhausting trek. They find it more stimulating than any spirit or the hottest punch; many travellers in travail have owed their life to this resusciating drink.

Tea as a cold drink, not drunk hot and found cooling in its effect, but served with ice and lemon, is largely America's contribution to the popularity of tea. By popularising iced tea, Americans have made some amends for the injury they have inflicted on tea by always preparing it in the wrong way. Light tea, of the right kind of course, drunk without milk or sugar, is the special contribution of the Chinese and Japanese who were the first to establish that this is the only stimulant which can be imbibed in any quantity without any apparent ill-effects. Tea alone among drinks leaves no hang-over.

To publicise and propagate tea, which is the function of the Tea Board, it is necessary therefore to acquaint people with the varied charms of tea to begin with and also to teach them how to make tea properly and how to drink it.

The opening of the Tea Centre in Bombay last month marked only a stage in the many-sided campaign of the Tea Board. It is one of the primary functions of the Board to conduct propaganda both in India and abroad to increase the consumption of Indian tea. Efforts to increase exports of Indian tea have yielded substantial results, with exports increasing from 354 million lbs in 1938 for undivided India to 450 million lbs in 1954 for the Indian Union alone. While internal consumption has also increased during the same period, the position still is that roughly over two-thirds of the total production is exported.

For no industry does the cultivation of the home market require any special justification. The Tea Board, however, has a special interest in promoting domestic consumption. The industry is convinced that while foreign markets are vital to its growth, it cannot attain stability until internal demand picks up and absorbs a substantial proportion of the total output. India is not, of course, the only producer of tea, though she is the largest producer in the world. Changes in production in the other countries also affect India's position. Foreign demand may fluctuate due to various reasons, such as changes in income and tastes, as well as in the prices of competing beverages, particularly coffee. Besides, as an agricultural product, the output of tea in India often changes in an unpredictable manner. A substantial market within the country, the industry fondly believes, will act as a kind of buffer and absorb the shock of fluctuating exports.

One may question the implied assumption in this reasoning, namely, that if internal consumption could absorb a greater share of the output, the industry would attain a greater degree of stability. What do we mean by stability? Is it stability of the price of tea per lb in years of good and bad yield from gardens, or of the total returns that gardens receive from the sale of their output, or of their profits? Different lines of policy could be prescribed for attaining these several objectives. Lastly, not even the Tea Board knows for certain the level of internal consumption of tea, though in the latest issue of "Tea Statistics," figures have been given correct upto the nearest lb! It has yet to explain the fall in internal consumption by over 7 per cent between 1953-54 and 1954-55. But these perhaps detract from the main issue which is to increase the per capita consumption of tea from the present absurdly low figure of approximately 0.5 lbs a year, so that it can in time stand comparison with the per capita consumption in UK or New Zealand which is today almost twenty times as high.

The campaign that the Tea Board has to carry on, as has already been remarked, is many sided indeed. For a decade or more, during the war and post-war inflation, selling had been no problem and propaganda for increasing domestic consumption had been rather neglected. This has led to a distinct deterioration in the quality of the tea that is ordinarily available outside the principal distribution centres. While a few high-priced branded teas have maintained their quality, cheaper teas have consistently lost in quality. To this has been added adulteration, though to what precise extent, it may be difficult to say. To keep up quality and fight adulteration form part of the Board's campaign. Another aspect of the campaign is its stress on the correct method of preparing tea. If the tea habit is to catch on, obviously, it is necessary to ensure not only that the tea is of good quality, but that it is also prepared in the correct method—so few even of habitual or inveterate tea drinkers know how to make a really good cup of tea!

The Tea Board has a number of field units operating in more than 100 towns scattered throughout the country whose functions are:

1) To demonstrate to the public how tea should be prepared correctly in order to enjoy its full benefits,
2) To educate
   i) Tea-shops on the need of preparing and serving tea hygienically.
   ii) retailers how dry tea should be stored correctly,
   iii) railway tea-stall owners on the need of preparing and serving tea correctly,
3) To help the municipal authorities in their drive against adulterated and bad teas.

Besides, the Tea Board has to

i) educate the public on the importance of the Tea Industry in the National Economy of the country.

ii) give group demonstrations at hats or shandies, for which the Board has its own mobile tea vans.

The Tea Centre in Bombay is not a tea shop or even a fashionable restaurant, though it also sells snacks and offers all the attractions of a luxurious and exclusive entertainment centre. Here the Board focusses on its principal activity viz to initiate people into the varied charms of tea, and to tell them all about tea in the most engaging manner possible. It is not just a good cup of tea that one gets here but wide choice, a choice which is available nowhere else, of the different blends of tea grown in Assam, Dooars, Darjeeling, Kangra, Nilgiris or Travancore-Cochin. It takes time to make a good cup of tea, for each cup has to be freshly made and so one cannot just gulp ones tea at the Tea Centre and run away. Having served you the tea of your choice, steaming hot or ice cold, the Centre gently leads you on and tempts you to explore the facts about tea through charts and diagrams, demonstrations and educational films, which are regularly shown in a small auditorium which is part of the Centre. Only when you have been initiated into the charms of tea, your curiosity has been awakened and you want to find out more about tea that the work of the Centre has properly begun.

After this ceremonial initiation in the popular and posh locality of Churchgate Reclamation, the Tea Board, it is to be hoped, will consider opening similar centres in the other parts of the city and gradually cover the country with a net work of centres through which it will popularise good tea, and help to raise the quality of tea as well as inculcate the habit of preparing it properly. When this is done, gradually and systematically, only then will the purpose of the Tea Board will have been fulfilled.

Bombay Office for Rajasthan Bank

THE Bank of Rajasthan, alone among the Rajasthan banks, does not yet have an office in Bombay or any other money market centre outside the State. It has struggled valiantly all these years to utilise its funds profitably within the State by confining its branches to the rural areas in the States. After five years of hard struggle, it finds that it has to toe the line of other Rajasthan banks and seek an outlet in Bombay for a more profitable utilisation of its funds. The Bank of Jaipur and the Bank of Bikaner both have branches in Bombay through which they utilise the deposits collected in the State more profitably, taking advantage of the opportunities which Bombay offers for making advances.

By confining its activities within the State and trying to develop business through its rural branches, the Bank of Rajasthan had been vainly struggling to resist the tide. It finds itself in the unhappy position of paying more for its deposits because of the active competition not only among Rajasthan banks, but also the branches of other banks operating in the State. This is today a universal phenomena in the banking world and needs no elaboration. The competition for deposits has resulted in the major portion, if not the whole, of current accounts being converted into call deposits carrying interest. So cost of deposits has gone up. What about opportunities of earnings by lending out its funds? Such opportunities are extremely limited within the State for the simple reason that there is hardly any scope for making advances, which form the most remunerative of all banking assets.

At the end of 1955, according to the Trend and Progress of Banking published by the Reserve Bank of India, the total deposits of scheduled banks and their branches in Rajasthan amounted to Rs 20,67 lakhs while bank advances in Rajasthan amounted to Rs 15,68 lakhs. These figures are misleading, however, for the advances include those made by the State Bank of India to the Rajasthan Government against Government securities which amounted to Rs 13,32 lakhs at the end of 1954 and presumably were not very different at the end of 1955. So, since commercial advances were relatively low, it is clear that the savings of the people of Rajasthan were being mobilised by the banks alright, but mobilised for more profitable employment outside the State, largely in Bombay.

While commenting on the Annual Report of the Bank of Rajasthan for 1955, it was remarked in these columns that the decision of the Directors to open branches at big commercial centres outside the State would mean a drain of funds from Rajasthan. While not refuting the latter, the bank has explained the circumstances which forces it to take this decision. In our comment we did not contest, however, the fairness of the bank's case; in fact we had conceded that the opening of a branch in Bombay "may no doubt be desirable from the immediate point of view of the bank".

As it is, it appears that a portion of the excess funds of the bank is made available to other banks in the region, which presumably shift them to the commercial centres through their own organisations. Another portion is also made available to borrowers in Bombay through correspondents, which only results in higher costs to the bank, through the need to pay commission. No impediment should, therefore, be put in the path of the Bank of Rajasthan if it wants to open an office in Bombay.

One thing is clear. The reversal of the flow of wealth from urban to rural areas calls for much more than the institutionalisation of agricultural credit by the State Bank. Similarly the programme for rural credit now launched by the Government, will be one of the means for effecting the transformation of the economy. But it cannot succeed by itself nor be the principal means.

Around Calcutta Markets

Hesitant Trend

Wednesday, Evening

BEHAVIOUR of equities in the last few weeks has been a puzzle to many operators as well as to market commentators. Equities continue to drift lower. Not only investors, but even speculators are unwilling to accumulate lines. There is no aggressive selling pressure. But, in the absence of buying support, equities continue to sag. More than once, equities started moving up in recent weeks, only to sag after an irregular upward movement.

Some are now arguing that the quiet trend in equities reflects paucity of surplus funds. Impressive evidence can be adduced in favour of this argument. Even Tata Steel had to extend the time-limit for subscriptions to its new issue. Some time ago, a Calcutta Company issued new issues to the extent of Rs 5 crores in the shape of high-yielding redeemable preference shares. This issue evoked unsatisfactory response from the general public. A thriving cotton mill company had similar difficulties about its new issue. This explains the irregularly lower trend in Indian Iron since the announcement of the prospective right issue.

Tight Money

Unlike Bombay, Calcutta is pessimistic about the new Union Government loan. Last week, one of the big scheduled banks raised its deposit rates. That such a defensive measure had to be adopted by an influential scheduled bank during the customary slack season, was not a little surprising. Admittedly, short-term money rates remain unduly firm. But it should not be ignored that, in recent years, there has been a change in the structure of money rates. For some years, the financial slack season has been of short duration.

This is a reasonable explanation of the continued stringency in the money market. But it also emphasises the growing demand for funds from industrial quarters. From the actual happenings in the money market, investors conclude that deficit financing is not keeping pace with the rising financial needs of industry. In this context, the consistent loss of foreign exhange resources of the Reserve Bank and its possible deflationary effects are being emphasised.

New Loan

This raises the problem of the Union Government's new Loan. Its technical success is a foregone conclusion. While the target is for Rs 150 crores, the outstanding amount of the Victory Loan comes up to Rs 114 crores. As this Loan can be converted into the new Loan, the latter's success is assured; the more so, as the major portion of the outstanding amount of the Victory Loan is held by the Reserve Bank and the State Bank. In the circumstances, even the success of the new Loan will not have a "bullish" effect on the stock market.

Details of subscriptions to the new Loan are not available at the time of this writing. But, on the assumption that the Victory Loan will be converted fully, the new Loan will not mop up more than Rs 36 crores of new money. In the last budget speech, the Finance Minister estimated the current year's borrowings at Rs 100 crores. This discrepancy between estimates and actuals is liable to more than one interpretation. But, at the moment, stock markets are in a mood to stress the pessimistic inferences.

Corporate news is encouraging. But investors are doubtful whether dividend payments will continue to be satisfactory, though industrial production is mounting. Meanwhile, some of the effects of the new Company Law are gradually being realised. Moreover, there are fears that some new taxes may be imposed both by the Centre and by the States. On top of all this, there is concern about the growing lack of surplus cash. This is the wider background against which the current market apathy has to be viewed.

Tea Shares

There are many favourable developments relating to Tea shares. Russia is a prospective buyer of Indian tea. She is reported to have been occasionally in the market. Auction prices have been rising in recent weeks. It is widely believed that the industry has seen the worst. Yet, Tea shares are not moving up. For one thing, tea company reports and dividents for the 1955-56 season are not yet available. Many tea companies have announced that they will, hereafter, publish only annual reports, as required by the new Company Law. Meanwhile, there is controversy as to how poor the last season has been. These doubts will continue until the relevant tea reports and dividends are announced.

Coal Shares

When Coal shares started going down as a sequel to the Tribunal award, there was hope that these shares would revive as the Government announced the expected price increase. Controlled selling price for coal have been raised by Rs 3 per ton. New Delhi has promised to re-examine the question of selling prices in the near future. But Coal shares continue to be neglected. It may be of interest to note that some holding companies are moderately optimistic about the coal industry for the next four years.

(continued from page 853)

of each of these to the economic reality which it tried to analyse is very well brought out.

There are some unfortunate blemishes in this otherwise important book. The argument is prolix and not always clear. Sometimes unconventional words are used to convey conventional concepts. The conclusion about technical change in the consumption goods industries is a little too categorical; the need for a social choice between a state with a larger initial level of income and employment and a small rate of growth and a state with a lower initial level of income and employment and a higher rate of growth, is not mentioned at all. Output is defined in a sense different from the conventional one but the special definition is not used consistently either.

All these shortcomings, however are of no consequence as compared to the constructive parts of this book. The analytical frame work developed here represents probably the first systematic attempt at analysing the economic reality in India. Separate problems have been analysed in this country but till now nobody has developed an integrated system of thought, suited for the analysis of an underdeveloped country like India. The authors should be congratulated for accomplishing this admirable task.

Around Bombay Markets

Sustained Business

Thursday, Morning.

IN contrast to the patchy trading during the previous week, sustained business was reported during the week under review thanks to the bulls taking advantage of the market's oversold position. The decline in budla rates encouraged bulls to go ahead, with the result that rates were pushed up and the market was in good shape throughout the week.

Tata Steel Ordinary, which had encountered selling pressure during the previous week unmistakably showed an overbought position right from the beginning of this week. After declining to about Rs 198 at one time last week, Tata Steel steadily firmed up, especially after the budla rate came down from 10 annas to 6 annas and a further rise is by no means ruled out. Indian Iron also improved from Rs 34-15 to Rs 36, though the budla rate for them remained unchanged at 2 annas. Despite continuous selling from Calcutta, which in fact depressed sentiment in the previous week, very good buying has been reported in Indian Iron from Bombay.

Monday's trading in general reflected a healthy undertone and industrials recorded handsome gains. Even the opening rates were substantially higher, profit taking was well absorbed and remained fairly firm at around the best levels of the day.

A notable development was the decision of the directors of the Tata Iron and Steel Company Ltd to recommend a dividend of Rs 10-8 per share on the Ordinary stock—the same as last year—for the year ended March 1956. The dividend announcement, however, was not followed by hectic activity witnessed in the past on such occasions as the dividend has been correctly anticipated and discounted in advance.

Cotton mill shares were also in the limelight. Bombay Dyeing, after a firm start, closed at around the highest level recorded during the week. More or less in line were the price movements of other textile scrips like Gokak, Khatau, Kohinoor, Standard, Simplex, Swadeshi and Nagpur.

In the miscellaneous section, Tata Oils registered spectacular gains on the announcement of a bonus issue and a higher dividend of Rs 3 per share. Bombay Burmah, old and new, continued to flourish under influential support while Tata Chemicals found buyers at as high as Rs 20-2-6. Associated Cement were supported up to Rs 195, the lowest for the week being Rs 188.

The rise in Bombay Burmah has been inspired by general expectation of at least a modest rise in the interim dividend. Meanwhile, it appears that the directors are in favour of the scheme for the conversion of 100 founder shares of Rs. 2,500 each into ordinary stock. These shares are entitled to an extra or preferential dividend equal to one-third of the surplus profits remaining in any year after paying a dividend of 12 per cent per annum on all shares in the company and after setting aside any sums to the credit of the reserve funds as the Directors may decide. As soon as the conversion scheme is put through, it is hinted that bonus shares would be issued to the existing holders of ordinary stock.

The list for the new Government of India loans, which opened on Monday, July 16, were closed on Wednesday, July 18, and have been fully subscribed. It is now the turn of the States. The market anticipates State loans totalling about Rs 50 crores, at 4 per cent, 12 to 13 years' maturity, to be issued at a slight discount for States other than Bombay and West Bengal. It may be recalled that last year the States successfully floated a 12 year loan at issue prices ranging from Rs 99 to Rs 100-4 and got in all about Rs 55 crores from the market. A feature of last year's State loans was the competitive bidding by insurance companies for the issues of their respective States. What will the custodians of insurance do this year? Would they act in concert and give their support only to the Central loans in preference to State loans? Or would they go by yield and maturity considerations?

Cotton

Warning by EICA

COTTON futures opened on a promising note, thanks to the active interest taken by the bulls. There were reports that heavy rains in the cotton growing areas had caused some damage to crops. The monsoon has been generous to a fault in certain strategic areas. The bulls naturally took the cue and both Jarilla and Vijay contracts registered noticeable increases in prices. If there was not the same enthusiasm throughout the week, it was because of the brake applied by the Board of the East India Cotton Association which made it known that it would not tolerate option dealings.

The Board was seriously concerned over this issue and at its meeting on Friday July 13, it was reported, the Board had decided to take very serious steps against offenders. This apart, operators were not able to decide one way or the other about crop prospects and preferred to wait for a clearer picture to emerge before entering into fresh commitments. In the event, prices towards the close of the week were in marked contrast to the earlier trend and were distinctly on the downgrade, although the market could by no means be described as definitely bearish.

The Textile delegation which went to Rangoon to negotiate a deal with Burma has signed an agreement according to which India would supply cotton textiles worth Rs 163 lakhs to Burma against cotton received from the US. For some weeks past, the market has been flooded with rumours about a triangular deal involving Burma, India and the USA. It now remains for the Government of India to clarify, in the light of this agreement, the licensing procedure for the import of 40,000 bales of American cotton about which an announcement was made last week.

Oilseeds

Fluctuating Market

OILSEEDS and oils experienced see-saw price movements during the week. After a sizeable decline earlier in the week, castor ready and futures rallied, despite absence of any business on foreign account. Towards the close of the week, however, some foreign business was reported. With a favourable statistical position, castor September futures closed on an improved tone.

The event of the week was the commencement of futures trading in castor new crop, May 1957. The new crop contract was quoted at a discount of Rs 15. September was placed around Rs 132 per candy.

There was fair turnover in groundnuts, ready and delivery. Vanaspati manufacturers showed interest in quality and bold seeds.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1474.60	1482.50	1504.31	1321.64
2. Rupee Coin	108.71	107.33	104.84	105.08
3. Deposits				
a) Central Government's	52.03	54.23	55.80	84.07
b) Banks'	52.56	50.56	51.18	46.87
c) Other Governments'	6.94	4.77	5.28	17.67
d) Others'	12.19	12.64	13.17	14.90
4. Foreign Securities	626.68	636.61	666.54	652.04
5. Balances held abroad	41.63	41.87	28.55	63.32
6. Rupee Securities	728.56	718.62	713.66	543.65
7. Investments	37.31	37.31	36.38	61.24
8. Loans and advances to Governments	3.34	2.95	4.99	0.86
Scheduled Banks				
1. Demand liabilities (net)	629.40	632.00	627.64	583.94
2. Time Liabilities	454.97	452.88	444.21	399.58
3. Cash on hand	37.46	40.07	37.41	34.37
4. Borrowings from Reserve Bank	44.81	53.22	60.42	31.82
of which against Usance Bills	33.68	37.56	42.92	29.05
5. Advances and Bills discounted	710.86	710.02	721.47	576.07
of which State Bank's	134.08	134.26	139.43	115.86
6. Invst. in Govt. Sec.	346.90	347.63	349.00	358.55
of which State Bank's	100.17	100.33	100.84	95.88
Cheque Clearance	128.90	136.78	137.26	123.72

†For Reserve Bank and Cheque Clearance week ended 13-7-56. Scheduled Banks week ended 6-7-56.

Bombay Money Rates	13-7-56	6-6-56	15-6-56	15-7-56
Inter-Bank Call Rate	3 1/8	3 1/8	3 1/8	2 7/8
3 months deposits	3 3/8	3 3/8	3 7/16	3
6 months deposits	3 3/8	3 3/8	3 7/16	2 7/8

Bombay Bullion — In Rupees and Annas

	19-7-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	101-1	100-9	101-8	92-8
Forward	100-11 1/2	100-3	101-4	91-13
Silver (per 100 tolas)				
Spot	171-11	173-7	172-12	159-0
Forward	172-4	173-9	172-8	158-2

JUTE STATISTICS

Production ('000 tons)

	May. 1956	Apr. 1956	Mar. 1956	July'55 to May '56
Hessian	35.8	32.9	34.8	368.0
Sacking	59.6	55.0	57.8	565.6
Others	6.3	6.0	6.7	62.5
TOTAL	101.7	93.9	99.3	996.1
Total Production in the corresponding months of:				
1954-55	81.7	85.7	88.9	917.6
1953-54	71.3	75.0	75.6	791.1
Stocks at the end of the month ('000 tons)				
Hessian	* 40.6	35.9	30.3	—
Sacking	71.1	63.3	55.2	—
Others	7.4	8.7	9.5	—
TOTAL	119.1	107.9	95.0	
Stocks at the end of the corresponding months of:				
1954-55	94.9	103.4	94.6	—
1953-54	86.5	91.4	92.9	—
Despatches:† ('000 tons)				
Hessian	31.0	27.2	32.4	375.2
Sacking	51.4	48.1	55.6	533.0
Rope, twine, etc.	6.6	6.4	4.8	48.3
TOTAL	89.0	81.7	92.8	956.5
Total despatches in the corresponding months of:				
1954-55	89.6	76.0	76.7	904.4
Raw Jute Consumption: (lakh bales of 400 lbs each)				
1955-56	5.89	5.45	5.79	57.86
1954-55	4.72	5.08	5.25	52.98
1953-54	4.10	4.32	4.63	46.16
IJMA Mills' purchases of raw jute (lakh bales)				
Pakistani	0.21	0.27	0.18	11.62
In corresponding periods of:				
1954-55	0.95	1.0	0.73	9.54
1953-54	0.80	1.49	0.51	8.45
Indian	3.85	3.76	4.05	45.92
In corresponding periods of:				
1954-55	1.79	2.19	2.55	41.10
1953-54	2.54	2.90	2.67	34.64

† Despatches include exports and sales for internal consumption

*Provisional

Source : Indian Jute Mills Association

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group	Week ending 7-7-56	Week Ago 30-6-56	Month Ago 9-6-56	Year Ago 9-7-55
I **Food Articles:**	**379.5**	**374.0**	**356.3**	**304.0**
Cereals	480	476	468	349
Pulses	370	362	350	272
Others	250	245	220	244
II **Industrial Raw Materials:**	**490.9**	**481.8**	**476.0**	**412.8**
Fibres	484	470	458	417
Oilseeds	530	537	546	400
Minerals	470	435	414	427
Others	421	421	429	417
III **Semi Manufactures:**	**395.1**	**395.5**	**386.0**	**331.0**
Leather	399	401	406	357
Mineral Oils	208	208	208	201
Vegetable Oils	547	554	558	808
Cotton Yarn	475	473	477	406
Metals	327	328	278	256
Oilcakes	432	426	431	345
Others	362	361	361	330
IV **Manufactures:**	**385.1**	**377.0**	**378.5**	**370.8**
Textiles	418	418	413	406
Jute	386	386	392	415
Cotton	430	419	419	402
Rayon & Silk	453	453	478	474
Woollen	264	264	264	282
Metal Products	388	377	371	352
Others	291	286	286	286
V **Miscellaneous:**	**560.8**	**545.4**	**509.0**	**567.8**
All Commodities:	**401.3**	**402.2**	**393.0**	**354.7**

IRON AND STEEL PRODUCTION

(all figures in tons)

Quarter Ending:	June 30, 1956			June 30, 1955		
	IISCO	TISCO	Total	IISCO	TISCO	Total
Pig Iron	148,306	291,500	439,806	185,605	280,800	466,405
Steel Ingots	117,710	266,500	384,210	134,333	255,900	390,233
Semi-finished for sale	28,137	54,200	82,337	36,912	52,300	89,212
Finished Steel	64,472	140,900	205,372	79,369	142,300	221,669

Source : Indian Iron and Steel Co., Ltd. Tata Iron and Steel Co., Ltd.

IMPORTS OF IRON AND STEEL

SELECTED ITEMS (all figures in tons)

	Feb '56	Jan '56	Dec '55	Jan-Dec 1955
Steel bars (other than cast steels)	21,406	10,837	8,671	55,312
Steel ingots blooms, billets & slabs	10,828	10,321	8,768	38,089
Sheets and Plates				
Galvanised	2,999	3,537	2,910	19,446
Tinned	9,867	5,416	4,448	39,715
Not Galvanised or tinned	21,295	23,791	16,364	122,562
Bolts and nuts	261	206	295	3,074
Hoops and strips	4,090	2,426	3,504	23,010
Pipe and fittings (cast)	1,746	1,591	1,712	6,185
Tubes, pipes and fittings (wrought)	7,229	6,360	8,076	90,638
Wire (other than fencing wire)	1,549	5,017	7,853	49,505
Wire rope	267	409	524	4,448

Source : Ministry of Commerce and Industry

LABOUR EMPLOYED AND AVERAGE NUMBER OF SPINDLES AND LOOMS WORKED PER DAY PER SHIFT IN COTTON MILLS IN DIFFERENT STATES IN MARCH 1956.

	No. of Mills Worked	Average No. of Workers Employed			Average No. of Spindles Rings and Mules worked per shift			Average No. of Looms Worked per shift		
		1st Shift	2nd Shift	3rd Shift	1st Shift	2nd Shift	3rd Shift	1st Shift	2nd Shift	3rd Shift
Bombay										
(a) Ahmedabad City	65	72,132	47,776	10,381	1,915,606	1,900,584	599,702	40,590	37,988	7,740
(b) Bombay	,, 62	118,825	76,236	27,965	2,846,867	2,727,562	1,423,409	61,606	56,767	14,671
(c) Rest	46	48,354	26,987	6,354	1,085,845	947,695	358,772	20,676	16,792	2,297
Saurashtra	10	7,643	4,808	14	143,176	131,750	..	3,278	2,690	nil
Kutch	1	106	..	..	2,432	..	..	..	..	..
Madhya Bharat	15	21,960	15,573	3,519	400,533	390,330	116,785	10,208	10,104	2,256
Bhopal	1	948	670	629	13,855	13,640	12,608	395	395	389
Ajmer	4	3,669	1,807	178	58,154	52,400	4,708	1,478	277	..
Rajasthan	5	3,975	2,524	834	68,675	67,006	25,981	1,059	1,058	480
Pepsu	1	978	514	472	18,880	18,616	18,616	528	528	528
Punjab	3	1,710	1,148	1,102	46,066	45,527	44,786	826	834	829
Delhi	3	6,462	4,729	5,755	146,305	150,805	149,132	3,386	3,396	3,398
Uttar Pradesh	18	24,341	16,832	9,368	604,711	577,921	382,318	11,535	11,248	7,376
Bihar	1	430	269	..	7,660	7,916	..	158	157	..
West Bengal	23	20,203	12,465	7,212	408,114	400,359	324,028	7,746	7,505	3,972
Orissa	2	1,512	1,396	1,230	43,944	43,361	43,939	851	854	837
Madhya Pradesh	9	9,606	5,709	639	189,073	147,342	43,038	4,009	3,062	..
Hyderabad	5	7,090	4,451	3,206	126,015	124,526	89,810	2,732	3,687	1,951
Madras	85	51,684	34,012	11,448	1,763,870	1,776,520	849,896	5,905	6,312	2,039
Mysore	9	11,484	5,783	858	231,675	224,767	53,299	2,928	2,723	44
Kerala	10	4,106	1,903	1,348	106,064	98,861	84,155	681	594	411
Andhra	7	1,611	707	277	55,142	34,922	22,180	..	..	..
Pondicherry	3	3,214	2,304	51	57,584	57,064	..	1,380	1,342	..
TOTAL	388	422,043	268,602	92,840	10,340,246	9,939,474	4,597,162	181,955	167,313	49,218

Note : The above table excludes figures of 28 mills of which 24 remained closed and 4 mills which have not yet started production.

Source : Ministry of Commerce and Industry.

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TEA
IN INDIA'S ECONOMY

HOME CONSUMPTION

The people of India consume about 200 million pounds of tea yearly or at the rate of a little over 1/2 lb. per head per annum.

ACREAGE & PRODUCTION

There are more than 6,300 tea gardens in India covering nearly 7,89,000 acres. Their total yearly production is over 640 million pounds of tea.

ALLIED INDUSTRIES

The Indian Tea Industry assists other industries like plywood, ceramics, coal, cement, fertilisers, tea machinery and transport.

EXPORT

During 1954 India exported 450 million pounds of tea. This is more than 2/3 of her total production. Exports were directed to Great Britain, United States, Eire, Canada, Egypt, Continental Ports, Turkey, Sudan, Australia, New Zealand, Iran and other countries.

EMPLOYMENT

The tea gardens of India alone employ well over one million workers - thus our Tea Industry is the largest single employer of labour in India. Besides, with the tea trade it provides additional employment for a very large number of persons.

REVENUE

The Indian Tea Industry contributed to the National Exchequer about Rs. 19 crores as export duty, and about Rs. 3 crores as central excise duty in 1954-55. Besides, it contributed large sums by way of State income tax, agricultural tax, road tax and certain imposts.

FOREIGN EXCHANGE

Indian Tea earned over Rs. 147 crores in terms of foreign exchange during 1954-55.

WORLD CONSUMPTION

India meets over 50% of the world demand for tea which is estimated at over 1,200 million pounds a year, excluding China, Japan, and the U. S. S. R.

INVESTMENT

Capital invested in the Indian Tea Industry is estimated at nearly Rs. 90 crores.



I am Tea – the wealth of India

TEA BOARD INDIA

PST 165

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(Established January 1949)

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Finance Minister Resigns

WHY is it that the Congress has not yet been able to produce a Finance Minister from its own ranks? Is it because the present leaders had been so busy going to jail and running the party that they had no time to study finance? This cannot be the explanation, for even the ablest Finance Minister need not be a financial expert. Amateurs at the top is the recognised principle of parliamentary Government. All the three Finance Ministers whom the Congress put up since it assumed office had to be recruited from outside the party. The circumstances under which the first two of them left raised the obvious question how any Finance Minister could possibly fill the bill unless he held such a commanding position in the party as to be able to over-ride others, not excluding the Prime Minister, if the occasion demanded it. In the case of Shri Chintaman Deshmukh, however, this does not apply to the same extent as it did in the case of his predecessors.

In the second term of his office, he was a Congress member and however aloof he might have been intellectually, he was accepted by the party. But with what reservations, has always been a subject of considerable speculation. Was Shri Chintaman the architect of the First Five-Year Plan? How far was he responsible for the Second Plan? These are idle questions today for though Shri Chintaman was already a Member of the Planning Commission before he was invited to take up the Finance portfolio and therefore continues to be a member after surrendering that portfolio, his break with the Cabinet and the Government looks so complete that his association with the Planning Commission can no longer be taken for granted. Which is a pity, since it would certainly have meant that he would have continued to shape economic policy to a larger extent than any other member that one can think of at this stage.

Shri Chintaman's interpretation of the duty of a representative to his own constituency may not be accepted by all. Burke's dictum is still as good as any other, but if Shri Chintaman feels the same way about the separation of Bombay City as the people of his constituency, resigning from the Cabinet is as honourable a course as any, to register his protest. Purists may complain only about the propriety of continuing his membership of Lok Sabha on a Congress ticket when Shri Chintaman differs so fundamentally from his party on this particular issue. But he is not clinging to his seat on false pretences. Had it been open to him to seek re-election, he would certainly have done it to vindicate his stand. The only criticism to which he has exposed himself is that while indicting violence on one side, he has kept silent about the violence on the other. But he has the justification that the other side did not need him to defend its case.

The issue on which India's so far the ablest Finance Minister has resigned had nothing to do with finance. Yet Shri Chintaman had his differences with the Congress Parliamentary Party as also with the Prime Minister which had led him to tender his resignation on two occasions though the differences were made up in the end. Going entirely by newspaper reports, the occasions were his piloting of the Companies Bill and the question of revising the financial procedure. The first

brought out the difficulty of a Finance Minister who did not have the feel of the party and therefore needed the personal intervention of the Prime Minister to persuade Parliament to toe his line. The second arose from one of Pandit Nehru's minor foibles, his careless disregard of good form in asking some body else to look into the financial procedure which, the party complained, was unduly dilatory. On both occasions Shri Chintaman displayed a love of order, system and propriety which is undoubtedly, a virtue for the civil servant but not for a politician. He lacked elasticity and capacity for accommodation, even if he did not take up the wooden attitude that existing procedures were the best conceivable and admitted of no improvement. But no one accused Shri Chintaman of lack of objectivity to the extent that when the case was fairly presented to him, he refused to see where secretarial practice was too rigid and capable of being made more flexible, without necessarily sacrificing prudence.

In his handling of the Company Bill, Shri Chintaman was accused by the rank and file of the Congress party in Parliament of being too partial to vested interests. But now that he is gone, the same members will discover that no one is in sight who can resist pressure of the wrong sort to the same degree as he. No greater tribute could be paid to a guardian of national finances who has also to shoulder the responsibility for framing and implementing economic policies that necessarily conflict with various sectional interests. It may not be a mere coincidence that a forum for one of these sectional interests is being launched just after his resignation from the Cabinet.

The severe indignance of the retiring Finance Minister is not however on the issue of Maharashtra and Bombay but the Prime Minister's disregard of the principle of joint responsibility. On this Shri Chintaman has no new light to throw. Others who left the Cabinet in the past had made the same indictment, forgetting that the Cabinet Ministers pull their weight not according to their intelligence and ability but according to their standing and position in the party as also in Parliament. If those who later resigned had cared to remember this elementary principle before joining the Cabinet, they would have been spared much frustration. They could also, perhaps, then pay greater respect to Cabinet responsibility by keeping to themselves what had been discussed in the secrecy of Cabinet meetings. The unreserved acceptance of this political convention is a condition precedent to the successful working of the Cabinet.

Towards Co-existence

EVEN as America's Secretary of State has yet failed to make a reappraisal of the international situation because, presumably, the effort is proving too agonising for him, he does not yet seem to have realised that neutralism is an inappropriate definition of foreign policies pursued by India, Egypt and Yugoslavia. By the time this appears in print, Pandit Nehru's personal impressions of his one-month tour of foreign countries will be available to the public. It may be presumed that he will reiterate the advantages of personal contacts and exchanges of views between the leaders of countries following different policies. It was unfortunate that President Eisenhower's illness prevented intimate personal talks between him and Pandit Nehru. Even so, it is to be assumed that Pandit Nehru's analysis of the world situation will indicate a gradual lessening of the international tension.

Mr Dulles may still be suspicious of the morality of neutralism. But many of America's allies are now convinced that the Bandung countries and Yugoslavia are not neutralists so much as advocates of "peaceful and active co-existence". One clear fact emerges from the statements and communiques issued by leaders of various countries in the last few weeks. Commonwealth Prime Ministers, the West German Chancellor, the French Premier and the Presidents of Yugoslavia and of Egypt are agreed that developments within Russia since the death of Stalin call for a reappraisal of the world situation. As Bandung Powers. India and Egypt have always endorsed the principle of peaceful co-existence. Yugoslavia has long been a convert to the Bandung principles of peace. Britain and many other Commonwealth countries now concede the need for a changed attitude to the Communist bloc. America alone persists in pursuing a policy which can only perpetuate the "cold war".

From the moment the Heads of State reached an understanding not to start an atomic war, the policy of building positions of strength became obsolete. Immediately, Russia reoriented her military policy. Among the Western Powers, the Socialist French Premier and his Foreign Minister were prompt in appreciating the need for military re-thinking. They were vocal in their criticism of the Western Powers' foreign policy. They were emphatic in rejecting a foreign policy based exclusively on security. Their urgent appeal for efforts towards greater economic co-operation among nations was widely endorsed.

India, along with other Bandung countries, welcomed the shift in emphasis in the foreign policy of the Western Powers in the hope that America will in due time be convinced of the need for adjusting her foreign policy to the changing world situation. That hope has yet to be fulfilled. But India, Egypt and Yugoslavia can take comfort that Britain, West Germany and France are now converts to the principle of peaceful co-existence.

Much has happened in Russia since Stalin's death to provoke a conciliatory attitude to the Communist bloc. Rejection of the personality cult in Russia and the gradual process of democratisation in Russia and in the neighbouring Communist States are events which should facilitate an understanding between the Western Powers and the Communist bloc. But there has been a danger that the lack of response from the Western Powers may hamper the encouraging developments within the Communist bloc. Such fears have been openly expressed by India and some other peace-loving nations.

It is a welcome sign of the times that Britain is aware of this possible danger. "We in the West would make a mistake", Sir Anthony Eden has now warned Britain's allies, "if we did not accept this and understood it (rejection of Stalinism by Russia)". Sir Anthony is prepared to reorient his Government's foreign

and military policies in such a way as to encourage Russia to speed up the process of democratisation. In seeking "a reappraisal of the strategic needs of to-day", he has appealed to the Powers concerned to reach an agreement to limit and control nuclear tests. Such an agreement is an essential first step which should be followed soon by a total ban on nuclear tests. Simultaneously, sincere efforts should be made to reach an agreement on overall disarmament.

Prospects for such an agreement on disarmament are brighter to-day. Suspicions prevail that the Western Powers are reluctant to conclude an agreement on disarmament because they are disturbed about the implications of peaceful co-existence. It will be futile to deny that their newfound emphasis on economic co-operation has been provoked by the spectacular Russian initiative on the economic front since the Geneva "summit Conference".

Sir Anthony has shown statesmanship in declaring openly his preference for "the menace of Soviet competition to the threat of a world war". By his bountiful offers of help to India, the West German Chancellor has disclosed West Germany's determination to outbid Russia in her efforts to win friends through economic co-operation. There must first be an agreement on disarmament so that the Western Powers and the Communist bloc can accept the principle of peaceful co-existence. Even then, the menace of economic rivalry among the Big Powers will continue to plague the world.

Economic prosperity of undeveloped areas is one of the conditions of world peace, even as amity among nations is a condition of global prosperity. These aims are likely to be endangered by economic warfare among the rival power blocs, even as the "cold war" is jeopardising world peace. There is, therefore, need for co-ordinating economic policies and efforts of the Big Powers through the United Nations. This need is emphasised in the communique issued after the Brioni talks between President Tito, Pandit Nehru and President Nasser. Russia has repeatedly expressed her willingness to co-operate with the United Nations in spheres of international economic co-operation. France is in favour of such an extension of the economic functions of the United Nations. There is nothing to suggest that Britain is opposed to such a policy.

There are reasons why America is reluctant to endorse any such plan for international economic co-operation through the United Nations. Under such a plan, America will lose her influence over, or domination of the economies of other countries. As long as she does not accept such a plan for world economic co-operation, the functions of the United Nations cannot be enlarged. On the political as well as on the economic front America's allies have a responsibility to convince America of the need for changing her foreign policy.

Bank of America
NATIONAL TRUST AND SAVINGS ASSOCIATION

Condensed Statement of Condition June 30, 1956
(Figures of Overseas Branches are as of June 23, 1956)

RESOURCES		LIABILITIES	
Cash and Due from Banks	$1,381,591,868.47	Capital	$160,000,000.00
United States Government Securities and Securities Guaranteed by the Government	1,821,046,625.15	Surplus	290,000,000.00
Federal Agency Securities	106,489,405.56	Undivided Profits	98,456,097.37
State, County, and Municipal Securities	580,102,894.81	Reserves	5,898,201.19
Other Securities	98,562,252.96	TOTAL CAPITAL FUNDS	$ 554,354,298.56
Stock in Federal Reserve Bank	13,500,000.00	Reserve for Possible Loan Losses	74,840,899.20
Loans Guaranteed or Insured by the United States Government or its Agencies	1,365,212,440.84	DEPOSITS: Demand	$4,184,523,543.27
Other Loans and Discounts	3,708,647,477.37	DEPOSITS: Savings and Time	4,314,457,841.71
Accrued Interest and Accounts Receivable	49,831,131.68	Liability for Letters of Credit and as Acceptor of and Endorser on Acceptances, Bills, and Notes	301,414,473.88
Bank Premises, Furniture, Fixtures, and Safe Deposit Vaults	93,491,492.62	Reserve for Interest Received in Advance	55,837,981.92
Other Real Estate Owned	1,946,211.41	Reserve for Interest, Taxes etc.	36,188,466.48
Customers' Liability on Account of Letters of Credit and Acceptances, and on Endorsed Bills and Notes	300,131,815.98		
Other Resources	1,063,888.17		
TOTAL RESOURCES	$9,521,617,505.02	TOTAL LIABILITIES	$9,521,617,505.02

BANK OF AMERICA (INTERNATIONAL),
A wholly-owned subsidiary
Condensed Statement of Condition June 30, 1956
Home Office — New York, N.Y.
Branches : Duesseldorf ● Singapore ● Paris
(Branch figures are as of June 23, 1956)

RESOURCES		LIABILITIES	
Cash and Due from Banks	$ 44,030,208.22	Capital	$13,000,000.00
United States Government Obligations, Direct and fully guaranteed	19,026,853.44	Surplus	5,200,000.00
Other Securities	8,930,679.21	Undivided Profits	1,439,672.79
Loans and Discounts	98,884,684.84	TOTAL CAPITAL FUNDS	$ 19,639,672.79
Accrued Interest	445,183.22	Reserve for Possible Loan Losses	1,137,985.58
Customers' Liability on Account of Letters of Credit and Acceptances, and on Endorsed Bills and Notes	96,074,192.54	Deposits	149,571,273.85
Other Resources	1,009,786.13	Liability for Letters of Credit and as Acceptor of and Endorser on Acceptances, Bills, and Notes	96,394,876.41
		Reserve for Interest Received in Advance	646,168.61
		Reserve for Interest, Taxes, etc.	1,011,610.36
TOTAL RESOURCES	$268,401,587.60	TOTAL LIABILITIES	$268,401,587.60

Bank of America
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Weekly Notes

Too Ambitious

THE World Bank Mission, it appears from press reports, has submitted a memorandum to the Finance Minister which contains its preliminary assessment of the country's economic progress. This is not its final report, which will be submitted after the Mission goes back to Washington. It is not clear, however, whether the memorandum was intended for publication. Anyway, as the Mission's assessment will matter when and if India approaches the Bank for loans, it is of interest, particularly the Mission's assessment of the Second Plan.

The Mission considers the Second Plan to be over-ambitious but does not want its size to be reduced. Like many others, the Mission is sceptical about the programme for cottage industries, though it appreciates the Government's motive behind it of increasing employment opportunities. It thinks that the difficulties inherent in the expansion of small enterprises were 'considerably underestimated'. It appears to take the view that demand for cloth has been put too low while the scope for expanding cloth production in the handloom sector has been rated too high. The expansion of capacity in the mill sector 'for export only', which condition is being whittled down anyway, it finds impracticable.

Of particular interest is the Mission's suggested solution for the enlarging transport bottle-neck, the severity of which it has noted with concern. But "the temptation to meet the developing transport problem by still greater investment", says the memorandum, "should be resisted"; means of improving efficiency should be exhausted first. It is very emphatic in its suggestion that all means of transport, by road, sea and waterways, should be explored and fully utilised.

The Mission's recommendations with regard to foreign capital, particularly foreign private investment, however, do not suggest either that it has cared to understand the basic objectives of planning in this country, or understood the political compulsions that prompted the country—why India? in other underdeveloped countries also, the situation is no different—to go in for a plan, or that it has benefited from the past experience of the World Bank. From the tone of these recommendations one is even apt to forget that the World Bank is an organ of the United Nations which is not commited, at least not officially, to making the world safe for free enterprise, but to help economic development in the member countries of the United Nations by the means best suited to the nationals of the countries concerned. That it should openly side with world oil interests is not a little surprising. None of the underdeveloped countries have an excess of capital to invest in oil companies. If they still want to have a share in such companies, it is not in order to assist the latter but to look after their own interests better.

The choice for the underdeveloped countries is not between free and freer private enterprise in their respective countries for the western or other investors. Perhaps the members do not read Walter Lippmann's columns and they certainly do not yet realise that "But for Nehru's India, backward countries would have no practical alternative model to that provided for them by Soviet Russia and Red China".

No Kutcha Reed !

THE homage that not only Maharashtra but the whole of India paid to the memory of Bal Gangadhar Tilak on the occasion of the centenary of his birth bore eloquent testimony to the nation's love and reverence for the great leader. But it did not bring out very clearly the role that this self-respecting Maharashtrian Brahmin played in the regeneration of his country. This was, of course, no occasion for a fresh political assessment or dissertation in history. Those who paid homage naturally sought to bring out one or other aspects of Tilak's character, personality or contribution, according to their own particular preference or predilection. But appropriately enough, at the crest of this wave of enthusiasm were his stirring words "Swaraj is my birthright". Into this slogan he breathed such life that it completely changed the political climate of the age and routed eventually the moderates from the arena who were prepared to accept good Government as the better alternative.

About the same time as Tilak, Bankimchandra had also placed before his countrymen the gospel of nationalism as the new religion of the age. Tilak lived this religion all his life, made it concrete and thus helped to restore self-respect to the English educated who had little faith in their country's thought and culture. Tilak was so captivated by the glory of his country's past that he certainly saw no trace of Heaven's benevolent will in British rule.

The first upstanding Indian who was not ashamed of his country or his people, that is how Tilak is remembered to day.

Looms and Spindles for Export

NOT so long ago the present Minister of Commerce and Industry had complained on the floor of Parliament that private enterprise had not been enterprising in the matter of expanding the production of yarn and that he could easily make a fortune by starting new spinning mills. Indeed, he was contemplating at one stage, and an earlier stage of the long drawn out controversy on cotton textile policy, of setting up 10 spinning mills in the public sector for supplying yarn to handlooms, for the expanded programme of cloth production in the country.

Licenses for textile mills, even though the production from them are for export only, are in demand. His Ministry had invited applications for 14,600 automatic looms and 2.1 million spindles; actual applications have exceeded these figures. Not much time was needed to coax private enterprise to take up the job. The demand at the moment is for more than 300 million spindles and 16,000 automatic looms, mostly from Bombay and Ahmedabad. All the applicants, however, may not satisfy eligibility conditions and Government may also have to make further concessions to make the mills swallow the 'penal duty' condition. It will be recalled that the Ministry had suggested earlier that the automatic looms and spindles sanctioned under this scheme of expansion would be for export only and that no more than 12½ per cent of the output from them would be allowed to be sold in the home market. If production beyond 12½ per cent from these looms and spindles is sold internally, a penal duty of as 2 per square yard was to be charged on sales in excess of the free quota. The penal duty, it is now proposed, will be reduced to 1 anna per square yard on the next 10 per cent of the output, and 1½ as on the subsequent 10 per cent. The as 2 duty will then apply only to the production in excess of 32½ per cent. It is not an easy scheme to work out and the sanctioning procedure is going to be complicated. Mills which have surplus spinning capacity will be given preference in the matter of looms while in keeping with the Government's general policy the latter will rank high in order of priorities.

The policy of going ahead fast with improving the technique of handloom production by free licensing of power looms, however, appears to have slackened down before it got started. Go slow is being forced by the handloom interests who complain, and not altogether without legitimate ground, that licensing of power looms will hit them hard. The licensing procedure will therefore, take note of displacement. But if this point is pushed hard, introduction of power looms may prove much more difficult than the ministry thought it to be. All told, the present mood is for reconciling existing interests whether in the organised or the decentralised section of the industry. It is difficult to say what exactly would be the resultant of all these jolts in the new textile policy which somehow never seems to get started. Perhaps the situation would be made a little more clear when it comes to be reviewed in Parliament by the middle of next month.

Revised Price Index Issued

A NEW price index has been promised for many years. The one that is now being published, if not being used by the Government for its policy making, has the pre-war year (year ended August, 1939) as its base and everybody agreed long ago that it was a very defective index, that partition and post-independence changes have made it completely out of date and that it should be scrapped. Other price indices have come and gone e g The All India Sensitive Index or the General Purposes Index. A third, the All India Cost of Living Index which should never have seen the light of the day but had a forced birth because the Pay Commission had to have an All India basis for its wage recommendations dropped out, but has again reappeared, this time to meet the exigencies of our international obligations, in this particular case to the ILO. This is however, a statistical absurdity to which the Labour Ministry alone can subscribe. A revised series has been running underground also for some years. But the old and never trusted wholesale index of the Economic Adviser's Office is still going strong.

The one that is to replace it has started moving after a long period of hibernation. A committee was appointed to advise on the collection of the agricultural prices that are to go in the new index. It submitted its report in April 1954. After a lapse of full two years, another committee has been appointed to recommend what non-agricultural prices should go into the new index. Unlike the earlier committee, however, it is not composed entirely of officials. At least one non-official, Shri Y S Pandit, Director, Department of Economics and Statistics, Tata Sons Ltd., has made the grade and been given a place on it. The official resolution which announced the appointment of the committee threatened that the new index, based on the recommendation of the "Collection of Agricultural Prices Committee" was shortly to be issued.

According to newspaper reports, it has actually been published. When the Committee on Agricultural Prices reported in 1954, the base period that was proposed for the revised index was the year ended August 1949. Of course, there is never perfect stability at any time and the idea is to choose as base a year which was reasonably free from disturbances. But 1948-49 was the year in which food control was reimposed and which immediately preceded devaluation of the rupee. What of that? It is the year chosen by the IMF for most of its indices. Naturally our foreign trained experts, some of whom had served their term on the IMF, could not be accused of bad form. But something must have happened in between, for the notification announces that the revised index which has been issued this week has 1952-53 as its base.

Non-Agricultural Prices

WELL, if the revised index has already been decided upon, what is the necessity of examining non-agricultural prices at this stage? This is puzzling only to those who do not know that price collection and computation of price indices run on several rails at the same time, so that new prices can be added, old ones dropped and many other changes can be effected without stopping the current series of starting new ones. The only difficulty is that comparable price series or the data for fixing or changing weights may not be available over a period of time. The later, usually, is an enormous job. The more fastidious among statisticians do not touch a price, unless there is a weight attached to it! Now just think what it means. The revised index is based on more than 500 price quotations for about 110 commodities instead of 215 price quotations for 78 commodities covered by the present index. For rice, for example, which is the staple food for the bulk of the population, the old index takes only three price quotations, at least two of which were, during many years of the index, largely fictitious, being the statutory price at which few could buy rice. Now there are to be some 50 quotations for rice alone. For there are different varieties and different centres. The uncompromising statisticians would insist that for each of these quotations, he must first know how much was the quantity actually sold on the market so that he could work out a proper weight for it, in order to give the quotation its proper importance in the official index. Not to speak of sales of individual varieties in different markets, nobody knows for certain in this country what proportion of the crops marketed even of a commodity as important as rice and how the marketable surplus varies from year to year.

Even for rough weights, however, some data are necessary. They may be available for some other year but not for the base year. The weights, again would be substantially different, when planned development actually takes place. Are they to be varied from year to year? How the experts solve the problem of weighting is going to be the most intriguing part of the new index. The revised index has fixed the weight according to the value of the commodities marketed in 1948-49 and not in the base year. This decision must have been forced by necessity but is puzzling nevertheless, since data for 1952-53 is likely to be fuller than for 1948-49.

Aswan Dam

TWO reasons are advanced for the withdrawal of the joint Anglo-American offer to finance the Aswan Dam project. One is that the States of the Nile have failed to reach an agreement on the division of the waters of the Nile. Disagreement between Egypt and the Sudan on the distribution of the Nile waters complicates the problem of financing the project. But these differences were known to both Britain and America at the time the negotiations started for financing the project. It is, therefore, rather surprising that America has withdrawn her offer of aid immediately after the announcement of the Egyptian Ambassador to America that Egypt is willing to accept the joint offer of help.

More intriguing is the second reason for withdrawing the offer of aid to Egypt. Of the aggregate finance needed for completing the Aswan Dam, the Anglo-American offer forms only a part. Negotiations are going on with the World Bank for a substantial loan for financing the project. Cairo is committed to supplying a portion of the needed resources. London and Washington have now informed Cairo that Egypt's ability to fulfil her part of the commitment has become "more uncertain than at the time the offer was made." A spokesman of the British Foreign Office adds a foot-note that Egypt's commitment under the arms deal with Czechoslovakia is "a factor in the Egyptian economy". This deepens the suspicion that the continuing "cold war" has influenced the withdrawal of the joint Anglo-American offer of help to Egypt.

As was only to be expected, Moscow seems eager to exploit the financial vacuum created by the withdrawal of the Anglo-American offer. Aswan Dam is a major project on which Egypt's future prosperity depends. It is to be deplored that East-West conflicts should jeopardise the completion of projects on which the progress of some under developed countries, including Egypt, depends.

Gold Coast

ELECTION results in the Gold Coast will be welcomed because of their implications about the territory's future status. For over a year now, opposition to Dr Nkrumah and his Convention People's Party has been gathering momentum. Ashanti Chiefs resent their loss of power and prestige. Farmers as well as cocoa planters have their grievances. Some politically conscious elements accuse the Nkrumah Government of "incipient dictatorship". Many elements in the country reject the constitutional plan formulated by the ruling party as a preliminary to an independent status within the Commonwealth. There is a strong feeling against CPP's plan for a unitary type of government. Regional interests favour a federal State.

Because of the growing controversy over the future constitution, London suggested that a general election should be held on this issue. Dr Nkrumah and his CPP have won a decisive majority in the elections. It should, therefore, be possible for him and his Government to secure "a reasonable majority" in the newly-elected legislature for the plan demanding independence within the Commonwealth in 1957. Dr Nkrumah's victory in the elections ends the constitutional dispute. His opponents have the democratic right to continue efforts to win the people over to their plan for a federal State. They must await the next elections to fight CPP on this issue. Meanwhile, Britain is committed to accept Dr Nkrumah's proposal for independence within the Commonwealth in 1957. There will be hope that Dr Nkrumah's political opponents, as well as London, will abide by the election results.

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Letters to the Editor

Drawback from Steel Pool

MAY we refer you to your concluding remarks in the paragraph captioned 'Drawback from Steel Pool' in your issue of July 14th. May we elucidate.

During the year reviewed by our Chairman, we were forced, largely due to the inadequacy of internal production, to import some 50 per cent of our requirements of tinplate.

The high price we paid for our purchases of Indian tinplate included a substantial contribution to the Steel Equalization Fund; but because the Steel Equalization Fund does not equalize the price of tinplate imports, as it does the price of other categories of steel, we had to pay the still higher world exports prices for our tinplate imports. It is the basic principle of the Steel Equalization Fund that where the levy is imposed on internal production, a corresponding benefit is provided by equalizing the import price. This principle is ignored in the case of tinplate.

One of the implications of this unsatisfactory arrangement is that Indian tinplate manufactures are priced out of export markets. The Steel Equalization levy inflates the price of tinplate to the extent that we currently pay Rs 1,151 per ton for Indian tinplate in Bombay and higher prices for imported tinplate. We have to compete in the export trade, with manufacturers who receive tinplate at prices significantly below this. For example, British manufacturers, with whose exports India has to compete in South East Asia, buy their tinplate at the domestic price of Rs 890 per ton. There are good export prospects if a draw back on the Steel Equalization Fund levy were introduced.

We would also point out, that while our cost of holding stocks increased, this was not passed on to our customers, but absorbed by production economies made possible by the high level of activity.

H K S Lindsay
COMMERCIAL DIRECTOR

The Metal Box Company of
India Limited
Barlow House,
Chowringhee,
Calcutta 20.
July 25, 1956.

Flibbertigibbet

I HAVE watched with great interest the emergence in your columns of a new Kingsley Martin from Calcutta. We who have learnt well the lesson that Lord Macaulay had a hundred years back sought to drive home to us, what surer road to the heart of the London-Cambridge economic coterie can we have than to take over on ourselves Beatrice Webb's once disdainful dubbing of young Kingsley Martin? I am sure Kingsley Martin must be happy to find that the title he rejected in his youth has emerged at last in the columns of the Economic Weekly. And there must surely be jubilation at the Great Turnstile Press that with the passing away of Laski, the task of sowing the intellectual seed in the erstwhile colonies is not altogether denied to the Briton in the Welfare State. One encouraging feature of the entire episode is that the time-lag in intellectualism as between Britain and India, which used to be 10-15 years in the past, has now been reduced to the time taken by an airplane to reach Bombay from London.

We, Sir, are a nation of sturdy archaeologists. While some of us are busy digging away, and unearthing a Chambal valley civilisation some 3000 years old, the literate amongst us are quick to re-discover ourselves from a new angle. But the angle of vision, I regret to say, remains constricted by the narrowness (and shortness) of our grey bags, and by the colour of our light blue (sic) tie, even when the former is tattered and worn out and the latter faded to a jaded grey.

AKG

New Delhi,
17th July 1956.

Uniform Steel Prices

ON 10th June, 1956 Government introduced uniform prices for all controlled categories of steel and pig-iron at all rail-head destinations in the country. The average uniform price for steel was fixed at Rs. 525 and for pig-iron at Rs 225 per ton.

While fixing the average uniform price for pig-iron, Government raised it from Rs 163 to Rs 225 per ton. This increase is necessitated by the large amount of pig-iron that will have to be imported at substantially higher prices and both indigenous and imported products will have to be sold at a uniform price. Imports will amount to about 500,000 tons pig-iron, i.e. almost the same quantity as is produced within the country.

Prices in ports like Bombay and Calcutta rose by about Rs 25 per ton and prices at centres like Kanpur and Amritsar fell by nearly Rs 35 per ton. As the Government communique points out, "The basic consideration underlying this change is the desire of Government to encourage decentralisation of industries and to reduce disparities in levels of development between different regions." Mr. Cleetus, Chairman of the Indian Engineering Association, accepts the need for equalisation of prices in a big country like India. But the advantage of uniform prices to the interior areas is largely neutralised by the big increase in the price of pig-iron. And at a time when the transport bottleneck is a serious problem, the change in the pattern of distribution will create a fresh problem for the railways.

A Bombay daily has charged Government with favouritism because, in its view, Government is subsidising the engineering industry in U P and Punjab by imposing fresh burdens on its counterparts located more suitably. Critics who resent higher prices at ports forget that steel used to be sold at cheaper rates in ports in order to compete with imported steel. India has now become one of the cheapest producers of steel. Hence the need to sell steel cheaper to port markets had ceased quite some time ago. Unfortunately this invidious distinction which continued so long naturally gave a fillip to the engineering industry in port areas. This wrong has now been righted.

There are no two opinions on the point that the country needs balanced regional development. Government action is in the right direction. It is quite wrong to say that the engineering industry in UP and Punjab is being subsidised by imposing a burden on their counterparts located more suitably. Government action did not result in any increase in prices of several categories in the free market, because import prices were somewhat higher. It has been decided to eliminate this limited free market in near future.

N A Shah

Bombay,
July 25, 1956.

Our Delhi Letter

Trade We Must

PREJUDICES die hard and political prejudices harder. That is why the species of doubting Thomases who deny the possibility of expanding trade with Communist countries have not become extinct yet. They were only lying low for some time. Now with reports of U S sale of steel to Russia they have become active again. They are triumphantly pointing their finger at this projected deal as a confirmation of a steel shortage in Russia. And if Russia has no exportable surplus, the offer to sell steel she made to India must have been prompted by fleeting political considerations. As such it would be foolhardy to depend on such uncertain sources of supply—thus runs the thread of their argument.

Exportable surplus, to be sure, does not imply the balance left over after meeting home requirements in full. If this were the case, very few countries could have engaged in foreign trade and international division of labour and specialisation would not have been possible. For export purposes, it is enough for a country to have a surplus in some of the lines. Thus Britain imports certain varieties of steel while she exports others. This two-way traffic in steel is not conditioned by her position as a net exporter of steel, but by comparative costs.

Similarly, the import by Russia of light-weight steel customarily used in making motor cars does not necessarily imply Russian inability to export steel. It is quite conceivable that Russia has a surplus of heavy-weight steel though she may be deficient in the lighter variety. Anyway, such a hypothesis fits in with the over-emphasis on heavy industry Russia has all these years been accused of. And if this criticism is valid—which probably it is—what is the difficulty in assuming that in Russia light-weight steel is in short supply in the same way as are consumer goods and agricultural commodities, while she may yet export other varieties of steel.

This is not to deny that Russia wants to derive some advantage out of this expanded trade. Surely she does. Trade with under-developed countries helps her find markets for heavy equipment and maybe even steel and thus arrange for the import of the commodities in which she is deficient. Besides, such trade helps Russia to get back into the stream of world trade from which she was cut off as much because of Stalin's economic theories as the Western embargo on trade with Communist countries. There is nothing wrong with such calculations. If the Russians have their calculations, so have we.

We have to supplement whatever foreign aid we can get from the West with as much of foreign exchange earning as possible. It should be clear by now even to the meanest intelligence that no underdeveloped country should expect fully to meet her foreign exchange requirements for development work with external aid. And today there is not much scope for increasing our exports to the West. But in the case of Communist countries such scope exists. Whether trade with them would actually expand, however, depends on decisions of the Communist Governments and not directly and may be even primarily on market considerations. So what?

Even the direction and quantum of U S aid are not determined altogether by altruistic motives. Had they been so, the USA would not have withdrawn the offer of help for the Aswan dam in Egypt. We need foreign exchange and we must have it, if necessary from the Devil and his grandmother. Trade relations with Communist countries imply as much endorsement of their totalitarian practices as commerce with imperialistic Countries do of their colonial or racial policies. Neither more, nor less.

Effectiveness of Monetary Policy

"Under the present economic conditions bank rate policy and open market operations may not prove quite effective or feasible means for credit control", said Shri A C Guha moving consideration of the Reserve Bank of India (Amendment) Bill in the Lok Sabha. One should have liked the Minister for Revenue and Defence Expenditure to go into the matter a little more closely. If Ministers have been reticent on the value of dear money as a means of holding in check inflationary pressures, the Reserve Bank has not proved more helpful in assessing the efficacy of this monetary policy. True, the bank rate in India was not raised in 1955 and this may be due to the realisation of its extremely limited value as a regulator of inflationary forces. But the RBI fell into line with the Bank of England in 1951 and even today the RBI boasts of the "success of the monetary instruments of control in the post Korean phase".

In the absence of adequate statistical evidence regarding the precise impact of dear money on inflationary situations, it was till very recently possible to hedge and say; the 1955 experience has shown that "orthodox monetary policy by itself may not be enough." But now some statistical evidence has come from Sweden. The results of a recent survey of the reaction of Swedish business concerns to last year's disinflationary measures confirm that in a modern industrial economy, dear money has little value as an economic regulator. Industrial companies participating in the investigation were asked about the effects on their capital development plans of the three main components of Sweden's disinflation drive in 1955. These were a 12 per cent levy imposed by the Government on industrial investment, a one per cent rise in Bank rate from 2-3/4 to 3-3/4, and the tightening of official restrictions on bank lending. It is to be remembered that by Swedish standards a Bank rate of 3-3/4 per cent is exceptionally high.

About 2,200 companies with total investment plans of Kr 1,550 m for the year sent their replies. These revealed that some 60 per cent carried out their plans for investment despite the restrictions. Of the 40 per cent that cut down the size of their investment, about 42 per cent were obliged to do so by the investment levy and 30 per cent by increased difficulties of obtaining credit. A combination of all the anti-inflationary measures influenced the decisions of 20 per cent and only 8 per cent were persuaded by the rise in interest rates. The conclusion is clear. Bank rate to be effective as an anti-inflationary measure must have some correspondence with the rate of expected profit and if the latter is high, Bank rate has to be stepped up commensurately. In other words, Bank rate has to be raised to heights that would be considered impracticable because of the impact on debt financing and other matters.



In the olden days,
soldiers used to wear armour
before going into battle.

The armour had joints in the knees,
shoulders, elbows and ankles.
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From the London End

New Lamps for Old!

IN preparation for its annual conference this year the Labour Party has been issuing a series of policy statements outlining Labour's "new" views on a number of old problems. Pertinent among these policy pronouncements are the statements on 'Personal Freedom', 'Equality' and what is called 'Plural Societies in the Colonies'. The first two by the very nature of the questions touched raise some fundamental aspects of Labour's philosophy and the last (on the colonies) puts to test the party's integrity and sincerity. Some commentators have hailed these statements, particularly the one on equality, as "testaments" of the new Labour leadership. Further "testaments" are to be issued on questions of public ownership and education.

The statement on personal freedom is neither fundamental nor new in ideas. It attempts to examine the best ways in which civil liberties may be preserved in an increasingly collectivist environment. It does so without suggesting that the broader, more basic freedom to live and to live well was in the eyes of the fathers of British socialism, a function of the extent to which public ownership of the means of production was achieved. Instead it believes in the sufficiency of the "mixed economy": full employment and the welfare State has widened personal freedom. And that is all. In this sense the statement typifies the outlook of the Right trend in the Labour movement—the trend that goes under the name of Socialist Union and whose views are said to be shared by Mr Hugh Gaitskill.

The largely pedestrian examination of the question of personal freedom looks very much like having been inspired by some contemporary textbook on public administration or government. It relates what it calls the "dilemma" of advancing majority rights without infringing minority rights, and goes on to show the extent to which infringements of civil liberties have taken place from administrative tribunes, delegated legislation and the growth of a state bureaucracy. The "dilemma" is however a peculiar and almost unexpected one for Labour; for in another of the statements (viz 'On Equality') it is shown that the minority in British society constitute that "one per cent of the population who own something like half the nation's wealth". And it is here that the indubitable impression is obtained that Labour's present conceptions of freedom have strong **bourgeois** characteristics and may be this is not without explicit design. After all the "twentieth century socialism" group believe very firmly that the "mixed economy" should be the limit of public ownership and thus of their socialism; hence their now new cry—"liberty, equality, mixed economy".

On Equality

This outlook of Labour is possibly more clearly brought out in the statement 'On Equality'. Here the impression is given that the State must be the instrument, not for effecting a social transformation, but for containing the trend towards economic and social inequality. Unlike the fathers of British Socialist thought who believed that inequality was an inherent feature of capitalism and that equality in all its aspects was only a practical feasibility after the social transformation, the contemporary belief envisages "full employment" and the "welfare state" as having what it termed "the corrective influence" on Capitalism's consequences. The statement observes that "left by itself the Capitalist system distributes incomes in a manner that is manifestly unjust—a capitalist income structure stretches from well below the poverty line at the bottom to the high and excessive rewards on top". But, says the statement, the correct influences brought about by State action via progressive taxation and the social services have to all intents and purposes been sufficient. Thus in the event of Labour's return to power, these same corrective influences will be employed to stem the inevitable inequalities of Capitalism. And having said that, the statement goes on to lay an undue amount of stress on the social inequalities that emerge from the present education system—a system, which it says promotes the gravest degree of inequality in British society. Actual proposals on the reform of the education system is apparently being worked out in another statement to be issued. The inequalities that arise from capital gains and inherited income are to be largely contained by the proposal for an expenditure tax.

An interesting **rationale** for this estimation of the problem of equality is given by the Labourite C A R Crosland in the current issue of **Encounter.** He distinguishes between "economic politics" and "social politics". The former describes a situation in which a Marxist analysis would be plausible—growing pauperisation and mass unemployment. The latter covers the situation of prosperity and rising incomes when attention is diverted from economic to social issues. Mr Crosland explains that in circumstances of prosperity the income hierarchy gets out of alignment with the class or social hierarchy. The latter are based on socially recognized evaluations that have deep roots. The existence of a social hierarchy which fails to admit into its ranks those newcomers who have entered the income hierarchy is a principal cause of class tensions in periods like the present. Hence there is a profound need for reform of those institutions which give vent to social differences. The most important of such institutions at the present time is the system of education.

This type of reasoning breathes wholly of opportunism. Does it mean that when the slump comes back (as the U N World Economic Survey thinks is likely) the Labour Party will revert to Marxism? Or does it mean that the Labour Party is in that eminently pleasurable situation of possessing a flexible philosophy determined completely by the exigencies of each situation? Thus the Labour Party raises more questions than it answers by these statements.

Double Subjection of the African

Personal freedom and equality are, at least in the circumstances of present-day democracy in Britain, relatively less urgent issues. Wide areas of the globe, where the British flag flies, with a population many times greater than in Britain, the matter of freedom and equality are urgent and most important. The Labour Party has issued now the first of a series of policy statements on Colonial problems. This statement outlines policies for those colonies in which many races reside—the plural societies in the Empire. It is a most welcome contribution from so important a Party on so important a question. The vast

areas of East and Central Africa where conflicts of considerable dimension have or are emerging possess features in many respects different from that of Britain's other colonies. In these plural society territories reside a sizeable group of white settlers who, as a group, occupy positions of class homogenity very much similar to the capitalist classes found in the industrialized countries. As a group or class the white settlers have obtained a wide area of self rule in these territories and the time is approaching when in Central Africa the pattern of South African race relationship is to be fully duplicated. Conceptionally, therefore, the African in these areas is subject to two stages or processes of imperialist rule: that of the Colonial Office in London and secondly, of the class of white settlers. The statement correctly observes that "an essential difference between the history of Britain and that of the colonies is that in the colonies the colour identifies the class". The African is under a double subjection: as a national group and as a class.

Unholy Compromise

And yet when it comes to applying the consequences of this fundamental recognition the Labour Party reflects an alarming insincerity tantamount to an abdication of responsibility and of policy. In East and Central Africa the fundamental rights of citizenship, of land ownership and of economic and educational opportunities are denied to the African people. It is here that the question of freedom and equality are most urgent. The statement sees here the need for laying the "foundation of democracy" (and that remarkable term "foundations" so often used in these contexts, is not defined). But it says the "main problem" is to work out a "reasonable balance in political representation" but this will make the white minority very "determined to fight this prospect". And so in the concrete case of East and Central Africa the Labour Party resigns itself to the inevitable—the adoption of the South African pattern. The Party accepts the aim of "parity of franchise" and then as an after thought of "parity of representation", thus loading and confirming the franchise and established privileges of the white minorities. It is these modification and qualifications which make the prospect of democracy in Africa, even with a Labour Government in Britain, difficult to see. The "transition" to democracy in plural societies occupy so fundamental a place in Labour's policy that the actual prospect of free democracy is dimmed into virtual darkness.



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A Calcutta Diary

Graduates Galore

LET us, since at least some will have recalled the title of Sir Compton Mackenzie's work already, use the same analogy for describing a process the University of Calcutta goes through every year. About this time, June and July that is, the University, like a man who has drunk too much and is being sick, throws out a large number of students. "Throws out" is right; for, in the first instance, the University had no business to take the students in, and, in the second, it chucked them out for no better reason than that it could hold them no longer. During the two or four years that the students were in the bowels of the University, very little took place by way of absorption. The economic emaciation of the University grows worse with the passage of every year, and there is no evidence of sustenance in the other departments. As for the students, they remained in the stomach of the University like so much foreign matter, and all they acquire during their stay is a foul smell. Calcutta is stinking now with a vast quantity of this expectorated matter.

The schools, which provide the raw material which later goes into the sausage-machine we call the University, sent up 70,949 students for what is called the school final examination; 55.1 per cent of the regular students passed, mostly in the third division, and the percentage for "private" students was 36.6. The number of examinees for I.A. (Intermediate in Arts) was 21,700, and that for I.Sc. (the same in science) was 15,100. Roughly about 53 per cent passed in both these examinations. About 12,000 sat for their B.A. or B.Sc.; 45.7 percent passed in the former, and 47.4 in the latter. Such then are the figures which, while exposing the magnitude of West Bengal's problem, conceals a heap of broken backs and an ocean of tears.

* * *

There is not much point in making a distinction between the students who passed and those who failed. Against the dubious and exceedingly short-lived pleasure of those who got through, the unlucky ones can set the at least equally satisfying fact that they do not have to join the queue at the employment exchange for another year yet. This then is the basic fact about education in India today, especially in West Bengal and perhaps in the south. Success and failure are merely two names for about the same thing. One relieves the congestion at colleges only to add to the crowd before offices displaying the notice that there is no vacancy. And yet, and this is what has to be enquired into, there are more students every year at the examinations which open no door to employment. Everyone is agreed that a degree is useless, but to acquire this useless thing there are more aspirants than the existing colleges can make room for. There is a persistent demand for more colleges, and the Government of West Bengal is toying with the idea of setting up a string of universities in the mofussil. The idea is to disperse education, to send the boys outside the overpopulated city. Much less attention is paid to the more fundamental facts that (a) this education is useless for even the limited requirements of securing employment, and (b) although an expansion of the present educational set-up has undoubtedly provided some employment to some graduates, these latter are in fact being employed only to create a larger army of the employment-hungry.

Solutions to the problem are two an anna. A few theoreticians still remain loyal to the view that education and employment are two independent problems, and our thinking on both is bound to be bedevilled until they are separated. This is not a wholly untenable point of view; treating the two as one has certainly led to a deplorable decline in educational standards, for many have been going for a degree only to apply for a job and they are not really interested in education at all. On the other hand there is an element of unreality in the view, for jobs are needed, and, in any event, it is a pertinent question that an education which does not equip its recipient even to earn a living may not be worth much by any standard. This lofty view apart, there are two other extreme theories. One holds that educational facilities be contracted; one of the medical colleges in Calcutta has actually stopped admitting students because there is said to be a glut of doctors in the market. The other, chiefly representing interested parties (and education can be good business), recommends further expansion with a little orientation here and there in the curriculum.

* * *

In between one hears references to technical education, the urgent need for. As it happens, unemployment is not unknown among technicians either. The search for a solution (and, let us admit it, there is no quick one) has been made the more difficult by an inability in high places to take unpleasant decisions, for the present Government has neither the moral right nor the political popularity to make them acceptable. A matriculate can be asked to desist from going to college only if (a) the man who says it enforces it on every student of the same calibre, and (b) if there is something for him to do immediately instead of going to college. Neither condition obtains in West Bengal. There are parents who have the means to send their wards to college although the latter are perhaps good for nothing but manual labour. And, of course, the Government or industry has no more jobs to offer to matriculates than it has for graduates. The Bengali's famous aversion to manual labour and his lack of initiative in business are two of the other factors making a solution immensely difficult.

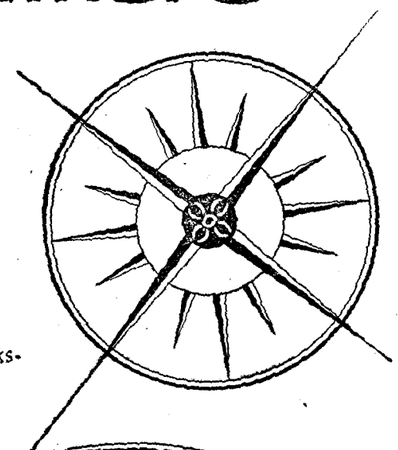
Analysis, however, is easier than devising a remedy, and still more difficult may be its application. But even a beginning cannot be made until some illusions are left behind, and the Government decides to be slightly harsh to some people in the present so that the future may not be worse. Not a little of the available employment in West Bengal is today enjoyed by men from neighbouring States; there are trades which are the monopolies of men from Bihar and Orissa. This generosity the genesis of which really is that the Bengalis could once do without these jobs, may have to be brought to an end; if the operation is not done in a planned way, it will be effected painfully. There are several States which debar Bengalis from employment, and this is a process which is sure to recoil on its initiators. Appointing 30,000 teachers for primary schools which are not yet in existence, recruiting social welfare workers by the thousand, and similar palliatives as are being tried now cannot go very far in solving the real problem. Education is an investment all right, but a long-term one. Social welfare, whatever that may mean, is needed too, perhaps; but it is in economic activity, money-making, in which the Bengali will now have to engage himself instead of getting by heart Shakespeare's birthday and Keats' odes. This will be possible only after there has been a revolutionary change in the Bengali outlook on life—which, perhaps, is a long shot, Watson. The Bengali might, however, try it. Was it not that very worldly-wise man, Somerset Maugham, who said that it was better to be a first-rate plumber than to be a second-rate artist? Nor is passing the school final examination in the third division much of an artistic activity.

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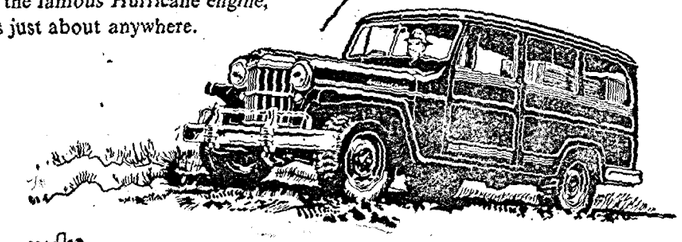
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Land Reform in Uttar Pradesh

Walter C Neale

IN the present struggle for economic development it has become axiomatic that land reform is a prerequisite to any advance. The reforms which are considered essential are the abolition of landlords and other intermediaries between the state and the actual cultivator. The concept of land reform is a legal one—a matter of titles—and land reform legislation in India since independence has generally been directed towards the abolition of certain titles to land and the transfer of title from landlords to tenants. It is certainly believed that such reforms are necessary before progress can be achieved, and there also seems to be a widespread feeling that the reforms will lead to progress.

The history of land tenure and an analysis of modern agricultural conditions in Uttar Pradesh lend little support to proponents of reform; insecurity of tenure, harshness of legal administration, and exploitation of the cultivator were all well on the way to being taken care of fifty years ago.* Present reform programmes, despite their revolutionary phrasing, continue the policies developed by the British administration.

Pre-British System

Before the British came to India the economy was organized in self-sufficient villages, which in turn were groupings of large families. Economic relations were governed by caste and custom. Above the village, but not essential to its life, were kingdoms and empires taking a share from the grain heap and trying as best they could to maintain law and order. There was no buying and selling; the order of economic life had no place for a price mechanism. The great change in Indian economic organization occurred when the British introduced the concepts of ownership, sale, and the rental market. The old Indian system did not clearly differentiate between economic and political power, nor between such power and social status. Everyone had rights in the produce of the land, obligations to the village, and a greater or lesser ability to enforce his will upon others. The zamindar was orginally a collector of taxes, but this statment is misleading by itself. Unlike the tax collector of today the zamindar might also be the leader of the highest caste in the village, headman of the village, and senior member of clan with hereditary rights over the village. Who can say how many of these characteristics make a man an owner in our sense? The question never arose.

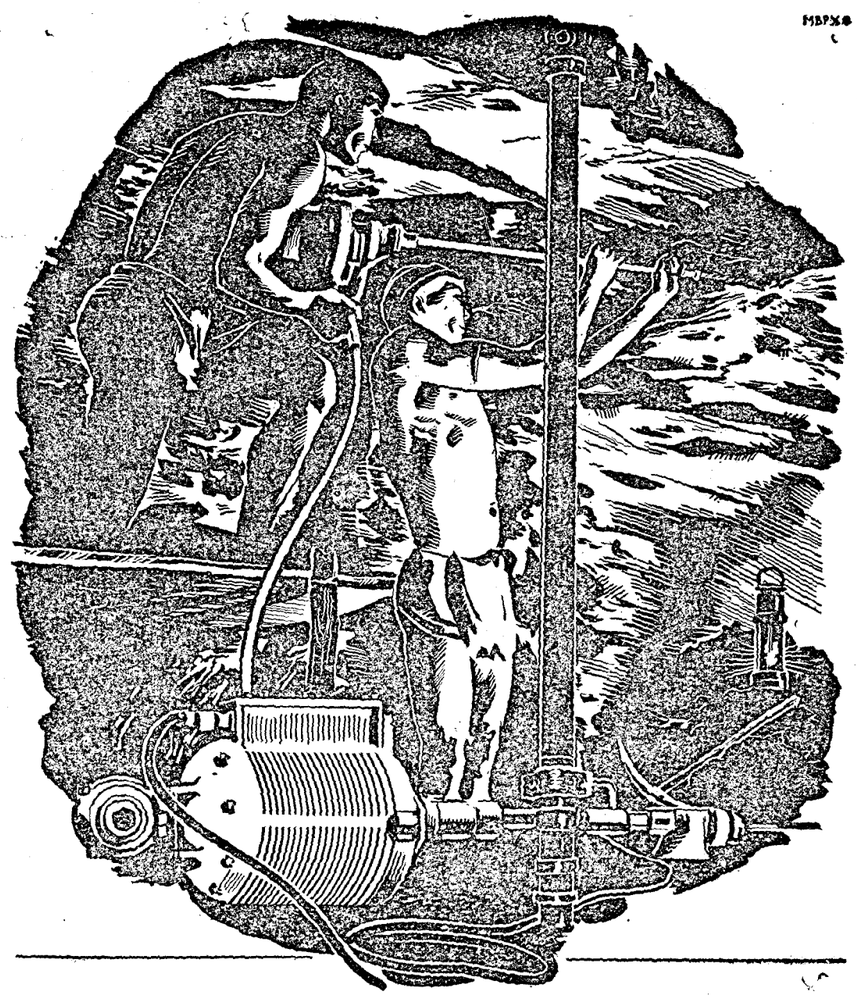
The complexity of rights in land and to the produce of land was so great as to make reasonable any one of several different distributions of titles and rights. Every member of Indian society had some sort of claim upon the land from the raja's right to land revenue down to the ploughmen's right to a share in the village grain heap.

Assumption of Market Economy

The British thought that the maximum of material welfare and economic progress would be achieved by leaving decisions to those who produced for sale on the market. This was a mistake of crucial importance: a failure to realize that rational market behaviour occurs only when the owner of land is producing for a market. In U P neither the landlord nor the cultivator were doing so. Markets only allocate resources to their most productive uses when the factors of land, labour, and capital are intimately connected through working mechanisms. Pressures in one sector must set up self-correcting changes in other sectors. Real connections between markets were lacking and the most important market for economic progress, the capital market, did not exist in any useful form. The nature of the error has never been appreciated by the reformers who believed and still believe that the error lay in some mistake in the distribution of rights among the various claimants. An analysis of the problem shows that true reform lies in another direction.

The history of ownership in U P during the first half of the nineteenth century shows the British moving into a society disrupted by rajas, talukdars, and zamindars competing for power. For each piece of land the British recognized one person or group as "owner," and much land was given to the wrong persons. When the "right" person got the land he received with his title more power than he had ever enjoyed, while the sale of land for arrears of revenue created a new class of owners. About 1820 the British realized that many cultivating tenants had justifiable claims to a special position on the land and the revenue officers set about recording these customary rights. Cultivators of twelve year's standing were given an inalienable but heritable interest in the land, including permission to hold at a reduced rent. So began the gradual encroachment of tenants upon the rights of owners. The policy of increasing tenant rights at the expense of landlords received a set-back with the annexation of Oudh and the "Mutiny", for virtually absolute ownership was given to rebellious talukdars who would submit peacefully. In the seventies and eighties Land Revenue and Rent Acts transferred more of the powers and profits of ownership to the tenants. In the early part of this century tenants were guaranteed seven years at the same rent, and twenty years later all tenants received a life interest in their land with rents fixed by a Rent Officer. In 1939 these tenancies were made heritable. The two outstanding characteristics of land policy in U P were the transference of the attributes of ownership to tenants, and the persistence of a land market as the framework for agricultural organization. While it is true that the owners lost rights which we associate with ownership, landlords and tenants could jointly exercise all the rights of ownership by combining.

*So far as law is concerned, there is in addition to the content of the legislation the question of how effectively the law is enforced. It was probably true that many rights were never properly enforced; but this was a result of the family, caste, and social system existing in UP(and not a result of the legislation itself. It was a case where the hierarchical and family oriented social structure often served to defeat the aims of legislation. The point here is that, in so far as legislation can grant rights, the legislation on the books in UP before the First War had granted nearly all the rights which are considered essential for good tenancy conditions. The reader is invited to compare 19th century legislation in UP with post-independence legislation in Punjab and Bombay. I think he will find the UP legislation more thoroughgoing and progressive than that in the Punjab and as advanced as that in Bombay.



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Limitations on the Market

Limitations on the market did exist in a number of cases. Special legislation for the Bundelkhand area prohibited non-agriculturists from holding land, and other acts limited mortgagees-in-possession to twenty years and created procedures for making some lands inalienable at the option of the owner. Debt reduction and stay of execution legislation prevented the market from operating in the ordinary fashion in the thirties. The British were willing to tinker with the sale market, but they never gave it up.

While the British were increasingly regulating the market, Indians were changing their attitudes. Whereas Indians at first simply did not play the market game, the landlords after a time began to seek ways around the regulations, and in the end we find the population trying to maximize on a market while the originators of the market were trying to prevent this behaviour because they had found that under Indian conditions it did not bring desirable results.

Criterion of Past Collections

In the course of these developments, the revenue officers became the focus of an artificial market. In the beginning they tried to levy the revenue upon the economic rent, but, as markets did not exist, it was impossible to compute either the value of produce or the costs of production. Then the officers began with a "fair" sum for a district and apportioned the total among the villages and then among the landlords. Although not recognized as such, this change was in fact a very significant one, for the system replaced the concept of economic rent by the criterion of past collections. The system was gradually modified to take account of the rents which tenants actually paid, but it was always necessary to adjust the recorded rents to allow for fraud and peculiarities of local custom. A series of circulars instructed revenue officers to use as a basis for corrections, and computations of value and rents, the prices of agricultural produce, of similar land recently sold, rents freely arrived at elsewhere in the district, and, in effect, all of the elements which rational men on a market would take into account. The revenue officers were trying to arrive at those rents and values which a properly functioning market would reach automatically, but which the Indian market did not achieve.

The market for land was a failure. Contrary to expectations the market system did not bring with it a huge increase in material wellbeing. It is often said that there has even been a decline under British rule, but the evidence points to a rise in living standards during the nineteenth century, although stagnation and perhaps some decline has since occurred. But in fact Indian progress has been insufficient to satisfy anyone.

Causes of Stagnation

The arguments that are commonly put forward to explain the stagnation of agriculture in UP are that the laws were harsh and "tricky"; the laws were evaded; the administration was biased against the peasants; the assessments of revenue were too high; the level of rents was too high; and that price fluctuations destroyed incentive and ruined the peasantry. Do any of these stand up to the evidence?

The procedural provisions of the law were straightforward, there were ample opportunities to protect one's rights, the nullifying effect of public attitudes are beyond the scope of legislation, and from the middle of the nineteenth century onward sales for arrears of revenue were rare. While there were abuses and evasions of the law, the figures for acreage and numbers of tenants protected by the laws increased steadily, as did the figures for owner-cultivated land. Unfair treatment of cultivators occurred in the early thirties, but the cause—agitation by the Congress Party—was political. During the earlier period of British rule, the bias was in favour of the tenant.

The charge that revenue assessments were too high does not fit the evidence, for agricultural stagnation and reductions in the revenue burden coincide. Furthermore, a reduction in the revenue burden would lead to development only on the unlikely assumption that the poor landlord would use the increase in retained income for capital improvements. These same criticisms apply to the popular charge that rents were too high. Also, the high rent argument puts the cart before the horse. In a market system the returns to a factor tend to approximate the marginal productivity of that factor, and in Indian agriculture the marginal productivity of labour is close to zero. Rent and interest eat up the earnings of agriculture because the productivity of land and capital is high relative to the productivity of labour. In evidence submitted to the Royal Commission on Agriculture, the UP Government said that a reduction of five per cent in rents would increase the tenants' standard of living by two or three per cent, while an increase of five per cent in acreage or output (e.g. from better seeds) would make the peasant twelve to forty per cent better off.

There can be no doubt that fluctuations in price were a cause of distress during the depression of the thirties, but prior to this time the trend of prices was upward. In UP prices did not show a downward trend before 1929 although agricultural prices in world markets did. The cultivators were hard hit by the fall in prices. They were immune in so far as they produced for their own consumption, but the amounts to be paid for rent and interest on loans had to be raised by selling their produce. However, rents were shortly reduced to the 1900 level by government order. Landlords were less affected except by the fall in rents. Sale values of land were maintained during the thirties and so could meet their obligations in the last resort. While the depression of the thirties was a disaster, it cannot explain the failure over the preceding hundred years.

Why the Market Failed

The market failed because the market organization was not complete. Changes in relative values should shift factors from less to more productive employment. In UP there was little accumulation of capital and consequently labour had no place to go but to the land. During the thirties the standard of living in the urban centres rose, but there were not nearly enough industrial establishments to absorb the excess labour. Such savings as there were tended to go into higher land values for reasons of security and prestige. In addition, much agricultural production was consumed on the holding and so market prices had no effect on output. Price and production series clearly show that relative prices had no effect on the management of land. Without real choice, the market system cannot achieve optimum allocation.

On the other hand living standards failed to rise because there was a failure of capital accumulation. Under any system the ratio of land and capital to men must be raised if India is to progress economically. This is a matter of technology. No change in titles to land can solve

it, but the places where more capital would revolutionize agriculture are legion.

For instance, "overpopulation" is not a shortage of land, for capital can always substitute for land, bring new land into cultivation, and increase the productivity of old land. The ability of land to support population depends upon irrigation, reclamation, fertilizers, seeds and breeds, education, equipment, buildings, farm layout, drainage, and choice of crops and rotations. Change and improvement in all these require capital and there will be no major increase in the output of agriculture until measures such as these are taken, no matter who owns the land or receives the return from the productivity of the soil.

Capital Alone Can Raise Productivity

The uses of capital to raise the productivity of Indian agriculture and and the standards of living of the ryots are not limited to agriculture. Increased productivity in other fields will improve the purchasing power of the ryot, but even more important, there must be capital investment in industry and services to provide the materials and power for the improvements in agriculture. The technological improvement of agriculture rests as much on the capital development in other spheres as it does on the capital development in agriculture itself.

Beyond the technological considerations, there are matters of organization. If the market is to be used to regulate the economy and distribute its produce—and for the time being such will be the case in India—then the market must be so organized as to fulfill its functions. We have already seen that during the period of British occupation the various markets were not integrated, and that in particular the capital market was underdeveloped. If this difficulty is to be overcome, there must be a great increase in the capital resources of the nation. I am speaking here not of the obvious technological need for capital, but of the need for capital in order to develop a market which provides a real alternative to land as a form of investment and a field of economic effort.

The Real Issues

Discussion of the future of Indian agriculture has centred on the questions of large mechanized vs small peasant farms; and of co-operative vs collective vs State farms. But these are not real questions. The only alternatives which are possible at present are small peasant farms and peasant co-operative farms, and here the Government's desire for co-operatives comes up against the cultivator's desire for his own plot. The real problems of development are capital accumulation and the size of holdings. It is foolish to cast the

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problem of capital development in terms of large mechanized farms. Capital improvements are divisible down to the spadeful of manure. Small peasant holdings need steel tipped ploughs, iron harrows and water rather than tractors. The only source of capital is agriculture: industry and commerce need all the resources they can raise and then more. Thus the conclusion is that the burden of revenue and rent, far from being decreased, should be increased in order to finance capital improvements.

The failure of the land market and the zamindari system of the nineteenth and first half of the twentieth century can be attributed to the rudimentary or partial state of development of complementary markets and the lack of capital development to support those markets and to provide the wherewithal of agricultural improvement. It remains to be seen what the land reform legislation of UP has done towards remedying the situation.

The zamindars have been abolished. In the process the wealthier ones suffered an appreciable degree of expropriation. Alongside of the general objective of eliminating "an obstacle to economic development," the zamindars were abolished in order to equalize wealth. So far as this secondary objective goes, there can be no objection to the zamindari abolition. Expropriation, total or partial, direct or through the mechanism of low compensation and differential rates of rehabilitation grant, is as good a way as any to equalize wealth. (Although why the same results could not have been achieved by a capital levy and estate duties this writer does not understand.)

No Direct Assault

It is on the major count, the stimulus to development, that the merits of the land reform legislation looks so questionable. At no point does the reform legislation make a direct assault upon the basic problem.

Land reform gave all titles to land to the state, which in turn has made the village governments trustees. However, the situation of those on the land has not changed appreciably. Landlords have lost the land which they formerly rented, and have received in exchange only partial compensation, but they hold the rest of their old land as bhumidars with most of the rights of ownership. Most tenants have become sirdars, which is merely to say that they are now privileged tenants of the state rather than of a landlord, and they continue to pay the same rent.

Far from a small minority of zamindars exploiting the vast majority of tenants, perhaps a quarter of the agriculturalists were zamindars. All but one or two thousand were middle or small zamindars, so the expropriatory measures did not affect many landholders. In addition to expropriating the larger zamindars, land reform abolished the rental market, dealt a death blow to the mortgage market, gave occupancy rights to a few more of the fringe of unprotected tenants, and allowed the tenant to make any desired improvement on the land. All four changes could have been achieved by four amendments to existing legislation at much less cost and with much less social upheaval.

Strongest Case for Legislation

Perhaps the strongest case for legislative reform of the rural areas can be made in the fields of fragmentation and subdivision of holdings. It is here that the organizational structure of agriculture needs to be changed, and it is here that matters of right and title stand in the way of change, or rather that people hold title to the wrong plots of land. But the trouble is not at the level of the landlords. The fragmentation problem occurs at the level of the tenants. Changes in the possession of rights and titles as between landlords, state, and tenant do not affect the actual distribution of plots. What is important is to change the layout of the operating farms. It has been argued that change in the system of titles is necessary before consolidation of holdings can be undertaken, but this seems doubtful since the Punjab has gone much farther in consolidating holdings than UP although its tenancy laws are by UP standards very backward.

Since the passage of the land reform bill the government has undertaken to force the consolidation of fragmented holdings. This is all to the good, but even with consolidation, holdings will be too small. What is needed is a movement from the land into industry. To achieve economic size for each holding more than six million cultivators will have to move—a staggering prospect. But much can be done if only a million to a million and a half would move, provided those that move are the "right" ones. The "right" ones are those with holdings of two to four acres and of more than ten acres. People with less than two acres are really labourers with garden plots, and not dependent on their land. People with more than four acres can make ends meet, and even achieve economic holdings if they acquire the land of those who have left. The crisis group is made up of those holding two to four acres, which is not enough land to be cultivated efficiently, and requires a doubling in size to reach efficiency. Cultivators with more than ten acres are efficient, but if they move they will release far more land for others than departing small holders. If a million or more of the groups with two to four acres and those with more than ten acres left the land, there would be enough to bring the remaining cultivators over the six acre minimum needed for economic efficiency. A labour draft system might be avoided by the use of subsidies and penalties.

Ratio of Capital to Men

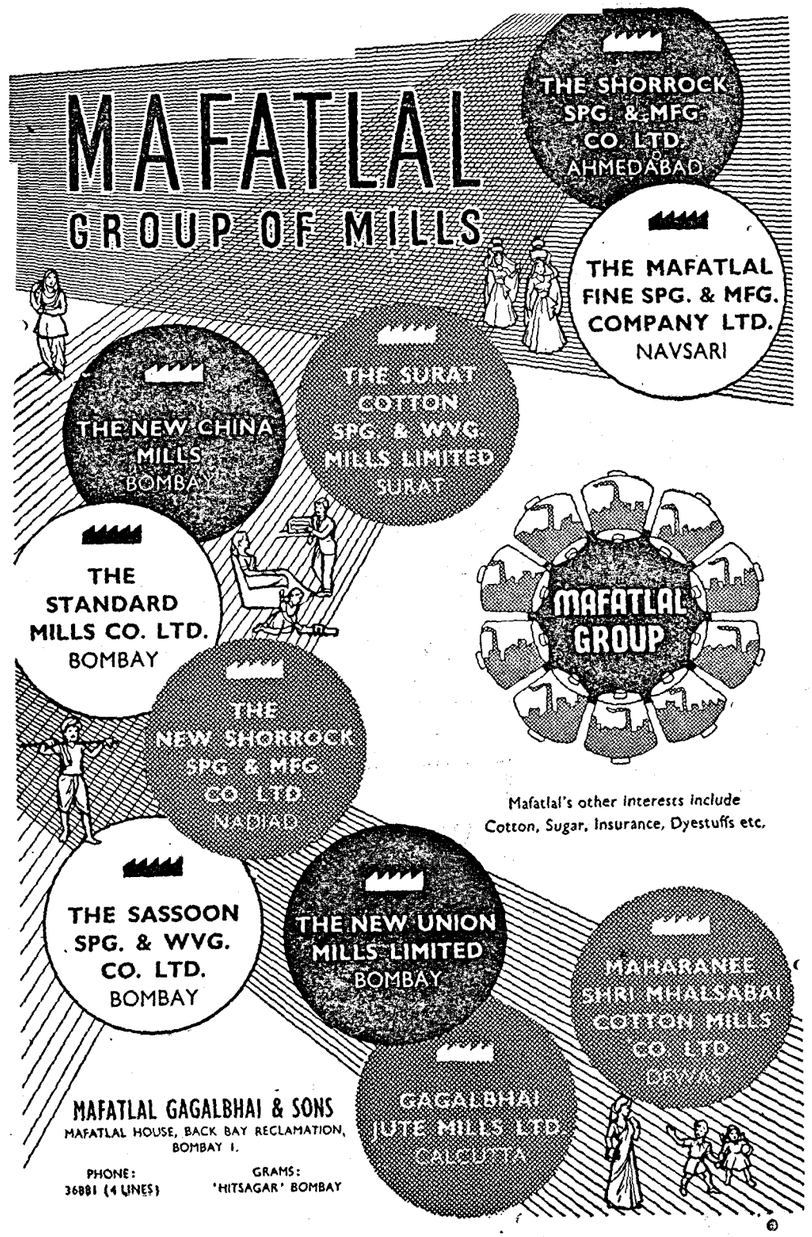
Because there were no alternative uses for the factors of production, the market mechanism failed to achieve the rapid progress which was hoped for. The solution to present poverty must then lie either in making the market function properly or in substituting another system which will increase the ratio of capital to men. Land reform in UP did neither. The market remains, but so do the gaps between the land market and the other factor markets. Since nothing was done to correct the basic faults of the old zamindari system, there is no reason to expect that the new bhumidari-sirdari system will be any more effective in alleviating poverty in rural UP.

Under the stimulus of the Five Year Plan and with the development of resources undertaken by the States, the lot of the cultivator should improve. If this happens it will not be because the zamindari system was bad or because the new system is good, but because capital resources have been developed and alternate employments with higher productivities have been provided.

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Agricultural Output in the First Plan—A Rejoinder

S Naqvi

IN the course of his article 'Agricultural Output in the First Plan', in our Second Five Year Plan Number, Mr Malenbaum says:

"The following conclusion may be drawn for residual India, i.e., excluding Bihar and Bombay.

1. There has been a reasonably steady upward movement in the output of foodgrains in India throughout the past six years."

(pp 752)

Mr Malenbaum has sought to support his conclusion from the following Table:

Production (in million tons)

Year	All India	India (minus Bihar & Bombay)
1949-50 ..	54.0	42.5
1950-51 ..	50.0	41.6
1951-52 ..	51.1	42.4
1952-53 ..	57.5	47.9
1953-54 ..	65.4	53.8
1954-55 ..	65.8	52.2

In the first instance, it is to be noted that even Mr Malenbaum's own table does not give us a picture of a "steady upward movement... throughout the past six years". From 54.0 million tons in 1949-50, there was an actual decline of 4.0 million tons in 1950-51 and it is only from 1951-52 that the table shows an upward movement. Mr Malenbaum's table, however, contains a serious error.

According to his table, production of food-grains and pulses for All India rose from 57.5 million tons in 1952-53 to 65.4 million tons in 1953-54 and further rose to 65.8 million tons in 1954-55. In actual fact, however, the position is different. According to the figures supplied by the Union Government, production of food-grains rose from 57.5 million tons in 1952-53 to 68.1 million tons in 1953-54, as correctly quoted by Mr P R Rao in his article 'Agricultural Targets in the Second Five Year Plan' in your Second Five Year Plan Number, and not to 65.4 million as Mr Malenbaum's table indicates. What is still more important, in 1954-55, production instead of rising beyond the 1953-54 figures, actually declined by as much as 2.4 million tons to 65.8 million tons.

Thus Mr Malenbaum's table, as reconstructed, would be something like this:

Production (in million tons)

Year	All India	India minus Bihar & Bombay	Bihar & Bombay
1949-50 ..	54.0	42.5	9.5
1950-51 ..	50.0	41.6	8.4
1951-52 ..	51.1	42.4	8.7
1952-53 ..	57.5	47.9	9.6
1953-54 ..	68.1	56.6	11.5
1954-55 ..	65.8	55.2	10.6

Source: Agricultural Situation in India—monthly issues 1949-50 to 1955-56.

The reconstructed table shows the incorrectness of Mr Malenbaum's dictum that if we exclude Bihar and Bombay, we find a steady upward movement, for residual India. It tells us, on the contrary, that the output of residual India which had fallen from 42.5 million tons in 1949-50 to 41.6 million tons in 1950-51 and had again risen to 56.6 million tons in 1953-54, fell to 55.2 million tons i.e. by 1.4 million tons in 1954-55. It is difficult to see how Mr Malenbaum could ignore the fact that even his own figure showed a fall in residual production in 1954-55.

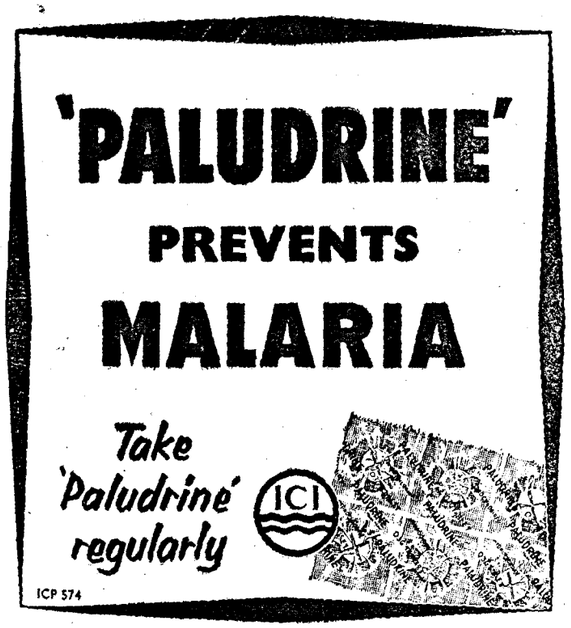
Thus, we find that beside the decline in All India output due to the fall in production in Bihar and Bombay, there has also been an absolute decline in the output of residual India by 1.4 million tons in 1954-55.

No wonder, basing himself on incorrect data, Mr Malenbaum reached the conclusion that we had recorded a steady upward movement in the output of food-grains. Indeed, the current crop estimates threaten a further decline in foodgrains output during 1955-56.

Mr Rao gave a more realistic picture of the situation. It seems that Mr Malenbaum began by persuading himself that "The expansion through 1954-55 does not reflect any particular and concentrated benefit of favourable monsoon in 1952-53 or 1953-54" and that:

"Of the total expansion of some 29%—some 40% was due to the steady upward movement in acreage, the residual to increase in yield per acre." (Our emphasis)

After this it was not difficult for him to step on the "additional input factors" and their effect on "additional output". One hopes that Mr Malenbaum would check-up his data and reconsider his position.



A Study in the Financial Problems of Small Industries

S K Basu

(Continued from Last Issue)

IN the provision of long-term finance, organized security markets cannot be used by small localised companies. Not only are owners of such businesses generally reluctant to relax their control through sales of securities to the outside public, but the localised nature of most of these enterprises proves to be an important obstacle. The initial cost of flotation is relatively higher for a small stock or debenture issue than for large flotations of nationally known firms. Data collected by the Securities and Exchange Commission in the USA show that of 1035 public flotations of registered securities during 1945-49, there were only 85 companies with assets below $1 million and the cost of flotation, whether of bonds, preference stock or ordinary stock was the highest in their case. The following table is revealing.

Cost of Flotation of New Issues

Under 1 ..	10.0	14.7	17.5
1 to 5 ..	5.7	13.3	14.3
5 to 10 ..	3.4	7.9	10.8
20 to 50 ..	2.6	5.4	9.9
50 to 100 ..	2.0	3.9	6.9

Source: Securities and Exchange Commission, February 1951.

Retained Earnings

A Department of Commerce Study in the USA covering 1,100 manufacturing concerns shows that in the case of small manufacturing companies only 2 per cent of the initial capital was raised through sale of stock to the general public. In the case of such concerns nearly two-thirds of the capital was supplied by officers and directors and one-third consisted of bank loans and mortgages. The initial investment in the case of the small concerns is likely to exhaust the owner's stock of available funds and the finance required for development, maintenance and expansion has to be sought elsewhere. The most important source of supply in their case is to be found in retained earnings. Small concerns whether unincorporated or not are generally wedded to the practice of declaring low rates of dividends and ploughing back a substantial part of their earnings. This characteristic of business financing peculiar to small concerns exists primarily because of the absence of an alternative source of equity capital.

A potential source of long-term credit for small business in the USA is the life insurance company. In recent years there has been an increase in the business of long-term lending by American insurance companies to small concerns. Direct placements with insurance companies are less costly for small industries than an appeal to the investment market. But a number of small direct loans which involve costs of investigation, negotiation and serviceability do not appeal to insurance companies, which would generally prefer to invest their funds in large publicly traded issues. There is undoubtedly a case for insurance companies providing loans to finance companies which can relend the proceeds to small industries. Now that insurance companies have been nationalised in India, they can be effectively employed by the Government to finance both large scale and small scale industries by providing funds to finance corporations.

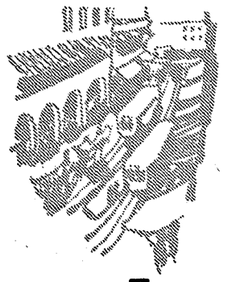
Limited Fixed Assets

Though direct borrowing by small industrial concerns generally takes the form of mortgage loans, such concerns have hardly any tangible collateral security to offer. The fixed assets, particularly land and buildings, which they require, are generally rented and not owned. Recent surveys in West Bengal have clearly brought out the fact that small industrial units do not have adequate tangible and unencumbered assets to offer as security. In the case of the small engineering industries of Howrah the ratio of investment in land and buildings is only one-ninth as against 2/3rd in the more organised and large-scale sector of general and electrical engineering. 86 per cent of the firms operate in rented work places. The West Bengal State Finance Corporation also reports that it is unable to provide mortgage loans to small and medium sized industries mainly because they cannot offer any tangible security in the shape of land and buildings as most of the industries operate in rented premises.

Even in the USA, where the growth of non-banking institutions and the development of new techniques of lending by both bank and non-bank lenders have increased the availability of both short and intermediate term credit and reduced the cost thereof for small concerns, there are several situations where credit requirements of such concerns are not fully met. At the same time, it appears that existing financial sources are often unutilised because of inadequate knowledge or lack of initiative on the part of either lenders or borrowers. Yet in some cases existing local sources are much too inadequate to meet the growing needs of small industries in the particular area. Without complete and accurate financial reporting, such industries are obviously unable to establish banking contacts in an outside and larger community. (Staff Report to the Board of Governors, Federal Reserve System, 1952.)

Scope for Small-Scale Industries

Small firms do not necessarily suffer from technological inefficiency. The extent to which small-scale production, if adapted to the lines in which it has special advantages, can be carried on with a high degree of technological efficiency, has been amply demonstrated in Japan. Where small firms are supported by co-operatives and other specialised agencies, providing them with facilities of finance, research and marketing, they can hold their own against large-scale producers. As the Second Five Year Plan has laid particular emphasis on the development of small-scale industries, a comprehensive scheme has to be formulated for meeting the financial and various other needs of such industries. The State Finance Corporations which have been established in different States are expected to play a significant part in financing a planned programme for their development. But their scope will be somewhat limited owing to the statutory ban on the provision of equity capital by them. Besides the State Finance Corporations, the Central and State Governments, the State Bank of India and commercial and co-operative banks have a part to play in the financing of these industries. The relative roles which they should play in an integrated credit scheme for the development of small industries have to be carefully de-



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termined. The entry of public agencies into the market for industrial credit has also raised the important question of the relations between public and private lending agencies. It will be difficult at this early stage to weigh the effects of the operations of public agencies on the credit market and on the private agencies hitherto serving the market. In some respects the relations will probably be competitive but in most cases it is to be hoped they will be complementary and co-operative.

Some Suggestions

The following suggestions are offered for improving the present position in regard to the availability of banking facilities for small industries.

1. Commercial banks may establish small business loan departments and publicise the financial services they render.

2. Steps may be taken to provide for the insurance of banks and other financial institutions by Government against loss of principal or interest on loans made to small concerns upto a certain size and upto a prescribed aggregate amount. A small beginning has recently been made in this direction.

3. The possibilities of establishing "credit pools" by banks, insurance companies and other lenders with a view to provide short and medium term credit to small industries may be explored.

4. On the lines of American commercial banks, Indian banks may develop the practice of lending to small borrowers on the security of an assignment of accounts receivables. Their value as collateral is a very high fraction of their face value and if the borrowers' trade customers fail to pay their accounts, the banks can always have recourse to the borrowers themselves. The cost of such credit to borrowers would, however, be rather high.

5. The practice of bank lending against receipts of field warehouses established by specialist concerns on the premises of a borrower is a new development in credit techniques in the USA much to the advantage of small and medium-sized enterprises. The technique of financing inventory on field warehousing receipts may be developed by banks in India in collaboration with the State Bank. But it involves complex problems of appraisal for bankers and calls for development of special methods of controlling risks.

6. Banks are unwilling to lend to small industrialists against Government bills, because of the delay involved in collecting payments. As the Shroff Committee suggested, the locking up of the slender resources of the small-scale industries can be avoided if letters of credit are opened by Government in favour of suppliers stipulating for payments on the presentation of inspection notes by a duly authorised officer of the indenting department.

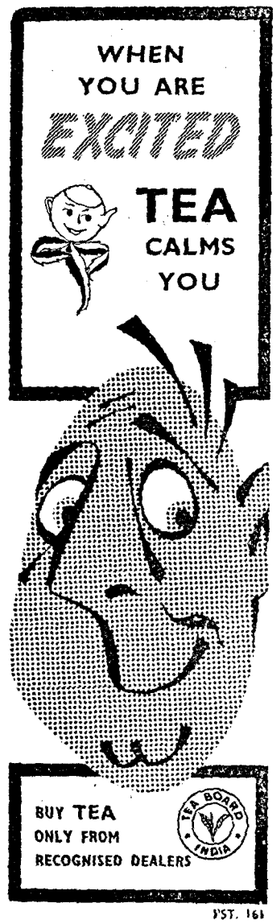
In view of the difficulties of institutional methods of increasing the availability of equity capital for small concerns which have been stressed above, their main reliance would inevitably have to be placed on earnings ploughed back into the industry. A very pertinent question that arises in this connection is that of increasing the amount of earnings available for investment. Obviously a plausible method of augmenting such earnings is by providing tax relief. But most of the small concerns happen to be unincorporated and are subject to individual income-tax. Provision of tax relief for such concerns may call for major changes in the existing structure of personal and corporate income-tax. But it is worthwhile exploring the possibilities of granting suitable tax exemptions to small industrialists so that a larger proportion of the earnings could be ploughed back into the business.

Non-Financial Problems

Financial problems are not the only problems of small industries; the non-financial ones are sometimes as important and as acute as financial ones. Though the discussion of such problems is outside the purview of our study, a few of them may be briefly indicated. Lack of technical and managerial know-how is perhaps the greatest of these problems. A small concern obviously cannot employ specialists who would give engineering, technical and accounting advice of various kinds—production scheduling inventory control, financial planning and marketing research. Financial assistance would not be of much avail unless it was accompanied by the provision of suitable managerial and technical assistance.

To meet these technical problems of small-scale industries, four regional Institutes, one each at Bombay, Calcutta, Faridabad and Madurai, have been established. A National Small Industries Corporation has been set up for the purpose of assisting, promoting and financing small industrites. Finally a Small-scale Industries Board has been constituted with the object of framing and implementing programmes for the development of small-scale industries and co-ordinating the activities of the regional Institutes of Technology and the National Small Industries Corporation.

The activities of these various organizations in the sphere of promotion and development of small industries will be watched with keen interest. It is hoped that they will not be mainly preoccupied with the problems of village and cottage industries alone but will evince the same interest in the problems of the small and middle sized industries in the urban centres which use power and some simple modern tools and implements and have capital assets upto Rs 15-20 lakhs.



VST. 161



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Employment Technology and the Plan

Ashoke Mitra

THE basic objective of planning in our country may be stated as the attainment of true economic independence perfectly matching our economic independence built on the Panch Shila, and as the most rapid increase in the material and cultural standard of living of the people possible under existing circumstances. Employment is but a symbol of material and cultural well being; apart from the self-respect it bestows in the social and cultural sphere it makes possible in concrete ways, in the form of labour, and improvement in material standards. There, again, we would not agree that the best form of employment is good ten hours' hard labour with the spade or the axe every day, but to be employed in situations for which one has been trained and educated. There is also the implied suggestion that my labour should be able to produce the maximum results, that is, my muscles should not do what a machine can do. Employment really means a gradual transition from the philosophy of the dirty hand to the philosophy of the clean hand, at least, the opportunity of soaping it after you have had to dirty it in field or factory. In short when we are thinking of employment and the Plan, we are not thinking of bread alone but a lot more besides, although bread is the first and most crucial problem to be solved before others can arise.

Economic planning is not done by solution of an **a priori** system of equations of input-output and national product, but is done in an historical way based on the current availability of cadres in every field of economic activity. Any plan which is not realistically formulated on current and probable resources is bound to be reduced to pious wishes. For instance, the Bombay Plan of the 1940's, while it was such good stick to beat a foreign Government with, was after 1947 found to have been pitched too high. Not much mention of it was made thereafter and the First Five Year Plan did not start a priori an entirely new system of input-output and consumption relations but to introduce certain changes in the relations already existing. Thus in a realistic plan each year's plan revises to a certain extent the relations of the last year and a solution is found by successive approximation. In any national plan this is chiefly determined by the availability of physical resources which largely means the availability of suitable cadres, that is, the suitable ways in which the entire human resources of the nation may be engaged; in short employment. This makes the task manageable in practice.

But then it is possible to take either a static or dynamic point of view. The static point of view is one which takes the currently available ratio of cadres in the various fields of employment as unalterable and seeks to distribute the net annual addition to the labour force—supposed to be 1.8 million for India—according to the old ratios. In spite of much talk about an expanding economy, this kind of static view still prevails in many quarters. Fundamentally, it assumes an ossification of the present balances in society and seeks to strengthen them. In this static view, employment is considered chiefly in terms of bread alone and not much more besides. But there is the other really worthwhile point of view of continuous planning in a wide time horizon, which views employment not in terms of bread alone, but in a continuous translation of cadres from low material and cultural output to higher and better outputs. But here again planning is constantly exposed to the risk of two possible errors. One error is an under-estimate of possibilities and of fixing too low targets, so that the available resources and the willingness of the workers concerned to undertake an effort are not fully utilised. Thus, in the hands of those planners, who under their skin are really adherents of the static point of view, continuous planning in a wide time horizon can easily be reduced to making haste very slowly. The other error is to shout at every truly prudent step as sabotage, overestimate the possibilities and draw up plans that cannot possibly be realized. Recent history is strewn with errors of either kind at home and abroad. But History may be servitude, History may be freedom.

There is, it seems to us,
At best, only a limited value
In the knowledge derived from experience.
The knowledge imposes a pattern, and falsifies,
For the pattern is new in every moment,
And every moment is a new and shocking
Valuation of all we have been
It depends on how we make use of our experience.

The best way to look at the problem of unemployment and the Second Plan would be to put myself successively in the bare feet of the agricultural labourer, in the cobbler-made chappals of the village or small town artisan, and in the well-made Bata, not imported, shoes of the engineer or the scientific worker and survey the prospects of my elevation from bare feet under a thinning thatch roof to well made Bata shoes under a prestressed concrete roof within a manageable time horizon. For such is fairly the range of employment which a common man, neither a poet nor a musician nor a scientist, is within his rights to contemplate and legitimately regard as the most rapid increase in the material and cultural standard of living possible under existing circumstances. This would also illustrate how unemployment in the rural and agricultural sector is intimately linked up with unemployment in the technical and scientific sector.

The objective or general purpose of the Second Plan may be stated as:

(1) Rapid industrialization of the country,
(2) Modernization of agriculture, and
(3) Establishment of the economic foundations of a socialistic pattern of society.

These three objectives are interrelated among each other; one cannot be realized without the other two, and employment runs through and through all the three as the cementing bond which holds them together and pushes them forward.

It is but natural that on the conclusion of the First Plan we should realize that rapid industrialization is of the utmost importance because we do not yet produce enough steel or all the ingredients of motor transport, an aeroplane or even photographic films. But industrialization requires a substantial increase in marketable agricultural output in order to feed

the increasing non-agricultural and strengthen the agricultural population. This requires modernisation of the methods of agricultural production. These must be produced by industry. Thus industrialization requires modernization of agriculture and, conversely, modernization of agriculture requires industrialization. A similar cycle can be readily discovered between basic and consumer goods industries.

In the Indian context, modernization of agriculture implies the full utilization of the productive possibilities of private peasant farming, that is to say, the full utilisation of labour intensive farming before industry begins to produce conditions favourable to capital-intensive cultivation. In order that full utilization of labour-intensive farming may be possible, the first principles of agrarian reform have to be put into practice and a serious handicap of economic progress removed. This will consist in removing the built-in depressor in the agricultural sector in the shape of rent and share-earning interests who take the cream off the land and leave the actual cultivators with little sustenance. A great controversy has raged over the country for nearly a century but this essential reform still remains to be carried through. Three very simple definitions of **malik, kisan** and **mazdoor** have been clouded over with all manner of legalistic niceties in order to preserve the indefensible claim of the **malik** in a thousand ways, and these niceties have now further sought the shelter of all forms statistical inquiries to stave off the evil day. But all of us are pretty certain that the most unbiased, randomized, quantitative, qualitative statistical surveys, repeated over and over again, will still reveal that almost half of the land is held by **maliks** constituting less than one per cent of the agricultural population, and almost two thirds of the land-owning **kisans** hold no more than 15 per cent of all the land. Approximately this ratio is bound to prevail in any semi-feudal agrarian structure, whether in India or any other part of the world. Let us briefly spell out why it is thought that its abolition will not only remove the built-in depressors in our rural economy but boost both our rural and urban sectors.

Apart from the purely rent-receiving interests who do not work at all and whose numerical strength is less than 2 per cent of the rural population, there is also the large section called occupancy tenants who by law hold the most valuable right in land, but almost 50 per cent of whom do not primarily work themselves. Together they account for not more than twenty per cent of the rural population. Those occupancy tenants, however, who work themselves may be called **kisans**. Thus the remaining eighty per cent should properly be called **kisans** and agricultural **mazdoors**. The effect of giving land to the **kisan** and **mazdoor** and reducing their heavy indebtedness will be immediately to raise their standard of living and to give them a new incentive to increase production. In short the removal of the 20 per cent depressor layer will result in a sudden and extensive expansion of the area of operation of consumer goods, improvement in rural housing and village workers, increased absorption of agricultural produce (for the diet of the 80 per cent is woefully subnormal and unnourishing), and full application of labour-intensive practice.

The immediate effect will be on the one hand not only a wiping out of the dreaded technological unemployment among artisans but fuller employment of them resulting in their asking for more machinery, and on the other hand a very effective halting of the descending spiral of agricultural prices owing to the fact that more food will be held for consumption by the producers themselves. Thus a big consumption area which has so long been artificially depressed in a state of dormancy will operate freely and absorb the artisan's handicraft and the peasant's produce to quite an indefinite extent. Thus on the one hand agrarian reform will considerably reduce the large agricultural surplus population by distributing land to unemployed **kisans** and underemployed **mazdoors** and, on the other hand, by raising the peasants' incomes will create a market for industrial and technological expansion in the place, by abolishing unearned profits which are now largely spent either on luxuries, or at best, in maintaining an unproductive class in relative comfort. Moreover, it will increase the resources disposable for purposes of accumulation. Only when such a reform is achieved is it possible to introduce cooperative farming, the truth being that the more prosperous the working peasant (as distinguished from the rich non-working tenant owning occupancy rights but not working himself) becomes on his individual farm, the more amenable he becomes to the idea of co-operation. By developing fully the possibilities of individual farming, he realizes its limitations and comes to understand that a further increase in his prosperity requires the adoption of cooperation.

The present extent and trend of land reform, however, falls short of these objectives.

We have seen how in the absence of further reforms the temporary progress in agriculture may bring about a descending price spiral which will have the effect of ultimately retarding agricultural production. If such a condition prevails in the rural areas, it automatically means a restriction in the use of consumer goods. This in turn demands that the production of certain consumer goods be frozen at the existing levels of production in factories, that labour intensive methods be embedded in the sector of hand industries, and more and more money be pumped into this sector which, composed as it is of the small producer, the independent worker, the craftsman and even co-operatives, is naturally enough the most vociferous, and audible.

It might be possible under such conditions for a time to increase the national product by employing more labour and proportionately more means of production on the basis of unchanged methods of production only in the same proportion as the output of consumer goods for the additional labour force employed. The moment, however, labour is fully employed any further increase in national product requires increased productivity of labour and hence adoption of progressive methods of production. This results in the necessity of increasing the output of means of production faster than the output of consumer goods.

In a similar way industrialization implies a faster rate of increase of industrial output as compared with the rate of increase of agricultural output, in the first stages of planning. Thus though the objective of "rapid industrialization with particular emphasis on the development of basic industries" is fundamentally incompatible with the fear of technological unemployment requiring "regulation of the pace of technical progress in selected industries," yet, if the rate of increase of agricultural output is restrained the whole chain is bound to kick back violently in reverse, which leads us to the enormous difficulty of not only absorbing what technical and scientific skill that already exists but of further absorbing fresh annual additions in the cadres.

Around Calcutta Markets

Marking Time

Wednesday, Evening

IN the absence of investment support, equities continue to remain stagnant. For the last fortnight, speculative scrips have been marking time. There is hardly any business in cash scrips. Not due to selling pressure, but on occasional liquidation, equities are gradually losing ground. Investors may not be lending support to the market. But they are not liquidating their holdings. Occasional liquidation comes from weak "bulls". Along with investors, speculators are reluctant to enter into fresh commitments.

This explains why equities are stagnant. But the recent behaviour of stock markets is not entirely discouraging. Equities are no longer sagging. Even speculators are unwilling to sell "short". Weak "bulls" have been gradually eliminated. Some time may elapse before the market starts moving up. But there are some indications that the process of digestion is nearing completion. At the current phase of stock markets, it may be risky to sell "short".

Loan Effects

In retrospect, it is evident that fears about the consequences of the Union Government's loans are exaggerated. Apprehensions have not materialised. Available details indicate that cash subscriptions to the loans have been satisfactory. As the net withdrawal from the money market will not exceed Rs 40 crores, it is now realised that the loans will not extend the resources of the banking system. It is not merely a coincidence that equities have found a bottom since the announcement of the details of loan subscriptions.

There are, however, other borrowers waiting for opportunities to float loans. Loans by States will be floated soon. Some Corporations are likely to enter the market. These public and semi-public borrowings will mop up funds from the money market. But these borrowings are not likely to be heavy. As deficit financing continues and bank deposits expand, it should not be difficult for the money market to respond to these demands easily. This aspect of the stock market situation is now better appreciated.

There are other influences which are impeding stock market activity. For about a year now, prices have been rising. Food prices are moving up. So are the prices of industrial raw materials. In consequence, industrial production costs are mounting. But as the prices of manufactured goods remain comparatively stable, industrial profits are being affected. Production has not yet suffered. But output may fall if industrial profits continue to decline.

Dividend Trend

As industry functions with a lower level of profits, investors become suspicious of the future trend of dividend payments. If the recent trend of the various groups of prices continues, dividend payments are likely to be slashed. This is what is discouraging investors from taking interest in equities. It is, however, a reasonable assumption that if the prices of food and industrial raw materials move up further, manufactured goods will become dearer. Inflation may have some undesirable consequences. But price inflation is likely to be followed, with a time lag, by profit inflation.

Meanwhile, there is the problem of growing industrial demand for funds. Rising prices for food and for industrial raw materials are swelling production costs. Simultaneously, declining profits are depleting industry's surplus cash resources. So, demand for bank accommodation from industrial quarters is expanding. This, coupled with the Reserve Bank's directives against speculative lendings, is affecting the normal sources of supply of credit for financing stock market transactions. This is one of the main reasons why cash scrips remain idle.

Stock Market Bill

New Delhi's determined drive to discourage speculation is another factor which is hampering stock market activity. Soon, the Bill to regulate trading in stock markets will be discussed by Parliament. This Bill seeks to control and supervise trading in stock markets so that overactivity is discouraged. In the management of stock exchanges, the Government proposes to have a voice. This Bill and its aims are, naturally, having a disturbing effect on stock markets.

Despite the consistently upward trend in tea auction prices, tea shares continue to remain depressed. Soon, tea company reports and dividends for the 1955 season will be available. That these dividends will be far below those of 1954 are known. But investors do not yet know how poor the 1955 dividends will be. These doubts and uncertainties are crippling activity in Tea shares.

Cements Up

During the current week, Jute shares experienced some selective buying support for a day. But the demand for Jute shares could not be sustained. Miscellaneous and Engineering shares remain depressed due to the irregularly downward trend in clearing scrips. But one of the features of recent trading on Lyons Range has been the consistent demand for cement shares. These shares are moving up. Even after the recent rise, these shares are being "talked" up further.



"One has no protecting power save prudence."

Juvenal.

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Scrappy Trading

Thursday, Morning.

IN addition to Bakri-Id on Thursday and Tilak Centenary on Monday, the Stock Exchange remained closed on Tuesday also, to express sympathy for the unfortunate victims of the earthquake tragedy in Kutch. Therefore trading was scrappy, during the week but the undertone was one of quiet confidence. There was some profit-taking on Saturday when most of the scrips shed a few points from the highest touched during the previous week. But while market leaders like Tata Steel and Associated Cement declined on alternate bouts of profit-taking and selling pressure, there was notable demand both for National Rayon and Bombay Burmah. Evidence was not wanting that bulls had not relaxed their grip and that anticipation of inflationary pressure was a good standby for the stock markets these days.

Operators were jubilant about the outlook of cotton textiles. This led to a sizeable appreciation in selected mill shares like Kohinoor, Bombay Dyeing, Century and Finlay.

In the miscellaneous section, ACC closed a rupee lower at Rs. 192. Orissa Cement made a gross profit of over Rs. 59,60,000 in 1955 and the Directors have recommended a rise in dividend from 7½ per cent paid last year to 12½ per cent both tax free. Further, the Directors have decided to offer one share at par for every two held. Looking to the prospects and the capital issue on bonus terms, i.e. at par, Orissa Cement should prove to be an active scrip in the Bombay market.

Cotton

Threat of U S Surplus

IN the three days of trading during the week, cotton futures remained subdued with a slightly bearish trend. Jarilla lost six points on Saturday and closed at Rs. 664-12 as against Friday's closing of Rs. 671-4. A similar trend was noticed in the Vijay which closed at Rs. 819 as against Rs. 810. On Wednesday the trend was lower, and both Jarilla and Vijay declined further to Rs. 663-8 and Rs. 805-8 respectively, on fair weather reports.

The further scaling down by the U S Commodity Credit Corporation of its sales prices from 25.20 cents to 25.12 cents per lb. has caused much concern to local cotton circles. Where would the CCC, then, draw the line? Backed up by the mandatory power given to it by the Farm Act, there is nothing to prevent the CCC from quoting lower and lower sales prices. In the circumstances, cotton markets the world over will have to absorb large volumes of U S cotton at steadily lower prices.

In fact, latest reports from Washington suggest that the U S Congress has already enlarged the scope of Public Law 480 and increased its authorisation by as much as 1.5 billion dollars. Simultaneously, the U S Senate has also announced that it would permit the sale of cotton and other surplus commodities to Iron Curtain countries for dollars at competitive prices. It is interesting to note that barter arrangements against strategic materials also figure in this scheme.

Oilseeds

Futures Trading in Linseed

A NOTABLE development in the oilseeds market during the week was the commencement of futures trading in linseed after an interval of 12 years. The first transaction in linseed May 1957 delivery under the auspices of the Bombay Oilseeds Exchange was put through at Rs. 25-4 on July 20. The basic variety for the linseed contract is Bombay bold, and the unit of trading is 25 tons. There will be two delivery contracts for May and September.

In general, the oilseeds market was in better form and traders were able to make good their earlier losses. The undertone was quiet in the beginning but rates slowly picked up under the leadership of castors which gained strength from steadiness in the upcountry markets. True, no fresh export business has been reported in castor oil. But the fact that America is prepared to buy our oil has weighed heavily with the bulls who have gradually gained control of the market and have pushed out the bears. This apart, reports of a poor Brazilian crop also strengthened the hands of the bulls, who know that both Britain and Japan are also potential buyers of castor oil. With Japan, however, pending settlement of the foreign exchange position, no deals are possible at the moment.

The steady trend in castorseeds helped groundnuts and other seeds to close on a note of sober optimism.

Bullion

Bull Bias

THOUGH it is the slack season, the bulls in the bullion market have contrived to gain a firm grip on the market and have successfully exploited the paucity of stocks. Following sustained bull buying coupled with heavy short-covering, the Ashad delivery contract for gold improved during the course of the week to as high as Rs. 102-4 on Tuesday while the Shravan delivery was no less strong at Rs. 100-11.

The precise stock position, it is always difficult to know. A conservative estimate puts it at around 20,000 tolas of gold. With such low stocks the bears find it difficult to arrange delivery. The bulls, on their part, are in no position to take delivery, either. But they also know that they will not be asked to and have thus the upper hand. For stock, the market has to depend entirely on arrivals from upcountry as the only other source of supply, viz. smuggled gold, has been becoming increasingly weak, thanks to stricter vigilance on the part of the authorities.

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Company Notes

Tata Oil Raises Dividend

THE raising of the dividend on ordinary shares from Rs 2 to Rs. 3 tax-free and a proposal to issue bonus shares at the rate of one ordinary share for every five shares held, form the highlights of the report of the Tata Oil Mills Company Limited for the year ending March 31, 1956. There has been considerable improvement in the position of the company during the year. Gross revenue rose from Rs 4.63 crores to Rs. 5.74 crores, while gross profits prior to depreciation, Managing Agents Commission, taxes and reserves, were higher than last year by Rs 25 lakhs.

The directors have taken this opportunity to allocate Rs 11.75 lakhs to depreciation including about Rs 3 lakhs towards inadequate provision in past years. This year's provision compares with Rs. 9.70 lakhs provided last year. The directors have also credited one lakh of rupees saved in taxation as a result of the special development rebate instituted last year to a special development fund created for the purpose. A deferred taxation reserve has been initiated with Rs. 3 lakhs "to provide for increased tax liabilities in the future".

After allocating Rs. 0.5 lakh to the reserve for bad and doubtful debts and Rs. 1.5 lakhs to the sales promotion reserve, a balance of Rs. 9.87 lakhs is available for distribution. The directors have recommended a dividend of Rs. 4-8 on the 4½ per cent Cumulative Deferred Shares, and a higher dividend of Rs 3 per share on the ordinary shares to absorb over Rs 2.80 lakhs more than were absorbed by dividend payments last year.

It is undeniable that the allocations to various reserves appear to be on the cautious side, justifying the payment of a higher dividend. It is worth noting, however, that while the dividend payment absorbs an additional Rs. 2.80 lakhs as compared with last year, the Profit and Loss Account notes that, "Change in mode of valuation of the closing stocks in process this year has resulted in an increase in the gross profit of about Rs. 3 lakhs." Gross profit before taxes was Rs 25 lakhs higher than last year. Provision for taxation is higher by roughly Rs. 11 lakhs. In other words, after tax the directors had roughly an additional Rs 12 lakhs to work with, of which Rs. 3 lakhs were the result of the change in the mode of valuation of stocks. Clearly, this does not reflect in any way on the financial propriety of raising the dividend, which is now at the highest level in recent years.

The Report indicates that the company is expanding its activities in various ways. A small soap factory in Calcutta has been purchased at a cost of Rs. 3 lakhs and additional equipment is being installed therein, after which it is expected to go into production. Modifications are being made in the company's plant at Bombay to enable it to compress oxygen produced as a by-product which is being sold to the Indian Oxygen and Acetylene Company. A new packet making machine has been ordered for the Calcutta factory.

The current year's report includes the report of the Lakme Private Limited, which is a wholly owned subsidiary of Tata Oil Mills. This company suffered a loss of Rs 77,200. The loss has been carried forward in the balance sheet of that company and no adjustment for it has been made in the accounts of the Tata Oil Mills Company Limited.

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CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1460.01	1474.60	1486.87	1297.99
2. Rupee Coin	109.96	108.71	106.33	107.60
3. Deposits				
a) Central Government's	83.42	52.03	62.58	79.62
b) Banks'	53.01	52.56	51.88	53.34
c) Other Governments'	13.69	6.94	8.01	18.9
d) Others'	11.88	12.19	13.02	14.67
4. Foreign Securities	616.68	626.68	656.54	637.04
5. Balances held abroad	47.96	41.63	32.27	79.62
6. Rupee Securities	718.56	728.56	713.66	543.65
7. Investments	59.18	37.31	35.99	61.24
8. Loans and advances to Governments	4.64	3.34	5.02	0.13
Scheduled Banks				
1. Demand liabilities (net)	631.17	629.40	626.44	591.09
2. Time Liabilities	456.43	454.97	446.73	402.05
3. Cash on hand	37.26	37.46	37.65	33.77
4. Borrowings from Reserve Bank	38.50	44.81	58.37	25.33
of which against Usance Bills	33.97	33.68	41.44	24.14
5. Advances and Bills discounted	701.92	710.86	716.08	570.11
of which State Bank's	131.03	134.08	137.77	111.62
6. Invst. in Govt. Sec.	345.98	346.90	348.85	367.18
of which State Bank's	100.27	100.17	100.76	94.32
Cheque Clearance	131.17	128.90	139.13	129.77

†For Reserve Bank and Cheque Clearance week ended 20-7-56. Scheduled Banks week ended 13-7-56.

Bombay Money Rates	20-7-56	13-7-56	22-6-56	22-7-56
Inter-Bank Call Rate	3½	3½	3¼	1⅝
3 months deposits	3⅜	3⅜	3 7/16	3
6 months deposits	3⅜	3⅜	3 7/16	2 7/8

Bombay Bullion — In Rupees and Annas

	25-7-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	102-4	101-1	101-9½	94-12
Forward	100-12	100-11½	100-5½	92-4
Silver (per 100 tolas)				
Spot	171-9	171-11	172-14	161-4
Forward	171-3	172-4	172-14	159-4

JUTE STATISTICS

Production ('000 tons)

	May. 1956	Apr. 1956	Mar. 1956	July'55 to May '56
Hessian	35.8	32.9	34.8	368.0
Sacking	59.6	55.0	57.8	565.6
Others	6.3	6.0	6.7	62.5
TOTAL	101.7	93.9	99.3	996.1
Total Production in the corresponding months of:				
1954-55	81.7	85.7	88.9	917.6
1953-54	71.3	75.0	75.6	791.1
Stocks at the end of the month ('000 tons)				
Hessian	* 40.6	35.9	30.3	—
Sacking	71.1	63.3	55.2	—
Others	7.4	8.7	9.5	—
TOTAL	119.1	107.9	95.0	
Stocks at the end of the corresponding months of:				
1954-55	94.9	103.4	94.6	—
1953-54	86.5	91.4	92.9	—
Despatches:† ('000 tons)				
Hessian	31.0	27.2	32.4	375.2
Sacking	51.4	48.1	55.6	533.0
Rope, twine, etc.	6.6	6.4	4.8	48.3
TOTAL	89.0	81.7	92.8	956.5
Total despatches in the corresponding months of:				
1954-55	89.6	76.0	76.7	904.4
Raw Jute Consumption: (*lakh bales of 400 lbs each*)				
1955-56	5.89	5.45	5.79	57.86
1954-55	4.72	5.08	5.25	52.98
1953-54	4.10	4.32	4.63	46.16
IJMA Mills' purchases of raw jute (lakh bales)				
Pakistani	0.21	0.27	0.18	11.62
In corresponding periods of:				
1954-55	0.95	1.0	0.73	9.54
1953-54	0.80	1.49	0.51	8.45
Indian	3.85	3.76	4.05	45.92
In corresponding periods of:				
1954-55	1.79	2.19	2.55	41.10
1953-54	2.54	2.90	2.67	34.64

† Despatches include exports and sales for internal consumption

*Provisional

Source : Indian Jute Mills Association

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group	Week ending 7-7-56	Week Ago 30-6-56	Month Ago 9-6-56	Year Ago 9-7-55
I **Food Articles:**	**379.5**	**374.0**	**356.3**	**304.0**
Cereals	480	476	468	349
Pulses	370	362	350	272
Others	250	245	220	244
II **Industrial Raw Materials:**	**490.9**	**481.8**	**476.0**	**412.8**
Fibres	484	470	458	417
Oilseeds	530	537	546	400
Minerals	470	435	414	427
Others	421	421	429	417
III Semi **Manufactures:**	**395.1**	**395.5**	**386.0**	**331.0**
Leather	399	401	406	357
Mineral Oils	208	208	208	201
Vegetable Oils	547	554	558	808
Cotton Yarn	475	473	477	406
Metals	327	328	278	256
Oilcakes	432	426	431	345
Others	362	361	361	330
IV *Manufactures:*	**385.1**	**377.0**	**378.5**	**370.8**
Textiles	418	418	413	406
Jute	386	386	392	415
Cotton	430	419	419	402
Rayon & Silk	453	453	478	474
Woollen	264	264	264	282
Metal Products	388	377	371	352
Others	291	286	286	286
V **Miscellaneous:**	**560.8**	**545.4**	**509.0**	**567.8**
All Commodities:	**401.3**	**402.2**	**393.0**	**354.7**

COTTON EXPORTS AND IMPORTS

(in bales of 393 lbs each)

Exports	From 1st Sept to 5th July		
Destination:	1955-56*	1954-55	1953-54
United Kingdom	56,936	32,073	14,266
Continent	74,976	52,452	25,091
Hongkong	30,728	9,658	293
China	52,812	..	..
Japan	227,864	88,867	62,893
U S A	3,679	16,723	12,665
Other Countries	3,374	2,189	1,552
Coastal ports	99,187	140,948	152,780
Total	549,556	342,910	269,540

*Excluding Zoda and Yellow pickings etc.

Iomports†	From 1st Sept to 14th July		
Description:	1955-56	1954-55	1953-54
Americans	14,388	101,420	166,882
Sudans	126,114	54,202	32,113
Egyptians	217,080	129,008	255,627
East Africans	193,397	241,160	152,517
Pakistan	117	255	..
Other Sorts	7,258	1,557	..
Total	558,254	527,602	607,139

†Through chief ports only

Source: East India Cotton Association

INDUSTRIAL PRODUCTION

	Units	1956 Apr	Mar	Feb	Jan	1955 Dec	Nov	Apr	Monthly Average 1955	1954	1953
I Consumer goods											
1) Cotton Textiles	crore yds	42.50	41.60	41.40	43.00	46.60	40.20	41.92	42.44	41.65	40.65
2) Woollen Manufactures	lakh lbs	18.55	19.76	18.77	17.32	20 56	19.01	15.44	17.25	16.13	16.04
3) Matches	'000 cases	—	47.0	49.8	49.2	51 2	47.7	45.0	51.3	44.1	51.5
4) Sewing Machines	Nos	10,367	10,673	10,008	10,422	12,082	8,171	8,282	8,456	6,683	5,202
5) Vegetable oil products	'000 tons	23.30	24.80	23.60	24.90	23.90	19.32	18.93	21.73	19.22	15.97
II Raw Materials or Intermediate goods											
1) Cement	'000 tons	—	430.5	394.3	401.1	423.4	397.3	365.8	373.9	366.5	315.0
2) Chemicals :											
a) Sulphuric Acid	,,	—	14.69	14.25	14.27	14.37	15.26	13.18	13.85	12.57	9.09
b) Caustic Soda	,,	2.92	2.92	3.22	3.55	3.06	2.75	2.68	2.85	2.44	1.90
c) Soda Ash	,,	6.47	7.52	7.05	7.48	6.72	7.40	6.57	6.43	4.02	4.73
3) Coal	lakh tons	32.23	33.62	33.58	31.96	33.88	30.97	32.33	31.84	30.64	29.87
4) Cotton Yarn	lakh lbs	13.10	13.10	13.30	13.20	15.10	13.30	13.09	13.62	13.01	12.55
5) Jute Manufactures	'000 tons	93.9	99.3	92.8	88.9	97.3	90.5	85.7	85.6	77.3	72.4
6) Non-ferrous Metals :											
a) Copper (Virgin)	tons	662.0	710.0	685.0	394.0	704.0	675.0	640.0	606.8	596.8	410.0
b) Aluminium	,,	—	397.4	621.1	664.8	647.3	627.3	599.3	602.1	407.2	313.2
c) Lead (Virgin)	,,	233.3	169.0	160.7	178.0	174.3	168.0	200.0	186.2	149.0	141.2
d) Antimony	,,	75.0	56.0	18.0	7.5	10.0	Nil	80.0	42.0	44.9	10.9
7) Paints and Varnishes	'000 tons	—	3.66	3.03	3.62	3.26	3.63	2.82	3.25	3.07	2.67
8) Paper and Paper Boards	,,	15.50	16.19	14.81	15.97	15.95	16.01	15.07	15.40	12.94	11.64
9) Iron and Steel :											
a) Pig Iron	'000 tons	146.6	158.3	152.3	163.3	155.2	138.8	152.7	146.4	149.4	137.9
b) Steel Ingots and Castings	,,	141.5	154.0	144.2	155.2	158.1	133.7	144.6	142.0	140.4	125.6
c) Semi-finished Steel	,,	121.3	131.9	124.5	131.4	130.9	116.5	124.0	121.4	121.0	102.5
d) Finished Steel	,,	105.8	115.3	110.3	107.7	111.9	105.3	106.6	105.0	103.6	85.3
III Capital goods											
1) Machine Tools	'000 Rs	—	654.8	611.2	695.2	947.6	639.6	381.3	620.0	416.9	367.3
2) Diesel Engines	Nos	964	949	864	929	903	880	906	852	721	310
3) Electric Motors	'000 HP	26.5	28.1	27.1	20.6	29.0	20.8	20.7	21.0	15.6	13.5
4) Power Transformers	'000 KVA	59.4	68.8	63.0	51.9	72.8	52.0	39.6	47.1	33.3	25.7
IV Transport Equipment											
1) Bicycles	'000 Nos	51.06	46.85	43.12	30.15	59.51	43.30	39.41	40.93	31.03	22.01
2) Automobiles	Nos	2,206	2,218	2,625	2,302	2,302	2,008	1,607	1,924	1,205	1,160

Source : Directorate of Industrial Statistics

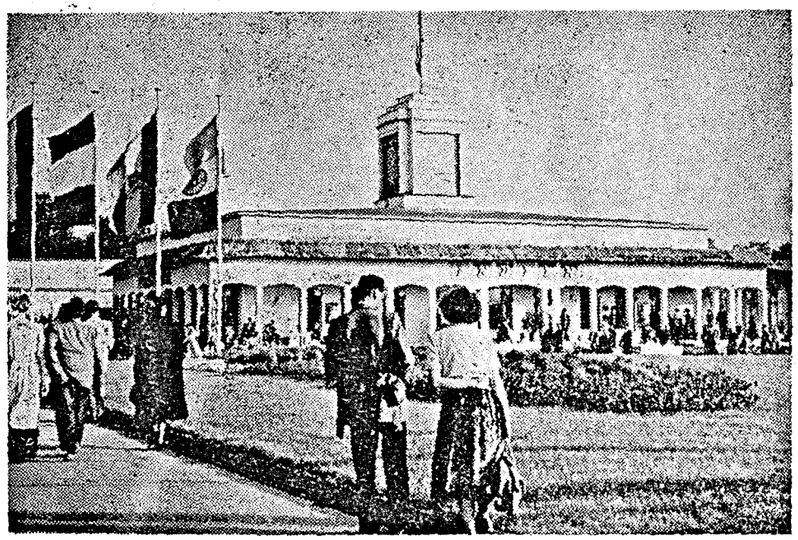
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Opportunist Solution

DELHI is the capital of the Republic of India. But Delhi is far away from Bombay or Poona or Nagpur. Even as Delhi does not record faithfully all the feelings of Poona or Nagpur or Ahmedabad, the Congress Government and Parliament do not always mirror the wishes of the people. On the question of re-organisation of States on the linguistic basis, the Congress Government and the nation speak with two voices. Because Parliament has accepted a proposal for a composite bilingual Bombay State, it does not necessarily mean that either Gujeratis or Maharashtrians have abandoned their demand for separate linguistic States. New Delhi is jubilant about the plan. Neither Bombay nor Ahmedabad is. Pandit Pant has welcomed it as "a national solution to a national problem". Because on this issue Parliament does not reflect the wishes of the people, the solution evolved and accepted by Parliament is not a true "national" verdict. That is why the "national" problem of linguistic States remains unsolved.

Congress alone is responsible for creating the "vexed" problem of Bombay. It has heaved a sigh of relief that non-Congress leaders like Shri Ashoka Mehta and Mr Frank Anthony have initiated a plan for Bombay which is supposed to be a just solution of the dilemma of its own creation. Pandit Nehru, who has never been able to appreciate the logic or the need of the demand for linguistic States, may take comfort that the new plan for Bombay will help Congress to re-discover its national moorings. Parliament may feel proud that it has soared above alleged parochial or partisan interests to function as a national, representative legislative organ. But the new Bombay plan, initiated by some members of Parliament, endorsed by the Nehru Government and accepted by Parliament, can only widen the gulf between the people and their chosen leaders and institutions. Despite the Speaker's ruling, there are many who will endorse the argument that, as the new plan for bilingual Bombay is different from that incorporated in the States Reorganisation Bill, the new proposal should be first considered by the four State Assemblies concerned before Parliament can vote on it. Parliament and the Congress Government may have the constitutional right, but no moral authority to impose their plan against the wishes of the people without seeking a fresh mandate on the issue in dispute.

For a proper appreciation of the new Bombay plan, it is necessary to recall the history of the controversy about the proposed Bombay State. SRC was in favour of a bilingual Bombay State, though it conceded the Maharashtrian claim for a linguistic State by proposing Vidarbha. Neither Gujeratis nor Maharashtrians accepted the proposal. Though the Gujerat Pradesh Congress Committee was insistent on its demand for a separate Gujerati State, the Maharashtra Pradesh Congress Committee suggested certain amendments which anticipated the present new plan for a bigger, bilingual Bombay State. Such plan was not accepted then mainly because of opposition from Ahmedabad. Only then Poona revived the demand for Samyukta Maharashtra, including Bombay City. In return for a separate Gujerati State, Ahmedabad became reconciled to Samyukta Maharashtra, but hotly contested the

Maharashtrian demand for inclusion of Bombay City in Maharashtra. As a result of negotiations, New Delhi accepted the demands for a separate Gujerati State and for Samyukta Maharashtra, but rejected the Maharashtrian claims over Bombay City. This provoked widespread violence. Confronted with the ugly situation, New Delhi decided to enforce Central administration over Bombay City for, say, five years, after which Bombay City was to be allowed free choice to settle its future status. This solution was unacceptable to Maharashtrians. While this provision of the States Reorganisation Bill was under discussion, some members of Parliament, mostly from the States not directly affected, sponsored the plan for a bigger, bilingual Bombay. This new plan was accepted by the Union Cabinet, and passed by Parliament.

There are reasons why Ahmedabad is more hostile than Poona to the new plan. In such a bigger Bombay State, Gujeratis will be in a minority. This explains why influential Gujerati political and industrial interests are lukewarm about the new proposal. Even the Gujerat Pradesh Congress Committee is opposed to it. Though some Congress members of Parliament and of Bombay Assembly from Maharashtra have accepted the new plan, the Maharashtra Pradesh Congress Committee is sceptical about it. Differences between the Congress party and the Congress Government pose issues which are not without significance. More relevant is the popular resentment against the bigger Bombay plan. Pandit Pant has admonished Hindu Mahasabha and CPI, the two parties who are stoutly opposed to the formation of bilingual States, for their subversive tactics. But there are many thinking persons who are convinced that a bigger bilingual Bombay is no solution to the problem, though they are neither Communists nor communalists.

Demand for linguistic States has no irredentist implications. Some Maharashtrian Congress leaders may find it politic to exploit the inexplicable Congress attitude to linguistic States by endorsing the new Bombay plan so that Maharashtrians can dominate the new State. But the people of Maharashtra may yet foil the attempts of these political opportunists. If the bigger bilingual Bombay plan is finally forced on the people, it may revive the idea of bigger regional States. Such a redrawing of the map of India into four or five large group States has the support of Pandit Pant and Rajaji. Kaka Saheb Kalelkar's hope that the new Bombay plan will evoke a sympathetic response in Bihar and West Bengal for the merger of these two States is not likely to materialise. If the bigger Bombay plan is finally accepted, there will be two unwieldy States which must inevitably overshadow the other smaller States. This may win popular support for large regional States. There are obvious dangers to such a re-grouping of States. Congress is dishonest in not recognising this major threat to the territorial integrity and cohesion of the Republic of India.

Wise Decision

IF Cairo was peeved at New Delhi's diplomatic silence. Egypt now has the assurance that India can never be a party to any decision or action which prejudices the sovereignty or dignity of Egypt. India's acceptance of the Three-Power invitation to attend London Conference to discuss the issues arising out of Egypt's decision to nationalise the Suez Canal Company will be welcomed in the wider interests of world peace. But Pandit Nehru has made it abundantly clear that India's decision to attend the London Conference is conditional. Pandit Nehru is emphatic that India's participation in the Conference does not imply her approval of the Western Powers' policy to Egypt. New Delhi does not accept the Western Powers' accusation that President Nasser's action is "arbitrary and unilateral". India is not attending the London Conference to "consider the establishment of international control over the Suez Canal". Her acceptance of the Three-Power invitation does not mean her endorsement of the agenda, aims and composition of the London Conference, as formulated unilaterally by Britain, France and America. Only after Britain's assurances on these vital issues has India agreed to attend the London Conference.

Even as Pandit Nehru's statement is an implied admonition to the Western Powers for their arrogant behaviour, the Prime Minister is emphatic that no solution of the Suez Canal issue is acceptable which does not assure the sovereignty of Egypt. It is clear from the Prime Minister's statement that India's participation in the London Conference is not meant to be a reflection on Egypt's dignity and sovereign rights. India has accepted the Three-Power invitation in the sure knowledge that no final decision can be reached by the London Conference. India is aware that Egypt could not and would not attend the London Conference to which she is merely an invitee. Without Egypt's participation and agreement, the London Conference can arrive at no final decision. India's decision to attend the London Conference with this explicit reservation is a positive assurance to Cairo that she will not endorse any plan for solving the dispute which injures Egypt's dignity and sovereign rights.

Despite the provocative solution incorporated in the Three-Power communique, the issues arising out of President Nasser's decision to nationalise the Suez Canal Company are now better appreciated. Egypt's sovereign right to nationalise the Company has never been seriously questioned. That the Suez Canal is an international water way, is emphasised in the relevant Conventions and Agreements. President Nasser has nationalised the Canal Company. But he has never denied or disowned the international character of the Suez Canal. He has guaranteed freedom of navigation in the Canal. He will uphold the Constantinople Convention of 1888. Terms of the Canal concession are embodied in the original Charter of 1956. This Charter will expire in 1968. President Nasser and his predecessor governments have openly announced that the concession of the Suez Canal Company will not be renewed after 1968. This is what Sir Anthony Eden ignores when he declares that Britain will accept no solution which leaves the Canal under a single Power. Much has been sought to be made of the international character of the Canal. The case for international control or administration of the Suez Canal is supposed to rest on the argument that it is a major international waterway. President Nasser has now done what he would be entitled to do twelve years hence. Could Britain or France or America insist on international control and administration of the Suez Canal after 1968? What they would not be in a position to propose in 1968, they cannot demand as of right now.

India is interested in the freedom of navigation through the Suez Canal. But this is not the main reason behind her decision to attend the London Conference. A grave crisis has arisen as a sequel to Egypt's decision to nationalise the Suez Canal Company. There is a distinct danger that, in the absence of an amicable agreement, the dispute between Egypt and the Western Powers may hasten a world conflict. To avert this danger, it is first necessary to create a congenial atmosphere so that the issue in dispute can be discussed without passion. Both sides in the dispute have a responsibility not to adopt measures which are likely to intensify the tension. Pandit Nehru's appeal to both sides to refrain from pursuing hostile measures and actions will be widely echoed. India's foreign policy is based on the principle of reconciliation of disputes through negotiation. She is "passionately interested in averting a conflict". She is attending the London Conference in the hope that she, in consultation with the other participants, will succeed in evolving a formula which will be accepted by both parties as an honourable solution. Such a compromise plan must necessarily be based on the recognition of Egypt's full sovereign rights. Egypt's behaviour since nationalisation of the Canal Company indicates that apprehensions about the continued freedom of navigation through the Canal are exaggerated. This encourages the hope that the efforts of peacemakers, including India, will succeed in evolving a solution for the crisis, which all parties in the dispute can accept without prejudice to their legitimate rights and interests.



Weekly Notes

Lower Rate for Nepali Rupee

THE news agency message that the State Bank of Nepal has lowered the exchange rate for the Nepali rupee from 128 to 145 for 100 Indian rupees, will puzzle only those who have not been following currency developments in Nepal. The official rate now lowered was fixed only on April 16, along with the inauguration of the State Bank. It was announced then that Nepali currency would be exchanged at all Government Treasuries (mainly for the payment of land revenue) in the Tarai, but Indian currency would also continue to be accepted freely. The Nepali rupee has been going down for some years. A couple of years ago, the free market rate was around rupees 200 Nepali for 100 Indian rupees. For some years now, some sort of control has been attempted but it has never been complete or successful.

In April last year, Nepal Government accepted the responsibility of supplying Indian currency at a fixed rate for essential imports; it also put a ban on non-essential imports. In practice, however, it appears to have operated or allowed a system of multiple exchange rates, exchange at a more favourable rate being allowed for certain approved purposes. The agency message adds that exchange at the rate now fixed will be made available to Nepali merchants needing Indian money to export essential commodities from India. Obviously it follows that the free market rate for the Nepali rupee must be much more unfavourable. Otherwise one can make no sense of the other news that passengers travelling by air from Khatmandu to India will also have the 'privilege' of the new exchange rate. That is to say, air travel is now included among the essential purposes for which exchange at the official rate is allowed.

A special feature of the currency system of Nepal has been the circulation side by side of both Nepali and Indian rupee. This has gone on all along. In the more prosperous Terai in the Indian plain, not only does the Indian rupee circulate freely; it is also legal tender. In fact, it is the only currency in which land revenue is collected in Terai. In the poorer mountainous regions as also in the Khatmandu Valley, however, the Nepali rupee is still the customary means of payment. The Indian rupee area seems to be gradually expanding and of late, with the opening up of Nepal through the construction of roads and operation of air lines, its expansion has been vigorous. Gresham's Law has been at work. As the Nepali rupee is now entirely a fiduciary circulation, its retention and limited use should present no difficulty, once the changeover is completed. There is little doubt about the flight of the Nepali rupee and the process is bound to be accelerated, with the opening up of the country in the period of development which Nepal has now entered.

Multi-purpose Projects

LITTLE originality and too much of slap-dash American methods, this is the impression of most foreign observers who visit our multipurpose projects which were our most important show-pieces, until the Village Industries Emporia and the Handloom Board set up counter-attractions by taking up prominent and more easily accessible sites and displayed their wares. This impression may be erroneous and merely superficial, because one sees more or less the same things—bulldozers, trucks, pneumatic drills, heavy earth moving machinery, batching plants and concrete being poured into dam sites. There may be some features perhaps in the structure and design in which Indian engineers have contributed some thing of real value and from which others may learn and benefit. But what these special points of excellence are can be brought out only by experts. For a time, the labour intensive methods tried out on the Kosi project were much publicised. Surely the experience must be worth analysing and if, as is reported, the various methods of construction through voluntary labour, village co-operation, contract labour etc. produced strikingly different results, the lessons learnt should be of immense interest and of great value in planning construction projects during the Second Plan period.

But a cursory view of the projects does not, at sight, indicate much scope for varying the proportions of labour and capital, or of much flexibility in the choice of equipment, considering that the projects are planned as a whole, and are to be completed according to schedule. This is inevitable when heavy and expensive equipment is used and the different jobs have to be synchronised. Had the projects been planned over a much longer time, perhaps the scope for using more labour intensive methods could be greater, provided the much bigger problem of organisation which the latter involves could be successfully tackled. It is not often realised how difficult these problems are and how inevitably they restrict the choice of techniques.

Concrete vs Masonry Dams

TAKE the question of the relative place of concrete and masonry in construction of dams. This is a subject which crops up every year at the annual Seminar of Engineers organised by the Ministry of Irrigation and Power. At the last Seminar which was held in Srinagar in July, for which the proceedings are now available, the position was given out as follows:

"The choice of construction material for dams and the River Valley Projects in India has been a subject of great controversy. There are two schools of thought, one, which believes that stone masonry is better and cheaper construction material for building dams in India, while the other school thinks that concrete is safer and a superior material for construction of dams. Due to a great difference in unit rates it has become increasingly important to know the relative place of these two materials in construction of dams."

"This subject was, therefore, introduced at the last Seminar but discussions could not be held for want of relevant data. It was then agreed that the Rates & Cost Committee which was already dealing with the allied subject of unit rates should also go into the question of unit rates for concrete and masonry and give its recommendations for discussion at the next Seminar".

Naturally, rates and costs is another subject on which engineers devote a lot of time at their conferences but the issue cannot be decided entirely in terms of relative costs for the simple reason that a high degree of standardisation can be ensured in the case of concrete but not when brick and mortar is used. The question remains in the latter case, of choosing the right bricks—it is a matter of eye examination, no foolproof standardisation is practicable—neither can the composition of mortar be standardised. This might sound absurd but a moment's reflection will show the catch in the argument. The proportion of the various constituents of mortar can be laid down all right. But to ensure exactness when large numbers of workers are involved and supervision has necessarily to be left to a proportionately large number of not too highly paid or responsible staff is not easy. In fact the risk involved is so great as to deter construction engineers who have a reputation to lose to fight shy of it. True enough, the entire length of the dam need not have the same strength and therefore various combinations of materials may meet the requirements, subject to standards being followed but standards are so difficult to enforce, except under controlled conditions. Suppose a masonry dam develops a crack or leaks, what then?

To the general question of the proper organisation for the execution of such projects, departmental construction vs construction companies, a sharp edge was given by the proposal for forming a National Construction Corporation in the public sector. The proposal is supposed to have been blessed by the Ministry but has not made any progress and the latest of the larger projects, Koyna, has been entrusted to a firm of contractors.

Standardisation of Equipment

AMONG the other hardy perennials in the Engineer's Seminar besides requirements, training and phasing of technical personnel, has figured prominently the question of standardisation of plant and machinery used on such projects. A Committee was set up for the purpose years ago. Subsequently, the matter has been looked into by the Standing Committee of the Ministry and later by the Co-ordination Board of Ministers who accepted a most important recommendation of the Committee to the effect that the machinery on River Valley Projects should be standardised. Finally, last week, the Government announced that it had accepted the proposal in principle but subject to one important proviso, namely that in view of the danger that a monopoly may be created in selecting a limited range of equipment, standardisation will not preclude Government from considering other makes and designs. The use of the word standardisation in this context calls for an explanation, however, as the equipment, used for the projects are all standard equipment in the sense of being patented machinery manufactured by established manufacturers. The point is to choose the ones which have been found by experience to be the most suitable. The choice has been found in practice to be infinitely difficult. The questions to be considered were:

(a) Performance.

(b) After-sales service and availability of spare parts.

(c) Definite indication of manufacture in the country of spares and machines will be an added consideration.

If these are satisfactory, then alone should the question of initial cost be considered.

The present decision is confined only to certain types of heavy earth moving machinery. It may be supposed that when the question of proper equipment is considered, it should be possible to pool purchases as also to set up a central store for spares, so that the equipment could be utilised to the maximum advantage and the cost of servicing reduced to a minimum. It does not appear, however, that this was ever seriously considered. The proposal was not found feasible at all, though the Committee felt that "Investment on equipment will be on the increase in the future and the earlier a positive planning in this direction is done, the better will it be". The Committee recommended, instead, that the States should individually organise a pool for spares for their major irrigation projects as Bombay has done.

Servicing and Manufacturing

APART from the difficulty of selections of proper equipment on the basis of their past performance, current practice in respect of spares appears to be chaotic in the extreme. At the Engineers' Seminar at Nangal (January 1954) it was disclosed that according to the present practice when ordering any machines, indent is placed for spare parts of the value of about 10 per cent. In U. S, the normal practice, to quote the same source, is to provide spares of the value of 12½ per cent of the cost of the equipment annually. At Bhakra, parts worth about 40 per cent of the cost of the machine are ordered with the machine and at Nangal, 25 per cent for two years consumption, etc. When servicing is done by the commercial suppliers of equipment, further complications arise over the pricing of spares, as fast selling spares are sold cheap while prices of other spares are often heavily loaded by the cost of servicing. At the Nangal Seminar, the position regarding manufacture of spares within the country was given out as follows:

"At present each project makes an indifferent job of trying to manufacture some of the spare parts. If the requirements of all the projects in the country in respect of spare parts could be pooled, it should be possible to suitably equip one or two workshops for the manufacture of some of these parts. The Punjab Government's workshop at Amritsar may be in a position to initiate work in this respect".

But why single out any one workshop?

Electoral Marriage

NEITHER the Communists nor the Praja Socialists are strong enough to form a government in any of the States. Even as a United Front, they may not capture more than one or two States. But, with an alliance, they may succeed not only in forming governments in one or two States, but may also emerge as a strong opposition in some States as well as in Parliament. Political tactics, therefore, dictate an electoral alliance between the parties of the

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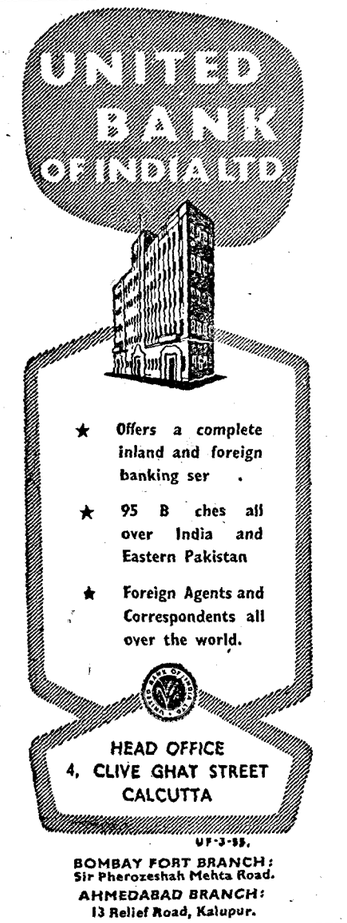
Left. There are possibilities of such an alliance in Travancore-Cochin, West Bengal and Maharashtra. Jayaprakash Narain has shown statesmanship in favouring such an alliance. None of the parties of the Left can oust Congress from power. But together, they can form a strong powerful Opposition in all State Assemblies and in Parliament. Thus alone can the parties of the Left influence the Congress Government, as Jayaprakash argues rightly, to implement Avadi.

There are obstacles to forming a United Front. PSP and some other parties of the Left are not likely to combine with Communists in formulating a common minimum programme. Coalition governments may not be ruled out of consideration in some States where the combined parties of the Left may emerge victorious in the elections. But a United Front is not necessarily an essential condition for an electoral alliance among parties of the Left. In West Bengal, PSP and CPI are discussing prospects of pooling their resources and candidates for contesting Congress more effectively in the elections. Even such a fluid alliance has some advantages. For obvious reasons, Congress has started a campaign against such electioneering tactics. But the parties of the Left would be unwise in being influenced by such campaign by Congress. In the wider interests of a robust party system of government, there will be hope that Jayaprakash's realistic suggestion will be endorsed by the national executive of PSP.

Debts Annulled

INDONESIA'S refusal to recognise debts to Holland may have been inspired and timed by Colonel Nasser's decision to nationalise the Suez Canal Company. But Djakarta's action is not comparable to that of Cairo. Egypt has agreed to pay compensation to the foreign stock-holders of the Canal Company on a basis which is widely accepted as just. Indonesia's case is different. Of her total debt of 4,081 million guilders, 3,000 million guilders represent the cost of Holland's "war against the Republic of Indonesia". Djakarta has some justification in regarding this part of the debt as questionable. With the exception of Finland, there are not many countries who has a clean record in relation to war debts. Should Indonesia pay the cost of keeping in subjection beyond all that she has paid so dearly? This aspect of the problem must be taken into consideration in assessing Indonesia's action.

Djakarta has announced that it will honour debts contracted by the NEI administration with 'third parties". This is meant to reflect Djakarta's intention to discharge international obligations except to her former oppressors. It is clear that Djakarta's decision to disown debts to Holland springs from the abrogation of the Dutch-Indonesian Agreement in 1948. Holland is reconciled to this abrogation of the Agreement, though there is still dispute over the West Indies. Under this Agreement, Indonesia agreed to accept the outstanding obligations of the NEI administration as well as to continue special guarantees and privileges held by Dutch interests in Indonesia. With the abrogation of the 1948 Agreement, these financial and economic undertakings by Indonesia also ceased to be operative. This is the legal defence behind Djakarta's present decision to disown debts to Holland.



Egyptian Jute Mills

PAKISTAN has been active, not only in developing and planning the development of jute manufactures within her own borders but in assisting manufacturers abroad. A striking example of it is Pakistan's collaboration in the establishment of a jute mill in Egypt. Not being in a position to subscribe to the capital of this mill—her balance of payments rule out the possibility—Pakistan has offered to pay her subscription of capital in kind and has agreed to supply raw jute over a period of years in lieu of cash. An important aspect of recent developments in Egypt is her eagerness to establish closer economic relations not only with the Communist bloc but also with South East Asian countries. Egypt has been keenly interested in importing any kind of manufactures and machinery from India, but her explorations have not been very successful so far. She needs everything that a country needs for industrialization—light engineering products, diesel engines, telephone equipment, machine tools, yes, even India-made machine tools, if India can spare.

This throws an interesting sidelight on the present Egyptian imbroglio and pre-dates the refusal of the exchange banks to open letters of credit on Egypt. Egypt is not doctrinaire socialist and invites active collaboration of Indian and other industrialists to participate in her development, on her own terms. But so far response has been poor, except from the Birlas who are investigating possibilities for setting up a rayon plant in Egypt. Birlas are already committed to two such propositions in West Asia.

The latest issue of the **Jute Bulletin** published by the Indian Central Jute Committee mentions two jute mills in Egypt. One is the mill at Shubra-el-Kheima, Cairo, which has been taken over by a new company which is installing new equipment in the mill in order to raise its production capacity from 2,500 tons to 8,000 tons a year. The other jute mill is under construction and will have double the capacity of the first mill. Pakistan's capital is presumably in the second mill.

Our Delhi Letter

South Block Changes Its Tactics

MANIFESTATIONS of New Delhi's interest in the Suez question, culminating in Pandit Nehru's statement to Parliament, are important not merely because of the contribution they might make to the relaxation of international tension, they also mark a slight but significant departure in Indian diplomacy. India's mediatory role in Korea and later in Indo-China was preceded by activity wrapped up in a thick shroud of secrecy; similarly Indian proposals to end the crisis in Algeria came something like a surprise. But South Block's reactions to developments following the nationalisation of the Suez Canal periodically leaked to the press and Pandit Nehru hardly told Lok Sabha anything more than what had been said before by newspapermen some time or the other. The External Affairs Ministry thus did use publicity, to a certain extent, to create a favourable climate for the Prime Minister's considered pronouncement—and employed a method that was hitherto considered too subtle for application to situations of such delicacy.

The Prime Minister's statement was also remarkable for its powerful advocacy of the Egyptian case; its partisan tenor was clearly intended to disillusion the West that India would try to hold the balance even by giving up the emphasis on what she considered to be right. In fact so close seemed to be the identity of approach between India and Egypt that the only element of hard "news" in the Prime Minister's pronouncement disclosed not New Delhi's but Cairo's intentions. It was through Pandit Nehru that the world first learnt of Egypt's inability to attend the 24-nation conference convened by U K, France and the U S. Pandit Nehru referred as many as eight times to the "sovereignty" of Egypt. In contrast, the Western viewpoint was deliberately soft-pedalled.

India is trying to bring about a settlement in Algeria by playing up the French. The opposite technique is being adopted in regard to Egypt. The objective in either case is to create suitable conditions for a negotiated deal with Arab nationalist aspirations. It is being hoped that the hesitating manner in which India has accepted an invitation that Egypt will reject might have a sobering effect on the sponsors of the meeting. In any case, India is unlikely to accede to anything beyond the proposal that an international advisory body, preferably under the auspices of the United Nations, might be created to help the organisation established by the Egyptian Government for administering the canal. The international body would have a strictly advisory role and no mandatory powers to detract from the sovereignty of Egypt over the Canal.

Pandit Nehru's denunciation of "postures of strength" adopted by Britain and France stems from something more than India's passion for peace in the customary sense. New Delhi has reason to believe that the Western powers have been deliberately provoking Egypt to close the Suez Canal so as to justify a subsequent use of force; the paradox is that those who are ostensibly trying to keep the canal free and open would be delighted if, at the moment, the Nasser Government held up ships passing through it. Ships of Britain and France as well as of many other countries have instructions to pay Canal dues to the account of the defunct Company in London or Paris where these funds get automatically "frozen". Thus the nationalisation law of the Nasser Government is being flagrantly and provocatively flouted. Cairo, conscious of the Anglo-French intentions, is ignoring the breach but cannot publicise the fact for obvious reasons. India would naturally take up the question of releasing the sterling assets of Egypt at the appropriate time. India's objections to the list of invitees to the Conference will also be pursued. It is doubtful if anything positive and very favourable for the sponsors would emerge from a conference where at least 5 of the participants, including the U S S R, would strongly side with Egypt.

* * *

The Government of India have ordered investigations likely to cost Rs 5 lakhs for constructing a channel between India and Ceylon to obviate the 300-mile trip that large ships have now to make round the island.

Hydrographic surveys and deep drilling will be undertaken to collect data about soil conditions between the Gulf of Mannar and Palk Strait. A site near Pamban Channel is being contemplated for constructing a canal through shallow and reef-strewn waters that cannot otherwise be negotiated by all but tiny crafts.

The Canal will be 5,400 yards long, 32 feet deep and 150 feet wide at the bottom. In addition, the construction of five approach channels and a canal lock and the development of the port of Tuticorin are major parts of the project.

The Government of India appointed a Committee to draw up the project which has been urged by national shipping interests to speed up transport facilities both for coastal and foreign trade. The Committee's recommendations, now available to the Government, involve an outlay of about Rs. 10 crores. Official circles however believe that this sum is an under-estimate and therefore detailed investigations have been ordered.

The Committee considered that the Sethusamudran route, as it is called, would not be a complete alternative to the longer round-Ceylon route unless port facilities equivalent to those at the Colombo harbour are developed. Tuticorin, which handles 460,000 tons of cargo annually, is the obvious choice.

A lock is necessary in the Canal because during the northeast monsoon the sea level in the Palk Strait is higher than in the Gulf of Mannar and reverse is the case during the southwest monsoon. In the absence of a lock, strong currents might erode the banks of the canal and hinder navigation.

The results of the investigations now ordered are likely to be available in about 6 months.

* * *

Prof. J J Anjaria, Economic Advisor to the Ministry of Finance and Chief of the Economic Division in the Planning Commission, is likely to be posted to Washington as India's representative on the International Monetary Fund next May. Shri G. R. Kamath is expected to return shortly from Washington to relieve Shri C. M. Narasimhan who is being posted as Secretary-General of ECAFE.



Oil is very important—
even to an artist, who oils his brush
which makes it slippery to paint,
so he can't draw a straight line—
as I can.

But, somehow the slippery brush
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paint their pictures quickly.
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Letters to the Editor

Demand for Food Grains

—Its Statistical Measurement

IN his article "Consumer Goods and Disposable Income—Do they balance in the Second Plan" in your Second Five Year Plan number (p 735) Shri A Rudra, you say in the introduction, "attempts a statistical estimate of the demand for foodgrains likely to arise in the Plan period. The results suggest that the target has been fixed rather on the high side and this leads him to the conclusion that the disposable income in the last plan year may be made larger without any fear of foodgrains prices rising in consequence".

The burden of the proof of the conclusion is in the following two paras:

"The target of foodgrains is to increase production by 15 per cent over the 1955-56 level. As the national consumption is targetted to rise only by 20 per cent, it implies that elasticity (with respect to total consumption) of foodgrains consumption has got to be 0.75 if production is assumed to equal consumption both in 1955-56 and 1960-61. For the population goes up by 6.5 per cent during the five years, so that the increase in the per capita total consumption of foodgrains is 8 per cent. This of course means .... that the elasticity is about 0.75. But this is a fantastically high figure for foodgrains.

"Experience suggests that the elasticity of the foodgrains cannot be so high. It cannot exceed 0.3 or 0.4 for the whole of India" (p 738).

The author, has not given any data showing that such elasticity is less than 0.4. The data collected by Agricultural Labour Enquiry, however, leads one to expect a much higher value as will be seen from the food expenditure data, according to the economic level of living (expenditure per consumption unit), given in Agricultural Labour Enquiry. Report on Intensive Survey Vol I All India, Table No 10, p 230.

Economic level of living	Total Expenditure per consumption unit	Food Expenditure per consumption unit
	Rs.	Rs
0 - 50	44.7	37.3
51 - 100	79.8	68.1
101 - 150	122.2	104.4
151 - 200	170.3	144.5
201 - 250	216.3	184.1
251 - 300	261.7	220.4
301 - 350	306.6	256.6
351 and above	411.8	347.6

Elasticity of food consumption with respect to total consumption=0.996

It will be seen from the table that the food elasticity with respect to total expenditure for agricultural labour was about 1.00 in the year 1950-51. The elasticity at the present time and for total population may be slightly different; nevertheless, in view of the above the estimate 0.75 for the elasticity does not seem to be a "fantastically high figure". If the increased national income goes largely to raise the economic level of living of the poorest sections, the above estimate may well prove to be too low.

In the conclusion of his article Shri A Rudra has made an appeal for the collection of "very detailed data about consumption habits of different classes of consumers." In fact such data are being collected on a sufficiently large scale by the National Sample Survey in its various rounds. But the findings are not being presented in a form in which they can be readily used for the above purpose.

A Statistician

Poona
August 4, 1956.

Profile of a Southern State

WILL you permit me to offer some comments (though belated) by way of a footnote to the discerning article, "Profile of a Southern State—Mysore," published in your issue of July 21?

Sometime ago I met a prosperous Mysore businessman. He was the old type, obviously traditionalist and conservative with a healthy respect for the Ruling house, wealth, position, authority, titles and decorations. He was the type who considered it a privilege to attend the Dassarah durbar decked in a lace turban, cummerband and all.

There were others concerned with business in the company and the conversation was generally about banking, insurance and allied subjects in which it was difficult for me even to pretend to take an interest. But I sat up and began to take notice when I found the businessman exploding with vehemence and declaring, "He is a fool, he is a fool," in relation to the Rajpramukh of Mysore.

I gathered from the conversation that there was an election for a directorship of the Mysore Bank. There was a Lingayat and a non-Lingayat in the running. It seems that the Murghee Muth of Chithaldurg, one of the important religious seats of the Lingayats, held a biggish block of shares in the bank. So did the Rajpramukh. Between them they helped to get the Lingayat elected instead of someone else, whose caste I did not inquire, but from the context, he may have been an Okkaliga.

I do not personally vouch for these facts. As facts they are not relevant in this context. What is important is that it was accepted as a norm of correct social conduct that voting for a bank directorship must go by caste. The unwritten rule was apparently so rigid and so universally accepted that it was assumed that even the Maharaja was bound by it. And apparently because he behaved differently, his conduct was felt to justify severe condemnation, without provoking even faint dissent, let alone a protest from a group of business-minded people.

That is an illustration of the new and fearful extension of the caste spirit in Mysore and maybe in other parts of India too.

G N Acharya

100, Shivaji Park,
Bombay 28,
August 8, 1956.

Flibbertigibbet

AKG'S letter in your issue of July 28 was welcome recognition of the emergence of "Flibbertigibbet" in the **Economic Weekly**. That the welcome is not uncritical, although not all the criticism is characterised by clarity, is a tribute to AKG's intellectual alertness; perhaps it is also a measure of the provocative quality of your new columnist.

Preoccupation with civilizations of 3,000 years ago has, however, prevented AKG from getting some more recent facts right. What Kingsley Martin wrote in the **New Statesman and Nation** of May 12, 1956, was;

"No wonder that Beatrice Webb, who thought that the New Statesman should be a serious organ of Socialism, decided to dub me a 'flibbertigibbet.' She was quite right, and if I had known that she had so christened me in her diary , I would have signed my Diary Flibbertigibbet instead of Critic. This does not suggest —does it?—that Mr Martin rejected the name. AKG may also have exaggerated the "disdain" in Beatrice Webb's description.

As AKG does not criticise Flibbertigibbet on any concrete point I take it that he only disapproves the choice of this pen-name. It had never occurred to me, when I suggested this name to the writer, who already has three other pen-names, that so much significance attached to it!

By the way, are we a nation of sturdy archaeologists? Who ever heard of it before Lord Curzon? What interest did we ever take in our ancient civilisation before the German Indologists went to work? Jubilation at Great Turnstile is their business; what we need is a little less complacency. It is in this respect that I find Flibbertigibbet most stimulating; he irritates me as often as he makes me think.

Friend of Flib

26 Chowringhee,
Calcutta,
31st July, 1956.

Economics of Ambar Charka

ADDENDUM

PROFESSOR CHARLES BETTELHEIM and Dr A Rudra have kindly pointed out a serious mistake which has crept in my brief note on 'The Economics of Ambar Charka' in your issue of July 14, 1956. After defining 'the surplus effect of investment I said: 'It is obvious that it would be economically indefensible to invest in those techniques which require greater volume of capital for securing the same output'. This statement is incomplete, and in this form definitely incorrect. I should have added '..... unless it has a higher surplus effect.'

The implications of the word 'higher' in this addendum cannot be explained here. The significance of the surplus effect of investment for the choice of techniques would be discussed in greater detail in a paper under preparation, where an attempt will be made to lay down economic criteria for the choice of techniques. It will also be shown in that paper that under certain conditions it is necessary to invest in those techniques which require greater volume of capital for securing the same output from the point of view of the long-term rate of growth of an economy.

K A Naqvi

Indian Statistical Institute,
Calcutta,
July, 27, 1956.

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A Calcutta Diary

How Much Land Does A State Need?

THE dead are easy to deal with; burn them, bury them, or just let them go down the Hooghly. (There is a story, perhaps apocryphal, that a district magistrate, angered by his Chief Secretary's silence over repeated requests for instructions as to what he was expected to do with the refugees coming into his district, finally urged the sanction of only nine annas per refugee, that being the cost of a 303 bullet.) It is the dying who suffer and make others suffer. It begins quite well; everyone is full of sympathy, and some of them send flowers; the patient almost enjoys being the object of so much attention. Tensions begin to develop as time goes on. We are all capable of only a very limited amount of love, and the heart rebels against long leases. Affection, let us assume, remains. But attention begins to sag. No more flowers. Those who used to visit every other day now only leave a card, once a fortnight and then twice a year. As the patient languishes on, his craving for attention increases in the same proportion as the interest of friends and relations wanes. In the latter's minds then an unstated wish gets a lodgment: the patient has been unconscionably long a-dying. The dying man complains of indifference, of callousness, of cruelty. Anyone who has been through the experience of such protracted illness will understand that the indictment is only partially merited. The sick man of my analogy are the 2,890,400 refugees from East Pakistan. They have been in West Bengal since Independence, and the strain on them is now reaching a dangerous point—even as the not so healthy relation, West Bengal, is now sorely tried. The thing one must not do is to blame either party lightly; they are like a loveless couple locked in indissoluble marriage.

Last week the Government of West Bengal published the report of a survey of the conditions in which her displaced persons live. Conducted by the Government's statistical bureau, the survey confirms what has long been known to those familiar with the State: no country has faced a problem quite like this before. This fact must be remembered as often as the fact of the Government's nearly total failure to solve the problem. In April-May, 1955, when the survey took place, 2,723,900 displaced persons were living outside Government camps. Deaths among the migrants up to that time are estimated at 175,000. About 66,000 are said to have been settled in other States. "A large percentage of the refugees was in distress," says the report, and this is not an exaggeration. The loss to the host has also to be taken into account. The per capita income of migrants fell much below the average per capita income in India as a whole. "The shortage of income as a result of this low earning totalled about Rs 21.9 crores a year. To this extent the State's economic standard had been lowered." Add to this the fact that about 20,000 refugees are still coming every month.

* * *

The survey brings out several interesting facts about the refugees, not all of them equally depressing. If the birth rate among them is high, so also is the rate of literacy. If only a few care for manual labour, they are many more than they used to be. If the majority of the employment seekers are without any skill, some at least have shown not a little initiative in small industry. If only a few families have settled down outside the State, there is now increasing awareness of the fact that, however reconstituted, West Bengal cannot possibly make room for all the refugees. This lining up of credits and debits can go no further, for now has to be set down the plain fact that no serious dent has yet been made on the problem. Sadder, neither the Government of India nor the Government of West Bengal has even started moving in the direction of a solution.

The difficulties of the problem are incapable of exaggeration, but they are enhanced by the refusal of the Government and the refugees to face a few basic truths. The latter have shown altogether too little initiative; they are wrong in thinking that the Punjabi and the Sindhi have fared better only because they had received greater help. As for the Government, it still does not know the size of the problem on its hands. Is there any hope of the refugees going back to East Pakistan? Is rehabilitation to be planned on the basis that the last Hindu in East Bengal will eventually be squeezed out? When is relief to stop, and rehabilitation begin? To what extent is the Centre prepared to ensure help from neighbouring States? These are only a few of the questions which have not even been asked squarely, let alone answered.

* * *

It is impossible to prove that the West Bengal Relief and Rehabilitation Department is corrupt; it is not even necessary to prove that it is badly led. The Minister, a charming woman, has not got a clue of the magnitude of her task. She should ask for another portfolio. Would another Minister be up to the job? It is doubtful. Is the West Bengal administration itself inadequate? Very probably. Can the Centre take over? There will be political difficulties, and even for the Centre the charge may be too big. What is happening now is that between the Centre and the State Government they are providing some relief and just about no rehabilitation. The waste thus is twofold. Resources, inadequate in all conscience, are being wasted; men, women and children are suffering; and an eventual abiding solution is receding further because of the steady dissipation of funds. The unrehabilitated will soon be unrehabilitable. There are men who profit from the present situation, and soon they will be powerful enough to resist an end of the problem. The honest officers of the Department privately confess to a sense of despair.

How about making the confession public? The problem is too big for India to handle, and it has several international aspects. Whether or not it is Pakistan's deliberate policy to make it impossible for Hindus to live in East Bengal, the fact is that they cannot live there. Again, only the price of rice has to rise in East Pakistan to send a larger number of refugees to India. Only a United Nations agency can do anything about conditions inside Pakistan, India cannot. It is futile to enquire who is more responsible for the failure to resettle the refugees, the Centre or the State. But what objection can there be to inviting an international organisation to handle the problem—something on the lines

of UNRRA? Less serious problems have been referred to the United Nations. It would be an admission of failure, admittedly. Can the failure be denied? A UN agency will be above the stresses of domestic politics, a notorious bedeviller of the best laid schemes. It may even secure some additional help from other countries. It may have a chastening influence on the behaviour of Pakistan. The only thing a UN agency cannot change is the character of the refugees. But, with an impartial and efficient rehabilitation administration, it will be for the refugees to prove that their character needs no changing. At the moment there are too many scapegoats, too many convenient excuses. Have I made a fantastic suggestion? Well, the problem is fantastic. Why is the man with a better answer keeping quiet?

—Flibbertigibbet

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From the London End

Suez: Anglo-French Reaction in Perspective

"Madam, it's yours."

Disraeli in a memorandum to Queen Victoria.

THE frenzy and noise with which the Anglo-French counter-weight has been organised since the Egyptian nationalisation of the Suez Canal offers an interesting interpretation of history. One is reminded how in the less subtle years of late 19th Century international politics, Disraeli made British influence in Egypt paramount by buying up the Egyptian interest in the Canal from the bankrupt Khedive, thus checkmating France, then a serious contender in the general expansion of Europe. One is further reminded how having secured this paramountcy Britain still found French participation a necessity in the face of Bismarck's designs in the Near East. In the words of Lord Salisbury:

> "You may renounce or monopolize or share. Renouncing would have been to place the French across our road to India. Monopolizing would have been to risk an antagonistic alliance. So we resolved to share."

And so what was at the end of the last century a European expansionist rivalry as the causus belli for a French junior partnership in Britain's Near Eastern policy, has today become the popular forces of nationalism and self-determination.

The **Times**, which has always had the distinction of being a stickler for clear reasoning and for definition, called Egypt an "aggressor"—an epithet utterly improper from every point of view. Sabre-rattling coupled with the wildest provocation to patriotic and chauvinist fervour has been the feature of British politics since the Egyptian action. It is difficult to discern how far the French public were swayed in like manner, though the statements of the French Government at times bordered on insult reflecting a total lack of diplomatic finesse and observance of etiquette for which France is supposed to be reputed. And yet, behind the clamour — the call for some "action" and the mobilisation of troops and warships—there could be perceived an underlying recognition that nothing could be done which would alter the Egyptian decision. Indeed, the convening of an international conference can only be regarded as the last honourable device for burying what the **Times** called the "clearest of policies and the firmest of resolutions."

The House of Commons debate, widely publicised as "symbolising the unity of the nation" on the Suez question was the occasion for a remarkable flamboyancy in oration and jargon. From both sides of the House, one heard the Suez Canal being described variously as "our jugular vein", "Britain's Achille Heel" etc. and yet even the Suez Group of Tories were unable to prescribe a clear cut set of measures which would wipe off the Egyptian nationalisation decree. It is true that many of them spoke of "force, if necessary" but the vagueness of these threats was patent.

The use of force carries with it a set of consequences which is certainly understood in British thinking circles. But what these consequences are has not been publicised for obvious reasons. There has so far been only one exception to this and a remarkable one at that. The **Manchester Guardian** is the only journal which has espoused moderation in the light of the consequences of any employment of force. In a sharp comment on the **2nd August**, the **Guardian** declared that "there is no possible warrant for using force." The Egyptians have not committed any breach of international law and this was so in spite of the Prime Minister's fantastic view that the Universal Suez Company was in the "nature of an international agency." The **Guardian** attacked the **Times** for suggesting that British troops should occupy the Suez on the ground that the nationalisation of the Suez Canal Co "would destroy the UN and would land Britain in an appalling embroilment with at least three-fifths of the world ranged against her." And here emerges the one single flash of reason in the whole British debate. In direct contrast to the views of the **Times** (and this contrast is one of the most remarkable, if not unprecedented, in the history of British Public opinion) the **Guardian** says that any British military action would mean the naming of Britain as an "aggressor".

In France, the talk about alerting the Navy at Toulon and of other military measures is generally being treated with some amusement. French military power has still to live down its reputation at Dienbienphu and by the manner in which the French people are rebuffing the fiscal and military call-ups for the Algerian war, it now looks as if France faces a total military eclipse in the wastes of its once colonial empire.

The fundamental questions arising from the Suez nationalisation measures do not include what has certainly been the most publicised question so far: the free passage of all vessels through the canal. The Egyptians have not, and their assurances on this have to be accepted, committed a breach of the 1888 convention. The questions really basic in the dispute are the consequences to British influence in the entire Middle East of the acceptance of the Egyptian decision; in a word, the fate of British colonialism in that part of the world. In the words of Mr Gaitskell "the fact is that this episode must be regarded as part of the struggle for the mastery of the Middle East." There is a naked fear that the Arabs may one by one come to believe that after all the oil installations and oil transport undertakings should henceforth be used for their own profit and benefit. And as the **Guardian** put it, this realisation of social ownership will grow: "we may try to influence these processes by reason, but we cannot prevent them." The colonial feature of the question has been patent all along—it has been blurred somewhat by British Labour leaders supporting the Government, thus giving the very Tory organ **The Daily Telegraph** the cue:

> "Any attempt to describe the Western Powers' firm stand over Suez as further evidence of British Imperialism has been nipped in the bud by Mr Gaitskell's courageous support."

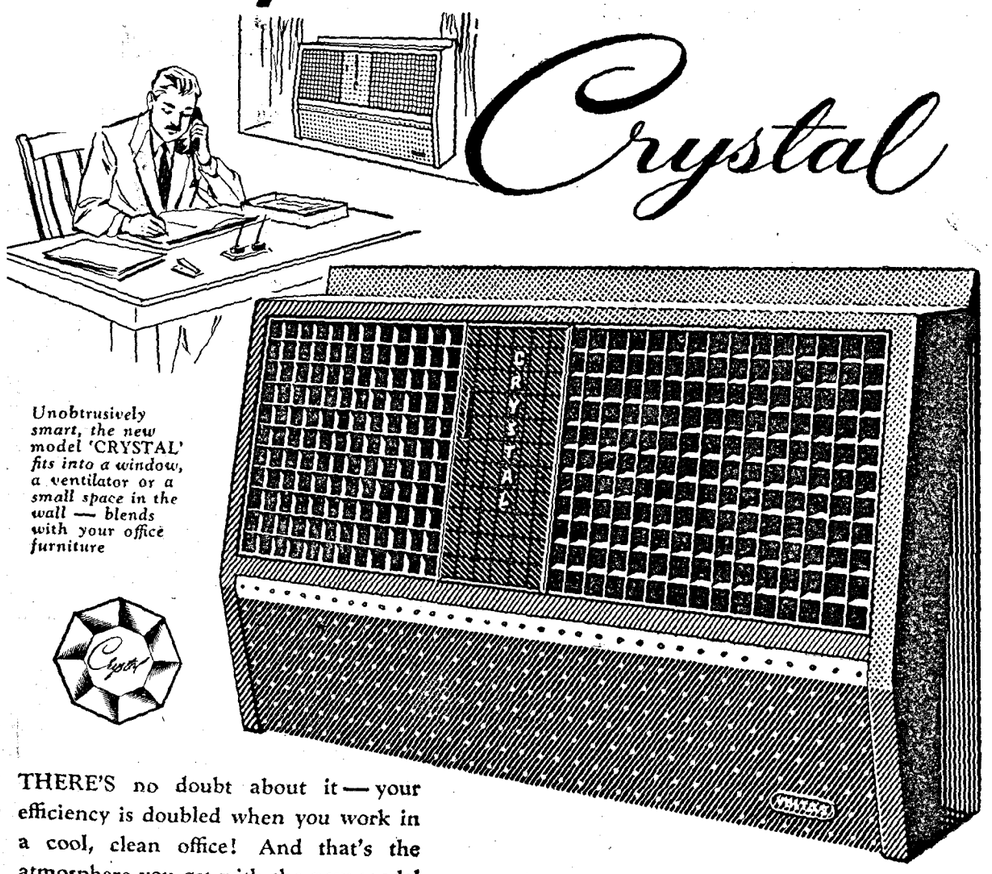
This only reflects the direction of Labour's view—a direction which has over the years contributed to the consummation of non-partisan British colonial policy.

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Consumption Function and Development Finance

In an Underdeveloped Economy

J Bandyopadhaya

IN so far as capital formation is the most vital of all the problems confronting an underdeveloped economy bent on quick industrialisation, the national economic surplus, and hence, the proportion of national income that is saved, is the most fundamental variable on which attention should be focussed.

Economists and planners in economically underdeveloped countries have assumed up till now that the Keynesian analysis of income-consumption behaviour is equally applicable in developed as well as underdeveloped economies. In this respect, an underdeveloped economy is supposed to be distinguished by the fact that the marginal propensity to consume in such an economy is relatively high because of the relatively low level of national income—a fact that is entirely consistent with the Keynesian version of the consumption function. But it would appear on careful analysis that the assumption of the universal applicability of the Keynesian consumption function is not always acceptable, and that in fact it may lead to bad planning in the underdeveloped countries.

It is necessary to discuss the Keynesian consumption function in its essence before we pass on to consider why a different consumption function is required for the underdeveloped economies. According to Keynes, "short period changes in consumption largely depend on changes in the rate at which income (measured in wage units) is being earned." Short period has been defined as that covering "cyclical fluctuations in employment during which habits, as distinct from more permanent psychological propensities, are not given time enough to adapt themselves to changed objective circumstances". Thus changes within a cycle are taken into account, not changes through cycles. Keynes then states his theory thus:

> "Men are disposed to increase their consumption as their income increases, but not by as much as the increase in their income. That is to say, if Cw is the amount of consumption and Yw is income (both measured in wage units), ΔCw has the same sign as ΔYw, but is smaller in amount, i.e., dCw/dYw is positive and less than unity."

Similarly, when income falls, consumption also falls, but not by as much as the fall in income. This is usually represented as in Diagram A.

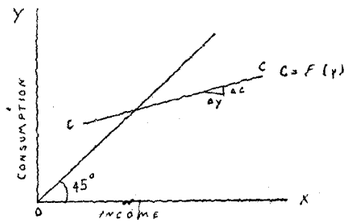


Diagram A

The slope of the consumption function schedule in Diagram A indicates that a rise or fall in income is associated with a smaller rise or fall in consumption.

Now a realistic approach to the characteristic problems of an underdeveloped economy would show that neither the assumptions nor the analysis of this income-consumption relationship are likely to be applicable in the initial stages of development when the economy is taking off into a process of self-sustained growth.

The type of underdeveloped country that we have in view is assumed to have a government which plans for what is generally known as a "welfare state". In other words, it plans for greater production and fairer distribution and so long as these objectives are not achieved, would not allow anyone to die of starvation. It is probable that in such a country, during the period of the take-off into a process of self sustained growth, marginal increments in consumption will be greater than marginal increments in income. The reasons are as follows:

(1) The sub-normal level of consumption by itself brings the marginal propensity to consume very near to unity.

(2) Population is likely to increase at a very rapid rate, with the result that additional consumption during the period concerned is likely to be greater than the additional income generated in the same period. A general lowering of the per capita income and a corresponding decline in the level of consumption are ruled out, because these will bring forth Malthus' "positive checks", and we have assumed that they cannot be effective in the type of state envisaged. The result will be that whereas net increase in per capita income may be zero or negative, net increase in per capita consumption must be positive.

(3) Since the economy is preponderantly agricultural, a considerable proportion of the increased output will be retained by the cultivators for private consumtion, thus increasing real consumption to a considerable extent.

(4) Income redistribution through social services will increase real consumption.

(5) The migration of a part of the population from the rural to the urban sector will raise consumption still further.

(6) Assuming that the consumer moves from one structure of consumption to another, an increase in income will shift the consumer's preferences from a lower to a higher structure of consumption, for which the increased income will be insufficient until the lag works itself out. This tendency will be accentuated because of the well known demonstration effect (the Duesenberry thesis that the savings ratio is a function of the consumer's percentile position in the income distribution, rather than the absolute level of income.)

(7) An improvement in the liquidity position of the consumer resulting from an increased cash circulation and deficit spending may bring forth an upward shift of the consumption function —(as happened in the U S A in the post-war period even after the war-time pent-up demand had evaporated.

(8) In a developing economy, the consumer expectations are likely to be favourable, and an anticipated increase in income coupled with the general good cheer brought about by developmental activities may favourably influence present consumption decisions.

No single factor is by itself sufficient to prove the contention of this article. But all of them taken to-

gether seem to drive one to the conclusion that in the period of take-off in an underdeveloped economy, the consumption function schedule will rise more steeply than the 45 degree line, as shown in Diagram B.

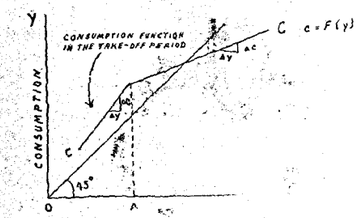


Diagram B

Time-series data regarding the income-consumption relationship for underdeveloped countries are not available. But it would appear that there is a reasonable chance of consumption rising steeply, if the above analysis is correct.

Needless to say, all the above mentioned factors will not come into operation all of a sudden as soon as industrialisation begins, and the income-consumption relationship portrayed here may not appear in the initial years of the take-off, although it is likely to appear sooner or later.

Once, however, the forces responsible for the marginal bursts of activity during the take-off period—investment and innovations—gather momentum and assume quantitative significance, all the factors mentioned above will gradually lose their strength, and the normal Keynesian consumption function will come into operation. In Diagram B the Keynesian consumption function begins to operate after national income exceeds OA.

It should now be pointed out that in a take-off economy, marginal consumption cannot be allowed to exceed marginal income, because if this is done, it will lead to a depreciation of savings and capital, and each marginal dose of investment will tend to be explosive. The government has of necessity to hold the economy under tight control, and a certain minimum percentage of national income has to be invested compulsorily. The above analysis suggests that in the absence of extraordinary measures for curtailing consumption, the marginal increment of consumption in the take-off period may, except in the initial years, tend to be greater than the marginal increment of income, and thus there is a serious danger that the economy may be thrown out of gear. This is a possibility which, as has been stated at the outset, has not been recognised up till now. It has generally been assumed that the marginal propensity to consume in a take-off economy will be very near to unity—that it may be equal to or greater than unity has not been recognised hitherto. The difficulties of development finance in a take-off economy have thus been seriously underestimated.

The conclusions that the above analysis may warrant are that:

In an underdeveloped economy during the take-off period rigorous measures for curtailing consumption will have to be adopted in the middle and high income brackets;

A vigorous drive will have to be launched for tapping idle savings in the different sectors of the economy;

A far greater reliance will have to be placed on deficit finance and foreign capital than is usually done;

The danger of inflation, even if there are time-lags and sectoral rigidities, will be far greater than is usually supposed; and

A persistent deficit in the balance of payments with all its implications will have to be accepted as inevitable.

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Social Effects of Industrialization

Walter C Neale

IN discussions of economic growth perhaps most attention is paid to measurable quantities, and the problem, quite rightly, is treated as one of creating more of the material means of satisfying human wants. The great aim of programmes of industrial development is to provide more and more of the goods and the good things of life. While this aim is quite proper, in fact essential to national well-being and social stability in the modern world, the process of industrialization has side-effects, by-products which change the whole tenor of life and thought. Industrial society is inevitably different from pre-industrial society, and the differences are not merely differences in the quantities and kinds of goods and services available. The citizens of an industrialized community will have different values, different ways of thought, and different ways of living their everyday lives.

Generally, these non-economic effects of development cannot be measured in a meaningful way, although it is possible that some aspects or trends can be measured, such as the number of people in a new social class, the disappearance of an old group in the society, or the number of people living permanently in an area other than the area in which they were born. It is not possible, however, to attach quantities to new modes of thought or new attitudes toward the family, yet such changes are of the greatest importance to the people involved and can give—in the west, have given—rise to tensions and conflict.

Often Regretted

These changes in the ways of life and thought are often unforeseen and as often regretted. People who were born and bred in a different atmosphere will never be completely happy in a changed society, and there is much harking back to the "good old days". In its extreme form this harking back takes the form of romanticizing the past until the reactionary picture of the "good old days" would never be recognized by those who lived them. A danger to, and a measure of the success of, planned industrial development is the society's ability to adjust to and accept the qualitative changes which follow in the wake of a new economic system, and to relieve and control the tensions and conflicts which arise because of these changes.

The world's experience of industrialization has been rather limited, and so one hesitates to read the past of Christian Europe into the future of civilizations resting upon a very different past. There are enough differences between the societies of the United States, Great Britain, and Germany to warn us that an industrialized India will look very different from an industrialized Britain. However, despite our expectation that the process of industrialization will affect different societies differently, one can perceive in the process certain essential elements which must have similar effects, no matter what the social context in which they operate.

Way of Thinking

These common effects will stem from the scientific and mechanistic character of industrial operations, from the technical requirements of organizational techniques used to keep an industrial society running.

Let us take first the effect of industrial development on the way of thinking. The industrial process is mechanical, and the thinking needed to set up and manage a factory is scientific. It has been said that the man who works in an industrial establishment lives in a "world of matter-of-fact" or of cause and effect. His daily activity, whether on a fairly simple level of manual operations or on a much higher level of design and organization, puts him face to face at all times with the results of his actions. Frequently almost no time elapses between the taking of an action and the result. Even when the time lapse is appreciable, there are not likely to be many extraneous circumstances interrupting the process. This constant realization that certain actions lead inevitably to particular results, and that particular results cannot be achieved except by specific actions creates a habit of thought which can be called scientific, mechanistic, or matter-of-fact, and this habit of thought is naturally carried over to other spheres of life. In fact, the man who has run a die press or set up a production line will never think in the same manner again.

The point can be made by comparing the industrial process with the kind of life led by men engaged in agricultural pursuits. Whereas the cycle of events in a factory may take only moments, the cycle of events in the countryside takes at least a season, and in some respects extends over the years. In the factory most elements of the productive process are directly under the control of the people working in the factory. In farming very few of the processes are completely controlled by the farmer. The growth of plants is a botanical matter. The farmer can help nature along, but much of the burden is hers, not his. Furthermore, many events can intervene to upset expectations. In India the quantity and timing of rainfall is extremely important. Other elements, such as the fertility of the soil, are partly under the control of the farmer, but the period over which fertility deteriorates may be so long that cause and effect are never brought home to the farmer. It is easy to understand why the industrial man says that "this causes that" while the farmer regards events as the will of God.

Industrial Worker Vs Rural Craftsman

One may ask why the attitude of the industrial worker is not also the attitude of the rural craftsman, and to an extent they no doubt have something in common. The craftsman knows his materials and controls them directly, so that he knows when he starts the product which he will have when he is finished. Nevertheless, it remains true that the craftsman is not made so fully conscious of the cause and effect character of his work. The craftsman goes through a series of operations which could make him look at the world as all cause and effect but for two facets of his life. On the one hand he lives among a vast majority which do not have the immediate matter-of-fact experience of controlled production—and neighbour's thoughts are our thoughts, and on the other hand his craft is apt to be traditional and highly stable. This stability means that he does not have to worry about what he does; he knows all about it to begin with. But the industrial worker is constantly seeing changes in the productive process taking place. This used to be done with such-and-such results. Now a new process is introduced, and



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the results are somewhat different, or he is called upon to do a somewhat different job. In consequence he is made aware that the world-of-matter-of-fact can be changed and directed. Of course, if he is a technologist much of his effort is devoted to just this problem of scientific control and change.

Matter-of-fact Attitude

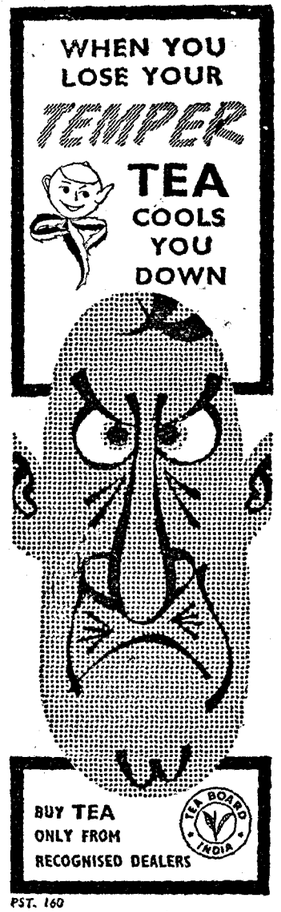
In pre-industrial society the dominant mode of thought is that of the agriculturist—a world in which prayer may seem as efficacious as fencing, and in some years more efficacious, in which the cycle of the seasons and the mysteries of nature are always before him. In industrial society the dominant mode of thought is that of the technologist—a world in which prayer is obviously less effective than lubrication and tensile strength; in which each day is much like any other and in which there are far fewer mysteries and he knows how to manage them.

Now, this mode of matter-of-fact thought carries over into the rest of the industrial workers life. He is apt to become un-religious. By this I do not mean that he becomes irreligious. Rather, he no longer regards religious observances as important in many of the things he undertakes. He develops in the social sphere attitudes of doubt and inquiry which are satisfied only by a mechanistic answer. As he shapes a part with his machine, so he begins to feel that he can shape his life. As he asks "why" about the amount of power used for an industrial operation, so he asks why about the rest of his life: why should he support his ne'er-do-well brother, or why should he not smoke. Answers like duty and moral obligation carry less weight, unless he can be shown that there is a practical advantage, or that his acts of omission or commission will have effects he does not want. And the breakdown of the old standards comes when he says to himself that he doesn't care about that brother, and doesn't in the least mind the results of his own withholding of help.

Class and family Structure

The technical requirements of industry also affect the class and family structure of a pre-industrial society. In each branch and in each job industry requires technical competence. There is no substitute for knowing how to do your job well. This means that there is constant pressure on the managers of industrial establishments to find the right man for the job regardless of his status in society. In India today there is still a strong tendency to hire a man of ones own family or caste, and one would hardly expect the traditional values to break down and disappear as soon as factories are erected. However, there must be constant pressure on managers to pass over brothers-in-law who know nothing of the technology in favour of strangers who can get the job done properly, and one expects that these pressures will become more acute as the need for technical competence becomes increasingly clear.

The size and complexity of factory establishments also tend to break down the lines of family and caste. When only a few people are needed, it is a fairly simple matter to keep the establishment in the hands of the "in-group", but when hundreds are needed it becomes increasingly difficult. In industrial establishments the margin between efficiency and inefficiency is narrow, and the extra cost of maintaining traditional standards does not seem worthwhile. The industrial manager who wants to hire only members of his own community may find that there are not enough of them to man his plant, and so perforce the old values pass. Once the break is made it becomes difficult to re-establish the old forms.



PST. 160

Demarcation Blurred

In a fairly stable society clear lines of demarcation can be drawn between various functions, and these functions assigned to specific social groups. In industrial society the lines are not so clear; the content of jobs fluctuates; new functions arise and old ones disappear. If the process takes long enough the class structure can adapt, but it is commonly the case in an industrial society that the changes take place too rapidly to allow for such adjustment. Locomotive firemen are displaced by diesels; airline hostesses and chemical engineers suddenly arise; a decade or two can eliminate the wheelwright. Jurisdictional disputes among unions in the west may be in part efforts to maintain stability in the structure of the work force (they are certainly efforts to gain monopoly returns), but no union has maintained its character against changes in productive techniques.

Perhaps the most important organizational technique, so far as this discussion is concerned, is the payment of wages. Regular payment of wages in cash can be expected to have definite effects in breaking down the traditional family structure. It is not that twelve chips a week makes a man more selfish, or causes him to love his mother less. Rather, it is that it gives him new opportunities to be independent. In a closely knit agricultural society the son is dependent upon the father, the brothers upon each other. The women of the family have no means of support except in the cooperative venture of the family. But wages end these dependencies. The son is as capable of earning a living as the father; the sister as the brother. An unmarried or childless woman can leave home to work if she doesn't like the home atmosphere. The obverse of the coin is that the family dependent upon earnings in industry is no more secure than its individual members. On an agricultural holding there is, barring disasters, always work and food for the family, but if father loses his job at the mill, the family's

means of support is gone and the family will very likely look with favour on those of its members who decide to move out and off.

Greater Mobility

An industrial society requires greater mobility, both occupational and spatial. As people move up and down and across the frame of occupations and skills, the lines demarcating caste or community begin to go. It becomes harder and harder to keep track of a man's social position. Furthermore, the social position begins to correspond less and less with a man's income and his importance in the economy. As incomes and economic status become scrambled, it becomes increasingly difficult to take seriously the ancestral position of the citizens of the industrial world.

When movement from place to place is slow or infrequent, the society can keep track of each person's traditional position, but when movement is rapid and widespread the fine gradations tend to disappear. In India today in the large cities the caste postion of each person is still definitely recognized, but I have the definite impression that the caste blocks in the cities are far larger and more inclusive than they are in the villages, and the importance of sub-castes much less. In addition, the castes are to a large extent local. The process of industrialization jumbles castes from different localities together so that it is not easy to establish the essential hierarchy among them. When it is impossible to establish the hierarchical relationships among the castes one of their major functions in organizing the social relationships between people ceases, and there is that much less purpose in maintaining the distinctions.

Smaller Family Unit

It can also be seen that movement about the country will tend to break down the larger family units. With each man living in a different locality and receiving his own pay packet, the natural unit becomes the biological family of man, woman, and minor children. By no means does this imply that that there will be any lessening of the bonds of love between parents and childen and brothers and sisters (perhaps it will be easier to love, domestic tensions being less), nor that mutual support and aid will die out. When I say that it is likely that the larger family will break down, I mean that with separate means of maintenance and separate households the daily and in fact most of the major decisions will come to be taken in the smaller households of man and wife. Certainly today one can see this happening in the cities among professional and business people whose parents' and grand parents' families were not so broken up into smaller units.

The policy of the Government of India is to eliminate the differentials based upon hereditary caste, so that it is encouraging to feel that the movement towards an industrial society will of its own accord move in step with the policy of the government. It is not so clear that the other effects of industrialization upon the attitudes and ways of living will be so widely welcomed. But changes of the kinds outlined above seem likely to occur simply as a result of the creation of an industrial society.

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MANAGING DIRECTOR.

Food Prices

M G Bokare

THE conferences of experts have not yet resolved the perplexing problem of food, the changing character of which has not been grasped properly. Before the First Five Year Plan, the vital consideration was to produce more food in order to relieve the food shortage and high prices, resulting from such shortage. The Plan has been successful to the limited extent of increasing the total production of foodgrains from 54 million tons to 68 million tons. With the increase in food production, the fear of soaring prices changed into that of falling prices, and there were consultations and committees for price support.

The problem has now assumed a different character. A poorer monsoon and a lower level of production in the 1955-56 season have resulted in rising prices. The following table indicates the position.

Index of Prices

(Aug 1939 = 100)

	All food articles	Jowar	Rice	Wheat	Gram
April 1954	381.6	208	486	547	321
April 1955	283.6	100	412	402	181
Jan. 1956	333.4	181	449	529	265
April 1956	360.9	235	547	501	293
June 30, '56	374.0	—	—	—	—

Rice and Jowar which form the main staple food show significant rise; the food group as a whole also is reaching the pre-plan days figure (414.1 on March 31, 1951).

During the months January to May 1956, the rise of prices of food grains in particular and of agricultural produce in general has been strikingly high. Explanations usually given by different people emphasise a particular point of view. They may be summarised as under:-

On the part of the Government, it is explained that the rise is to a large extent a reaction of the abnormally low prices in the previous season. To the extent that the rise is corrective, Government does not view the situation seriously.

The year being the closing one of the First Five Year Plan, there was a rush to complete the projects and use up in full the allotments made under the Plan. This stepping up of expenditure led to fresh issue of currency. During the first four months of the year average addition to the currency issued was one crore per day. This helped to push up prices .

Production of foodgrains declined while better wages and larger employment in industry and in the tertiary sections led to higher prices of food grains.

The arguments outlined above do throw some light on the problem, but this is not the full explanation of the situation. Prices of agricultural produce are not determined by total production of individual crops, but by the marketable surplus. This distinction may not be very clear in the first instance, because in the case of most industrial crops e.g. oilseeds, jute, cotton, tobacco, tea etc, the marketable surplus hardly differs from the total production. In the case of food crops, however, it differs very significantly through the percentage of marketable surplus to total production remains fairly constant over a long period, unless there are significant changes in the national economy, particularly in the rural sector.

The marketable surplus may not always be a normal or proper surplus, it may be inflated by distress sales. Under the former category, belongs the excess quantity of foodgrains which the peasant sells after meeting his household needs. Under the latter category belongs the sale under compulsion of foodgrain which the peasant needs to meet his household requirements, but which he is forced to sell in order to meet money payments for rent, taxes and essential consumer articles. The small holdings so predominant in our country would fully justify the assertion that for most farmers, the market sales are of the latter type. Though individually the quantity so marketed might be small, in the aggregate, the quantity is higher. Moreover, it is the small, subsistence farmer who sticks to food crops, while big farmers normally have a tendency to develop additional acreage to cash crops which yield higher money income both per unit of production and per acre of cultivation.

Thus the total available supply of foodgrains in the market is influenced by the marketable surplus of farmers, particularly small scale farmers. Further, it is this marketable supply which determines the price of food crops.

"The large scale investment and development programme in non-agricultural sectors results in not only an increase in money income of the population as a result of industrial employment, but in all probability also some increase in the spendable income of the population." The transfer of labour from agriculture to industry and constructional work, in which earnings are higher than what such labour was earning in the village also adds to the demand for consumption goods. The priority of the half starved people, under the above circumstances, needless to say, is food, of which in the initial stage the absolute intake increases. The income elasticity of demand is prominent for food particularly cereals and pulses, over a fairly long period. The 11 per cent increase in per capita national income, and 9 per cent increase in per capita consumers expenditure, over the five years of the First Plan, with enthusiastic emphasis upon wide diffusion at the bottom, can be relied upon to have increased the demand for cereals and pulses in the country.

Against this background, let us examine the rural sector, predominantly comprised of 'subsistence' farmers. The quantity of marketable surplus which goes to meet the demand of non-farm population, is conditioned by the following.

The degree of monetization. The NSS in their second and third rounds have found that our rural sector is not fully monetized.

The demand and supply for consumer goods and cash, to meet expenditure, say, for education, travel, tax etc. The availability of such articles and facilities is equally important in view of the fact that most of the surplus food grain is sold in villages.

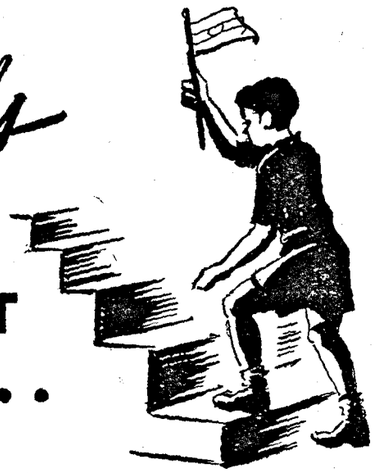
The relative prices of consumer goods which farmers need, and the quantity of food grain they have to dispose off. The demand for consumer goods is comparatively elastic; and due to absence of urban tastes and social urges, the demand for such goods can be postponed if relative prices are unattractive.

The low degree of monetization of our rural economy, explains the large reserves of foodgrains with well-to-do farmers, both to meet the wage demand of farm labour and to make

PLANNING FOR PROGRESS

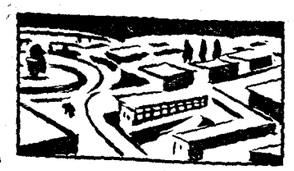
Towards

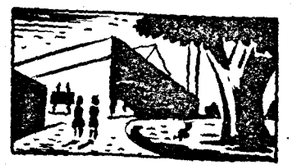
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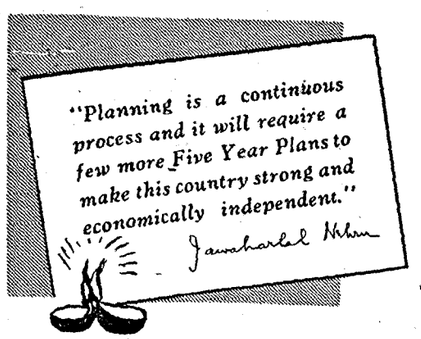
has resulted in

- More Food
- More Goods
- Better Social Services
- Greater E loyment
- Higher Standards of Living

THE SECOND FIVE YEAR PLAN (1956-61)

aims at

- Greater increase in national income
- Rapid industrialisation
- Expansion of employment opportunities
- Reduction of inequalities in income and wealth
- A more even distribution of economic power



our SECOND FIVE YEAR PLAN for National Prosperity

DA 56/52

profitable bargains in grain loans which have moral sanction in the poor man's philosophy and which are in most places out of the bounds of the Usurious Loans Act. Further, the well-to-do farmers, usually go in for cash crops, in the production of which farm labour is employed and such labour is paid partly in kind which accounts for the related attraction of holding stocks of grain.

For the subsistence farmer, any improvement in the yield of food crop does not necessarily increase his marketable surplus. Economic progress connoting agricultural prosperity in general, brings about a peculiar change i.e. in the initial period from farming for market (distress sale of grain) to farming for subsistence. A freer use of his crop or even a larger yield means first of all a higher consumption for the peasant who formerly had gone short of food or had been living on poor food. "Peasants in an economically stronger position satisfy first their own needs before they start producing for the market." Prof. Paul Sweezy said this with reference to development of agriculture in Soviet Union. Immediately after the introduction of elementary reform upto 1927, the marketable surplus of foodgrains in Soviet Russia fell from 26 percent to 13 percent of the total production, and then again with the progress in agriculture the marketable surplus increased to 28 per cent during the post-collectivisation period."

Community Controls Committee expressed similar views. "A small increase in production does not necessarily mean a corresponding increase in procurement. A large percentage of farmers do not ordinarily produce sufficient grains for their own needs, and the small extra production is likely to be utilised for personal consumption in the first instance". In a note to the Planning Commission for the Second Five Year Plan Prof C N Vakil and P R Brahmananda observe:

"It is not correct to assume that a larger aggregate produce must always imply a larger absolute quantity of marketable surplus. Very often expansion of output may be brought about on marginal farms which yields no "surplus" whatsoever. Even though the total output of the economy is increasing the quantity marketed may increase very slowly, or may not do so at all or may even decrease".

A rise in prices of agricultural produce, therefore, does not bring about increased marketable surplus of the food grains. It simply increases the retention of foodgrain to meet the demand of farm labour and home consumption, and encourages speculative holding of the marketed surplus on the part of the trading classes.

An initial rise in prices of food grains actually starts a vicious circle—less the marketable surplus, steeper the rise in price. The traders as a class have got their peculiar reactions in such conditions. "There is a tendency to hold back stocks in the hope that price may still rise further". Most of our trade in foodgrains is financed by private funds, and as such the Reserve Bank's attempt to control movements and stocks proves more or less futile. The past experience of traders that there is a comfortable gap between declaration of policies and ability to execute declared policies encourages them to play freely.

On the part of the farmers, there is perhaps even less reason than there is in the case of the trader to suppose that rising prices will evoke an automatic response in the shape of increasing supplies. The fallacy of the argument that they will is becoming increasingly apparent. The cultivator is asked to sell his grain for cash and his cash needs are never very large, and most of them such as rent and land revenue are constant. So that in fact, higher the price, the less the grain he has to sell in order to meet his inescapable cash needs. With the hope of rising prices, he still has the option of holding the stock which may rise in value still more; at worst, he can consume more of his own produce. His optional cash needs, for consumers goods, educational expenditure etc are such that unless an urge for higher standard of living is created, he would prefer to go without them. His desire to sell can be stimulated by increasing the supply of consumer goods at reasonable prices and at proper places. His demand for such goods is elastic both for price and easy availability and at present we find that there is no particular attempt to plan the supply of consumer goods in the village markets. Being located disadvantageously, the cost of transport adds heavily to the price of such goods. In the First Plan, the emphasis was on producing more food and other agricultural produce, but there was no corresponding attempt to siphon off the additional production. This could have been done by providing avenues of spending e g road and travel facilities, education, entertainments and by connecting the village markets with the town markets to facilitate flow of consumers articles.

Here, a little divergion to the policy of supply of consumers article will not be out of place. The reference is to the proposal that cottage industries should supply the needs of the rural economy. Their low level of efficiency will raise the cost and price of the products and as stated earlier, the demand for consumer goods being elastic, they will not stimulate purchase by farmers. The variety and finish of cottage industry products being inferior to that of factory produced goods, the preference for and consequently the tendency to wait for the latter type of goods, will only worsen the situation.

The discussion leads us to the conclusion that in a planned economy the Government should have increasing control over the deliveries of food-grains and other agricultural produce to the cities and towns, and over the flow of consumers articles to the village. In the face of the probable size of deficit financing, inflation-psychology tends to rule the minds of speculators and producers alike. Prof Galbraith, in his Hyderabad lectures, warned that cloth and food which form nearly two third of a family budget, should be protected from price vagaries, if inflationary pressure is to be kept under control. Needles to add that the surplus should be increased by rearrangement of production and that the surplus should be under State control through the manipulation of market mechanism.

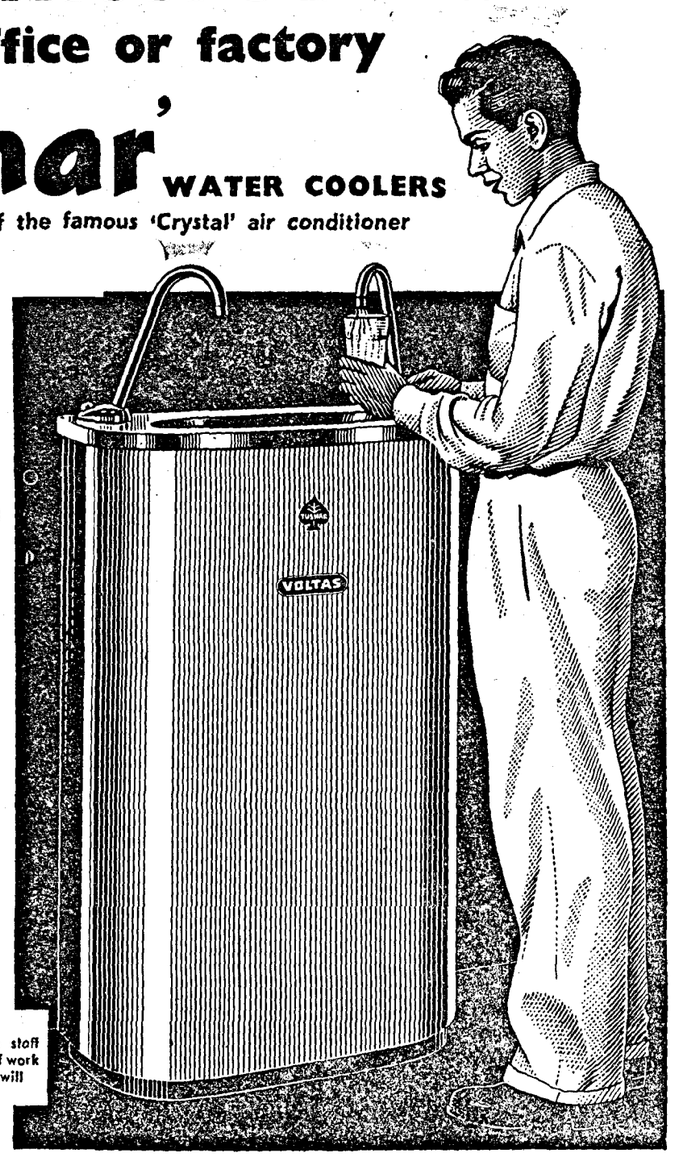
Waste Land

WHAT colossal waste can result from overenthusiasm is amply brought out in a review undertaken by the U P Agricultural Board. According to press reports, the Board found that cultivators who were persuaded to adopt the Japanese method of rice cultivation in Uttar Pradesh, probably wasted about 50 per cent of the total outlay on chemical fertilisers; their money going down the drain due to no fault of theirs, but to the fact that they were asked to use 100 lbs. of nitrogen fertiliser per acre, when all that was needed was half the quantity. And this despite the fact that the Uttar Pradesh Government disregarding the Union Agriculture Ministry's instructions, had specified the use of a quantity smaller than that prescribed by the latter.

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Around Calcutta Markets

Continued Recovery

Wednesday, Evening

SUFFICIENT time has elapsed since the start of the upswing in equities to indicate that the improvement in equity prices is not due to any war psychosis. Had it been so, it would not have sustained so long. Though fears of possible war-like actions arising out of Cairo's decision to nationalise the Suez Canal Company initiated the upswing, the continued spurt in equities suggested that economic factors started making their influences felt. This does not mean that equities will continue to move up. Corrective set-backs are only to be expected.

But there are growing indications of a gradual revival of confidence. No fresh "bullish" factor may have emerged. But the adverse influences are either becoming inoperative or are gradually being discredited. For instance, it is now realised that the proposed legislation about regulation of futures trading is not likely to prevent any legitimate spurt in equities. Gone also are undue fears about the possible effects of loans. Soon, the States will enter the long-term money market. But neither investors nor speculators are unduly worried about the effects of the forthcoming State loans.

Market Factors

It was not as much the rising trend of prices for food and industrial raw materials, but the stagnant behaviour of manufactures' prices which was causing anxiety to industry. Investors were worried that the trend of industrial profits may continue to be unfavourable. In the last month, manufactures' prices have also started moving up. It was not without significance that the falling trend in equities was halted as the index of prices disclosed this chain effect. This may or may not aggravate inflationary pressures on the economy. But stock markets are not interested or worried about that aspect of the problem.

Some peculiar developments have helped the recent spurt in equities. Cotton mill shares have been consistently buoyant in Dalal Street. Working results of Tata Steel are satisfactory. This has had a sustaining influence on Dalal Street. Consistent strength in clearing shares was the main sustaining factor behind the upswing in equities on Lyons Range. As cash scrips started moving up, investors started the hunt for low-priced, dividend-paying, sound cash scrips. This latter influence was a significant development on Lyons Range in the last few days.

Make-up

How did this influence emerge? To explain this, it would be necessary to understand why equities were slumping. There were reasons why Lyons Range were depressed for long. Prospects for its popular counters were bleak. For more than a year, the jute industry has been suffering from declining profits. Even the most confirmed "bull" is pessimistic about the immediate outlook for Tea shares. Lyons Range has always been in two minds about Coal shares. It has not yet been able to decide whether Coal shares should be completely neglected, or whether these shares could be "talked" up for the duration of the Second Plan.

As these three groups of shares lost popularity, Engineering shares became the most active counter on Lyons Range. But in the last six months, these shares also ceased to be popular. This was partly because the cornering activity subsided gradually. In part, the recent inactivity in Engineering shares was due to the fact that these shares were bid up to such high levels as to fetch unremunerative yields. That was why investors kept away from Engineering shares in recent months.

Shifting Trend

Some of these adverse influences are gradually being eliminated. One of the most interesting developments in recent days is the revived demand for Jute shares. There are reasons for the revival of demand for Jute shares. From the middle of last month 2½ per cent of jute loomage has been re-sealed. There are reports that a further 2½ per cent of loomage may be re-sealed. These are "bullish" developments for Jute shares. If the steps already taken and under contemplation lead to a relative rise in the prices of jute goods, the upward trend in Jute shares may continue.

Rising stocks of jute goods — mills' data disclose an increase of stocks of jute goods during July —lend weight to reports that IJMA has proposed to the Union Government that a further 2½ per cent of loomage should be re-sealed. Steps to curtail output should have had an adverse effect on raw jute. Though jute goods declined as data disclosed higher stocks with mills over July, raw jute prices were unaffected by reports of a further resealing of loomage. This is the main trouble with the jute industry. Will the spurt in Jute shares, persist if the spinner's margin continues to be unfavourable?

Miscellaneous

Doubts still prevail whether the revival of demand for Jute shares will continue. But Lyons Range seems to be optimistic about the prospects for Miscellaneous shares. In recent days, this group has been notably active. Cement, Rayon and Tobacco shares have been prominent. Many low-priced, sound Miscellaneous shares have met with consistent investment support. There is no cornering activity in this group of shares. Current and prospective yields are the main considerations. This is a redeeming feature.

Tea auction results continue to be satisfactory. But Tea shares remain relatively inactive. This is because current dividend payments for the 1955-56 season are disappointing. Investors have burnt their fingers badly in Tea shares. They remain cautious. By the beginning of the current week, Coal shares evinced some activity. This was mainly in sympathy with the upward trend in equities in general. But the belief is gaining ground that, at current levels, Coal shares are good purchases for capital gains in the immediate future.

UNITED ASIA

International magazine of Asian affairs, 12, Rampart Row, Bombay 1, India.

4 Per Cent State Governments Loans

(1)	Government of Andhra ..	Rs. 600 lakhs	Issue price Rs.	99- 8	per cent
(2)	Government of Bihar ..	Rs. 200 lakhs	Issue price Rs.	99- 4	per cent
(3)	Government of Bombay ..	Rs. 750 lakhs	Issue price Rs.	100- 0	per cent
(4)	Government of Hyderabad ..	Rs. 200 lakhs	Issue price Rs.	99- 8	per cent
(5)	Government of Madhya Bharat ..	Rs. 100 lakhs	Issue price Rs.	99- 4	per cent
(6)	Government of Madhya Pradesh ..	Rs. 150 lakhs	Issue price Rs.	99- 4	per cent
(7)	Government of Madras ..	Rs. 1250 lakhs	Issue price Rs.	99-12	per cent
(8)	Government of Mysore ..	Rs. 400 lakhs	Issue price Rs.	99- 8	per cent
(9)	Government of Orissa ..	Rs. 300 lakhs	Issue price Rs.	99- 4	per cent
(10)	Government of Punjab ..	Rs. 200 lakhs	Issue price Rs.	99- 4	per cent
(11)	Government of Rajasthan ..	Rs. 300 lakhs	Issue price Rs.	99- 8	per cent
(12)	Government of Saurashtra ..	Rs. 250 lakhs	Issue price Rs.	99- 8	per cent
(13)	Government of Travancore-Cochin ..	Rs. 200 lakhs	Issue price Rs.	99- 4	per cent
(14)	Government of Uttar Pradesh ..	Rs. 800 lakhs	Issue price Rs.	99- 8	per cent
(15)	Government of West Bengal ..	Rs. 700 lakhs	Issue price Rs.	100- 0	per cent

All the State Governments reserve the right to retain subscriptions upto ten per cent in excess of the notified amount.

All the above loans will be repaid at PAR on 3rd September 1968 except that of the Government of Bombay which will be repaid at PAR on 3rd September 1970.

The loans will open for subscription on 3rd September 1956 and close on 10th September 1956 or earlier without notice as soon as subscriptions approximate to the amount of each issue.

All the loans will bear interest from 3rd September 1956.

Subscriptions may be in the form of CASH/CHEQUE in respect of all the loans.

3% BOMBAY GOVERNMENT LOAN 1956, 3% MADHYA PRADESH LOAN 1956, and 3% MADRAS GOVERNMENT LOAN 1956 will be accepted at PAR for conversion into the new loan of the Government concerned; interest on the securities of the respective loans tendered for conversion will be paid upto and including 2nd September 1956.

3½% TRAVANCORE GOVERNMENT LOAN, 1956 will be accepted at PAR for conversion into the new loan of that Government. In addition to the interest due on securities of that loan tendered for conversion, tenderers will be paid interest at the rate of 4 per cent per annum on the amount of the principal of such securities from 16th August 1956 to 2nd September 1956 inclusive.

Applications for all the loans will be received at the Offices of the Reserve Bank of India at Bombay, Calcutta, Delhi, Madras and Bangalore.

APPLICATIONS will also be received at PLACES WITHIN THE RESPECTIVE STATES as follows:—

(i) At the branches of the State Bank of India and at Treasuries and Sub-treasuries in the case of Andhra, Bihar, Bombay, Madhya Pradesh, Madras, Orissa, Punjab, Rajasthan, Saurashtra and Uttar Pradesh loans.

(ii) At the branches of the State Bank of India in the case of West Bengal loan.

(iii) At the branches of the State Bank of India and at District Treasuries only in the case of Madhya Bharat loan.

(iv) At the branches and treasury pay offices of the Hyderabad State Bank and at Treasuries and Sub-treasuries in the Hyderabad State in the case of Hyderabad loan.

(v) At the branches of the Bank of Mysore Ltd., in the Mysore State except at Bangalore and at Taluk Treasuries in the Mysore State at places where there is no branch of the Bank of Mysore Ltd., in the case of Mysore loan.

(vi) At Treasuries and Sub-treasuries only in the case of Travancore-Cochin loan.

Copies of Notifications and Application Forms may be obtained at any Receiving Office.

Around Bombay Markets

In Fine Fettle

Thursday Morning

IF trading was marked by 'no lack of confidence' during the previous week, it was sustained investment support which characterised trading on the stock exchange during the week under review. Technically also, the market was set for a rise. When operators found that the usual liquidation which follows a rising trend did not materialise, they were quick to take the cue and act.

Even at the outset, on prospects of a dramatic reversal in favour of a bigger bilingual State including Bombay city, operators gave enthusiastic and unstinted support to the market. In fact, besides the market favourites, many other scrips, like Mahendra, Sen Raleigh, Kamanis, Ashok Cement, Dharangadara which are scarcely known to Dalal Street, attracted enquiry and participated in the bullish movement. Speculative elements had no doubt expected much from the near-war hysteria that led Britain to set the stage for a 'little war' on the Suez issue, but the comic opera character of Britain's threat became apparent so soon that even speculators could not bank on the outcome. Of course, wiseacres were not lacking to remind others that the two world wars broke out early in the months of August and September, but without much effect. Whatever be the immediate outcome of the 24 nation conference scheduled in London on the 16th, one hopes that saner counsel will prevail. Though Suez is the last place where one could risk 'sparks' by sending out air craft carriers or bomber squadrons, and the gravity of the situation could not be denied, it was home affairs which crowded out everything else. Bombay was presented with a surprise packet when the Central Cabinet accepted the proposal of a bilingual state for Bombay, including the city. This news evoked genuine investment support, and led to a rise in prices. Thus Tata Ordinary opening at Rs 207 reached Rs. 209 and closed slightly lower at Rs 208-4. Indian Iron similarly closed at around the peak level of the week.

In the textile section, there was a revival of activity, following the removal of fears of the imposition of a fresh excise duty. A notable feature was the keen attention bestowed on cash scrips like Swan, Finlay and others. Needless to say, market leaders like Bombay Dyeing, Century, Kohinoor, etc. also moved up.

In the miscellaneous section, Bombay Burmah, National Rayon, Tata Chemical and Shivrajpur ruled steady to firm. ACC after touching Rs 197-4 closed at Rs 196-4, while National Rayon closed firm at Rs 269-8. Cash scrips were quiet.

Cotton

Fresh Exports Quota and Revalidation

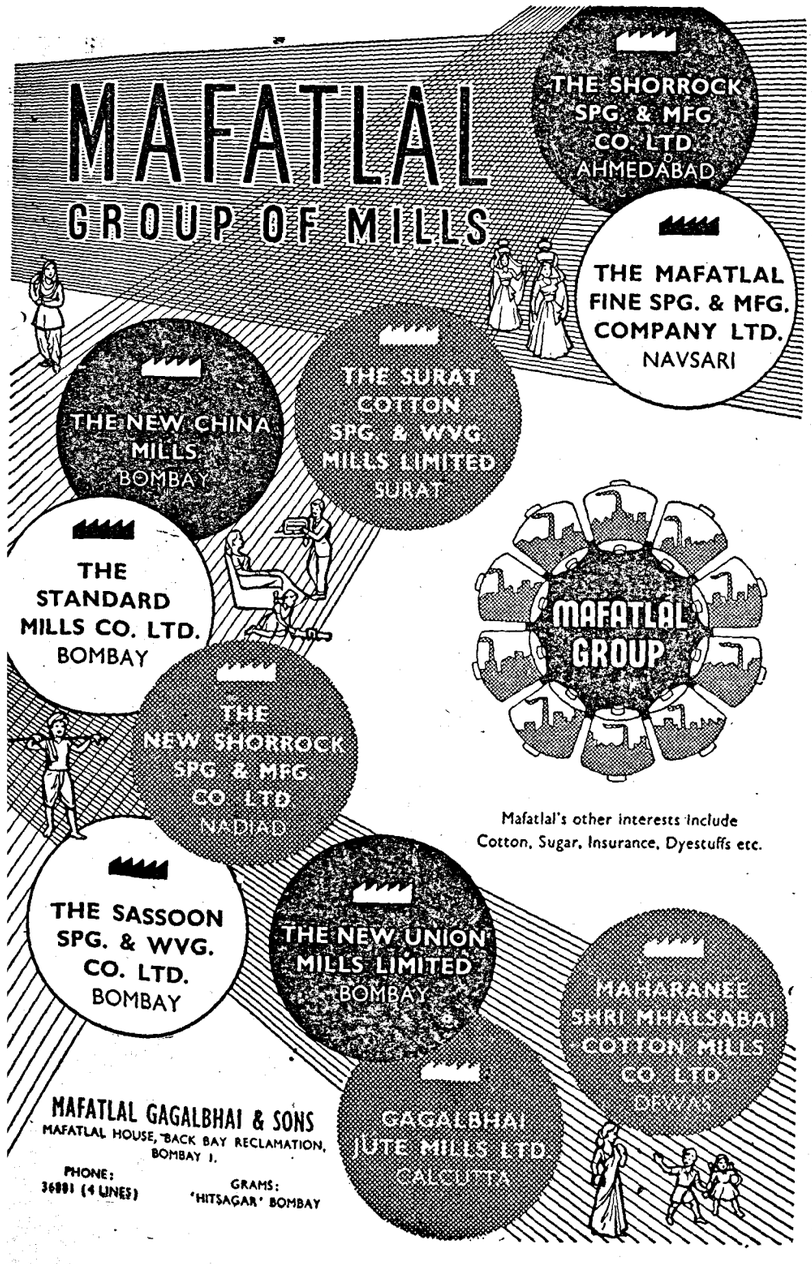
IN line with the bullish phase in the stock markets, the trading in cotton futures was also active. The anticipated damage to the cotton crop from recent heavy rains in Gujerat, Saurashtra and other cotton growing belts continued to exert an upward pressure and prices moved up. The firm sentiment thus initiated was well sustained at the close of the week when Government announced its decision to lift the ban on the import of sterling area cotton. This is perhaps the first time that the authorities have admitted their short-sightedness and promptly redressed the legitimate grievances of the trade. It was only last week that a protest was lodged in these columns against the 'preferential treatment' sought to be meted out to US cotton.

Another important decision taken by the authorities during the week was the release of an export quota for Bengal Deshi. It has been announced that exports of 20,000 bales of Bengal Deshi will be licensed. Licences will be issued on the usual basis. Meanwhile, it is also relevant to note, that the authorities have decided to revalidate shipment of the quantity remaining unshipped against export licences for Indian cotton issued during the current season. The period of revalidation will be up to December 31, 1956. Export licenses for around 91,000 bales have remained unutilised; the licenses for some 45,000 bales may, therefore, be revalidated for shipment before the end of the year.

A word about Egyptian cotton. Almost all cotton consuming countries go in for Egyptian cotton. India for a time headed the list of importers of Egyptian cotton, closely followed by France, Czechoslovakia, and others, the latter including UK and USA. If following the Suez issue, Britain, France and America do not care to take their usual quota of Egyptian cotton, countries like India who already account for a sizeable offtake of Egyptian cotton should benefit while others, who have just begun to appreciate the quality of Egyptian cotton, especially for the manufacture of fine and superfine cotton goods, may be able to take more of this cotton. The freezing of Egypt's sterling balances by Britain will not stand in the way

MARKET LEADERS DURING THE WEEK

	Aug 8, 1956	(Week's Range) High	Low	Aug 1, 1956
Steel Shares :				
Tata Ordinary	208- 4	209- 0	207- 0	206- 4
Indian Iron	36-11	36-15	36- 8½	36-10
Textile Shares :				
Bombay Dyeing	681-14	684- 6	665- 0	663- 2
Central India	159- 0	163- 0	159- 0	162- 0
Century	589- 8	592- 8	586- 8	586- 0
Kohinoor	389- 0	396-12	385-12	383- 8
Simplex	214- 8	216- 0	213- 8	215- 0
Swadeshi	265- 0	266- 8	259- 8	257- 8
Miscellaneous Shares :				
Associated Cement	196- 4	197- 4	195- 0	192- 4
Belapur	254- 0	257- 0	252- 8	254- 8
Burma old	735- 0	740-10	731- 4	731- 4
Premier Const.	205- 0	207- 8	204- 8	207- 4
Scindia	19- 1	19- 4½	18-12	19- 2
National Rayon	269- 8	270- 0	264- 8	263- 0
New India	49- 4	50- 4	49- 4	50- 4



of much business being done between India and Egypt. As India has targetted for annual imports of raw cotton worth Rs 54 crores in the Second Plan period, an early solution of the Suez issue is of prime importance.

In the case of cotton, the extent of the damage to the crop from heavy rains may be a matter of speculation; heavy rains, however, invariably spell a bullish phase for the oils and oilseeds market. Oilseeds, especialy castor, need a dry bed for a good crop. In the circumstances, it is no wonder that groundnut, castor, as also linseed and kardiseeds should hit new high levels on hectic bull activity. It was generally apprehended that rains had done considerable damage to the groundnut crop and this aggravated the situation as the market has been notoriously short of floating stock. In castorseeds, the sentiment was favourably influenced by sustained overseas enquiry, especially from the US, for castor oil, commercial. Shippers in Bombay, it was reported, were arranging to charter a steamer for the export of castor oil to US. They are confident that their offers for the sale of oil at around 14.50 to 14.75 cents would not be turned down as US buyers are eager to get castor oil.

Tata Iron and Steel 1955-56

AFTER considerable hesitation and delay, early in 1955 Government allowed the Tata Iron and Steel Company to expand its capacity to 2 million tons of steel ingot. This will enable the Company to continue as the largest single producer of steel in the country. The latest annual report of the Company for the year to March 31, 1956 shows the steps taken by the Company to carry out its expansion programme. The Company has been able to procure the necessary finances, partly from the World Bank, partly from raising its own share capital and partly from the increases allowed in the retention prices.

The revised retention prices of steel for five years from 1st April, 1955, were announced by Government only on 1st February, 1956, on the basis of the Tariff Commission's recommendations. The revised prices which now apply uniformly to this company and the Indian Iron and Steel Company, average Rs. 393 per ton, an increase of Rs. 61 per ton over the prices which applied to this Company in the former price period.

The retention prices are subject to revision to the extent that manufacturing costs may alter owing to changes in railway freight, in the prices of raw materials and stores, and in wages due to adjudication or conciliation.

The strong financial position of the company is revealed by the fact that the first instalment of $2,355,000 due in 1960 towards the repayment of the World Bank Loan has been taken over by three commercial banks in the U S A at an interest rate of 4½ per cent, which is ½ per cent less than the World Bank Rate. If everything works according to plan, particularly if the foreign suppliers of plant and machinery, keep to their delivery dates the entire project will be completed by May 31, 1958.

The two million ton programme comprises the following items:

A new battery of 26 Coke Ovens,

A new Blast Furnace with a capacity of 1,650 tons of pig iron per day,

Ore crushing, screening and sintering plant,

Two 200-ton Basic Open Hearth Furnaces,

A 46" Blooming Mill,

A Sheet Bar and Billet Mill,

A Medium and Light Structural Mill,

Expansion of the water, steam and power supply facilities,

Modifications to existing plant,

Improvements to the plant transportation system, and

Development of the Collieries, Ore mines and quarries and the steel town of Tatanagar.

The Company's modernisation and expansion programme which had been undertaken earlier has also progressed satisfactorily. A project for the installation of a seamless tube plant for the manufacture of boiler, industrial, gas list and other seamless tubes estimated to cost about Rs. 2.5 crores, is proposed to be undertaken by the Indian Tube Company, for which the necessary licence from Government has been applied for.

Steel output of the Company in 1955-56 was the highest achieved in the post-war period. The shutdown of No. 1 Coke Oven Battery from November, 1955, for rebuilding reduced the total coke output by 8 per cent from 1,096,000 tons in 1954-55 to 1,005,000 tons in the year under review. No ferro-manganese was produced during the year.

The entire increase in the production of saleable steel was in semi-finished material, such as blooms, billets and tinbars, the output of which increased by 33,000 tons from 190,000 tons in 1954-55 to 223,000 tons in 1955-56. The output of finished steel products, such as bars, structurals and plates declined by 16,000 tons from 593,000 tons in 1954-55 to 577,000 tons in 1955-56.

There were several reasons for the decline in the production of finished steel. The 10" mill in the Bar Mills was closed down from January 11, 1956 in accordance with the plan for the two million ton programme. The Merchant Mill's output was limited by the higher proportion of lighter sections rolled. At the Plate Mill, the unsatisfactory condition of the tilting tables and shears, which are to be replaced under the Modernisation and Expansion Programme, caused a fall in the production of plates.

The Skelp Mill, projected under the Modernisation and expansion Programme to produce skelp and strip for the manufacture of tubes at the new tube-making plant of the Indian Tube Co. (1953) Ltd., had originally been scheduled to be completed by December, 1955, but did not start operation till March 28, 1956, owing to a strike of dock workers in the U K, which delayed the shipment of equipment.

The Agrico factory produced 2,371,000 implements and edged tools, bettering the previous year's output by 16 per cent. Coal cutting picks were added to Agrico's range of products.

An important event of the year was the agreement entered into with the Tata Workers Union. The agreement sets out the basic rights and obligations of the parties and provides measures for union security, closer association of employees with management in the working of the industry, revision of the wages of lower paid employees and increase in gratuity payments, fixation of a standard force, increased productivity and the rationalisation of the Company's wage structures on the basis of a job evaluation programme undertaken jointly with the Union.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1447.15	1444.28	1482.50	1305.80
2. Rupee Coin	112.12	111.96	107.33	107.63
3. Deposits				
a) Central Government's	61.05	76.16	54.23	76.71
b) Banks'	47.90	53.35	50.56	48.51
c) Other Governments'	5.86	6.83	4.77	10.8 [8]
d) Others'	12.22	12.22	12.64	15.74
4. Foreign Securities	616.68	616.68	636.61	637.04
5. Balances held abroad	36.79	42.75	41.87	82.24
6. Rupee Securities	708.62	708.62	718.62	543.65
7. Investments	49.41	49.39	37.31	61.66
8. Loans and advances to Governments	5.04	5.16	2.95	0.85
Scheduled Banks				
1. Demand liabilities (net)	628.02	624.31	632.00	587.55
2. Time Liabilities	456.97	454.57	452.88	405.77
3. Cash on hand	37.91	38.41	40.07	31.91
4. Borrowings from Reserve Bank	47.28	54.00	53.22	12.04
of which against Usance Bills	34.85	38.29	37.56	11.58
5. Advances and Bills discounted	693.15	697.11	710.02	558.78
of which State Bank's	126.44	130.31	134.26	107.51
6. Invst. in Govt. Sec.	353.39	351.23	347.63	368.71
of which State Bank's	100.52	100.37	100.33	93.05
Cheque Clearance	..	123.73	136.78	114.73

†For Reserve Bank and Cheque Clearance week ended 3-8-56. Scheduled Banks week ended 27-7-56.

Bombay Money Rates	3-8-56	27-7-56	6-7-56	5-7-55
Inter-Bank Call Rate	3 1/8	3 1/8	3 1/8	1 7/8
3 months deposits	3 3/8	3 3/8	3 3/8	2 7/8
6 months deposits	3 3/8	3 3/8	3 3/8	2 7/8

Bombay Bullion — In Rupees and Annas

	1-8-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	103-1	104-11	99-12	95-0
Forward	103-1	103-11	99-6	92-4
Silver (per 100 tolas)				
Spot	172-8	171-6	171-12	161-0
Forward	172-9	171-6	172-4	159-4

JUTE STATISTICS

Production ('000 tons)

	June. 1956	May. 1956	Apr. 1956	July'55 to June '56
Hessian	35.0	35.8	32.9	403.0
Sacking	57.3	59.6	55.0	622.9
Others	6.6	6.3	6.0	69.1
TOTAL	98.9	101.7	93.9	1095.0
Total Production in the corresponding months of:				
1954-55	85.7	81.7	85.7	994.8
1953-54	74.6	71.3	75.0	865.7
Stocks at the end of the month ('000 tons)				
Hessian	37.5	40.6	35.9	—
Sacking	82.0	71.7	63.3	—
Others	6.4	7.4	8.7	—
TOTAL	125.9	119.7	107.9	
Stocks at the end of the corresponding months of:				
1954-55	87.6	94.7	103.4	—
1953-54	86.9	86.5	91.4	—
Despatches:† ('000 tons)				
Hessian	38.3	31.0	27.2	413.5
Sacking	46.5	51.4	47.7	579.5
Rope, twine, etc.	5.9	6.6	6.4	54.2
TOTAL	90.7	89.0	81.3	1047.2
Total despatches in the corresponding months of:				
1954-55	84.0	89.6	76.1	988.4
1953-54	83.8	76.0	76.0	908.7
Raw Jute Consumption: (lakh bales of 400 lbs each)				
1955-56	5.54	5.89	5.45	63.40
1954-55	4.94	4.72	5.08	57.92
1953-54	4.08	4.10	4.32	50.24
IJMA Mills' purchases of raw jute (lakh bales)				
Pakistani	0.37	0.21	0.27	11.99
In corresponding periods of:				
1954-55	1.26	0.95	1.0	10.82
1953-54	0.9	0.80	1.49	10.58
Indian	3.78	3.85	3.76	49.70
In corresponding periods of:				
1954-55	3.09	1.79	2.19	44.19
1953-54	3.23	2.54	2.90	37.85

† Despatches include exports and sales for internal consumption

*Provisional

Source : Indian Jute Mills Association

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group	Week ending	Week Ago	Month Ago	Year Ago
	21-7-56	14-7-56	23-6-56	23-7-55
I **Food Articles:**	**381.1**	**377.3**	**374.6**	**314.8**
Cereals	484	484	474	364
Pulses	386	372	362	273
Others	247	242	248	251
II **Industrial Raw Materials:**	**490.4**	**487.8**	**480.6**	**407.4**
Fibres	473	475	459	412
Oilseeds	530	521	539	395
Minerals	523	517	470	414
Others	419	419	430	418
III **Semi Manufactures:**	**394.9**	**393.4**	**395.6**	**329.8**
Leather	396	395	406	358
Mineral Oils	208	208	208	201
Vegetable	544	539	550	399
Cotton Yarn	476	475	475	406
Metals	327	327	329	256
Oilcakes	423	423	416	332
Others	362	362	361	329
IV **Manufactures:**	**386.0**	**385.5**	**377.9**	**371.0**
Textiles	419	418	411	407
Jute	386	389	388	419
Cotton	430	430	419	402
Rayon & Silk	470	453	453	474
Woollen	264	264	264	282
Metal Products	388	388	377	352
Others	291	291	286	286
V **Miscellaneous:**	**560.8**	**557.7**	**520.5**	**552.5**
All Commodities:	**409.1**	**406.8**	**401.7**	**357.2**

INDUSTRIAL PRODUCTION

Estimated Production of Selected Industries

	Units	May '56	May '55	May '54
1. Textile Machinery				
a) Calico looms	Nos	270	248	163
b) Complete ring spinning frames	,,	89	65	26
c) Carding engines (revolving flat cards)	,,	50	35	30
2. Twist drills	'000	156.3	71.7	46.1
3. Grinding wheels	'000lbs	166.7	86.8	79.4
4. Arc welding electrodes	lakh feet	136.1	91.9	85.3
5. Welding gasses				
a) Oxygen	lakh c.ft.	261.2	229.5	191.0
b) Acetylene	,,	42.6	35.0	35.0
6. Cables and Wires				
a) Conductors				
i) Bare Copper	tons	701	404	283
ii) Aluminium	,,	557	672	156
b) Winding wires	,,	64	58	22
c) Rubber and plastic insulated cables and flexibles	lakh yds.	78.9	75.9	45.5
7. Tyres				
a) Automobile	'000	69.2	76.9	74.0
b) Cycle	,,	497.5	495.1	447.3
c) Tractor	Nos	2,893	951	2,174
d) Aero	,,	380	449	332
8. Tubes				
a) Automobile	'000	73.0	66.1	71.4
b) Cycle	,,	502.4	488.2	499.9
c) Tractor	Nos	3,814	1,839	2,077
d) Aero	,,	219	112	101
9. House service meters	,,	16,250	19,707	12,455
10. Radio receivers	,,	11,397	5,326	3,092

COAL PRODUCTION AND DISTRIBUTION

(Monthly averages or calendar months) (In '000 tons)

*DESPATCHES

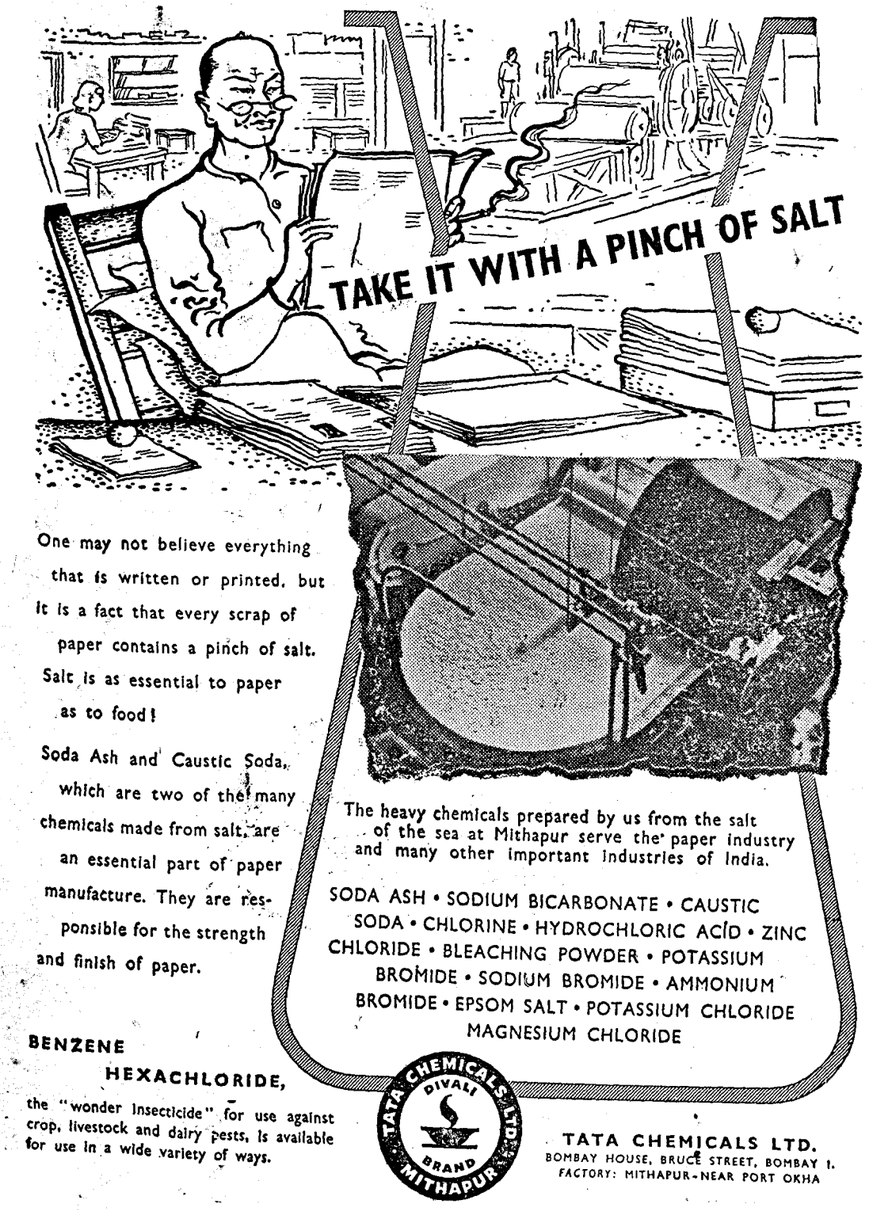
	Raisings	Despatches	Indian bunkers & exports	Railways	Electric supply companies	Iron & steel works	Cement	Cotton Mills	Jute mills	Engineering	Paper mills	Chemical industries	Brick burning	Stock at pit-heads*
1949	1,621	2,339	127	841	174	278	63	150	48	23	36	13	102	1,427
1950	2,666	2,401	140	825	187	302	77	139	48	30	37	16	143	2,008
1951	2,859	2,426	213	865	195	320	100	134	41	28	40	14	112	2,646
1952	3,019	2,566	221	940	214	300	110	144	45	29	44	16	96	3,020
1953	2,987	2,588	148	956	232	290	121	146	43	29	44	19	134	3,411
1954	3,064	2,662	153	941	223	314	121	147	40	22	44	21	152	3,501
1955:	3,184	2,742	157	1,008	245	296	130	144	39	30	49	22	163	3,609
Jan.	3,153	2,672	174	967	226	329	129	137	37	27	49	24	118	3,482
Feb.	3,249	2,502	170	900	214	301	115	143	35	24	39	18	92	3,879
March	3,304	2,764	163	1,002	231	329	120	137	38	28	49	20	168	3,961
April	3,233	2,694	168	985	238	319	121	141	32	26	39	18	153	4,066
May	3,175	2,744	186	1,035	251	293	131	143	31	24	40	21	172	4,097
June	3,075	2,658	137	1,027	249	276	127	131	24	44	45	18	131	4,129
July	2,956	2,756	160	1,030	258	290	131	150	48	28	51	25	135	3,902
Aug.	3,119	2,880	171	1,100	261	294	150	168	54	29	63	30	126	3,697
Sept.	3,378	2,802	130	1,019	253	278	130	159	46	30	62	21	173	3,786
Oct.	3,086	2,883	128	1,027	266	300	139	149	43	36	50	25	225	3,516
Nov.	3,097	2,770	140	1,016	243	269	138	130	40	31	46	27	222	3,445
Dec.	3,388	2,782	153	983	247	275	136	143	38	31	52	20	236	3,609
1956:														
Jan.	3,196	2,789	148	1,051	225	304	135	135	34	33	48	20	129	3,588
Feb.	3,346	2,691	117	1,102	232	260	128	130	29	29	41	15	116	3,813
March	3,360	2,835	172	1,101	245	269	150	149	36	27	50	21	129	—

*Despatches to Ginning factories, Glass factories, leather works etc., not included.

Source : Monthly Abstract of Statistic

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Financial Control and Delegation

IT is not the present incumbent of the high office of the Comptroller and Auditor-General but his predecessor who impugned the private limited companies formed under the Companies Act, for the management of Government enterprises or enterprises in which the Government had a controlling share, as "a fraud on the Companies Act" (the credit for coining this phrase should really go to Shri K C Neogy) and "also on the Constitution". This was because the Comptroller and Auditor-General had no automatic right to audit such companies and therefore had no means of discharging the responsibilities imposed upon him under the Constitution of ensuring Parliamentary control over public expenditure.

Actually, the powers and responsibilities of this high office are not as wide as this particular allegation might suggest. Article 149 of the Constitution, however, merely says "The Comptroller and Auditor-General shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any law made by Parliament ....". So the right does not flow from the Constitution: Parliament prescribes the Auditor-General's functions.

The Parliament had not prescribed what his functions would be in regard to the so called Government companies, when Shri Nanahari Rau made this complaint before the Public Accounts Committee. It has since done so, in the amended Companies Act, section 619 of which says that not only would the Auditor of a Government company be appointed by the Central Government on the advice of the Comptroller and Auditor-General but the latter shall have power (a) to direct the manner in which the accounts shall be audited and (b) to conduct a supplementary test audit, if he considers it necessary to do so.

The present ebullient incumbent of this high office lost no time in exercising these powers and issued instructions to the companies concerned and to the State Governments that "This audit by the Comptroller and Auditor-General will be generally directed towards a review of the decision taken by the Board of Directors to ascertain to what extent their powers have been exercised in the best interest of the undertakings and to see whether the powers delegated to the chief executives have been exercised properly.' '

To this, Professor Appleby, the American expert on public administration, has taken strong exception. Drawing pointed attention to the above instructions, he has said that "nothing could be more calculated to stop the Plan in its tracks, to undermine responsible Government and to establish Government of, by and for auditors." In fact, he has gone farther and criticised the function of the Comptroller and Auditor-General as "an inheritance from colonial rule." The district officer is one (credit to Dr. Lohia) and the Auditor-General is another who, according to Professor Appleby is "today a primary cause of a widespread and paralysing unwillingness to decide and to act."

To this, the Comptroller and Auditor-General, breaking the polite convention of Parliamentary Government that Civil servants should take no part in public controversy and that like women and children under the code of Mahabharata warfare, they should be inviolate, has replied in a press interview. Challenging Prof. Appleby's main thesis that audit saps initiative, he has said that "it is only incompetent officers or officers afraid to take responsibility who urge in extenuation that they are afraid of what audit would say".

While being thus subjected to public attack, the Comptroller and Auditor-General however has also scored a signal victory. Breaking the rule of not participating in public controversy, this watch-dog of Parliamentary control over public expenditure had alerted members of the Parliament about the impending loss of their right to control expenditure at the time when the Life Insurance Corporation Bill was before the Lok Sabha. The Bill, and the subsequent Act, it will be recalled, did not authorise the Comptroller and Auditor-General to audit the accounts of the Corporation. The then Finance Minister had been hard put to it to defend his position. True, the Life Insurance Corporation would be an autonomous body, but so were the D V C, the Industrial Finance Corporation and the Air Lines Corporation as also the Government sponsored companies, all of which were subject to the scrutiny of the Comptroller and Auditor General. It was only in the case of the State Bank of India that an exception had been made. Similar exception was made for the Life Insurance Corporation on the ground that Government Officers lacked experience of the work in such enterprises and Government would not like the success of these recently nationalised ventures to be jeopardized by some violent change in the system. "Such institutions", said Shri Chintaman Deshmukh on the floor of the Parliament, while introducing the Bill, cannot be run without the exercise of a large measure of discretion by the higher executives, and any system which makes it possible for audit to raise objections to the exercise of such discretion is bound to paralyse their working." He also explained that this would not affect the accountability to Parliament of the Corporation, since "Clause 20 requires the report of the auditors to be placed before Parliament, and when this is done, the House will be able to discuss the report fully and freely." For precedent, the ex-Finance Minister referred to the practice in the U K where the Comptroller and Auditor-General does not audit the accounts of the nationalised concerns nor has he claimed any inherent right to audit them.

On this question, however, there were differences of opinion, even in the Select Committee and in the subsequent debate, Shri Chintaman Deshmukh let it be known not only that the Comptroller and Auditor-General did not agree with him on this question but also made some remarks about the latter's part in the controversy. The Speaker of the Lok Sabha, on a representation by the Auditor-General, has ordered that some of the remarks of Shri Chintaman Deshmukh criticising the conduct of the Comptroller and Auditor-General be expunged from the minutes.

This may be only a minor scoring point on the part of the Auditor-General. But it pinpoints the paradoxical situation that has now arisen in regard to the vexed question of control over expenditure in general and the delay, frustration and stalemate that raises from the present unsatisfactory method of exercising this control. It is no secret that the financial procedure is wholly out of date and has been a drag on the implementation of the Plan. In fact, the Parliament was so agitated over it that sensing the discontent and strong resentment in the Parliamentary party, the Prime Minister had appointed the present Comptroller and Auditor-General, before he had assumed this high office to report on the matter and recommend a more efficient and less dilatory system to replace the present out-moded one.

The series of developments in regard to audit noted above suggests that the Finance Ministry has now come to realise that Government audit tends to weaken initiative and inhibit the exercise of discretion on the part of those who are charged with the conduct of economic undertakings. This appears to be a belated realisation, for the ex-Finance Minister certainly did not think so when he piloted the Companies Bill which expressly conferred on the Comptroller and Auditor-General powers of supervision over Government companies, powers which he did not possess before this Act was passed.

There are many obstacles on the path to decentralization of public enterprises, not all of which can be removed by procedural changes. But even about those procedural changes which can remove some of these obstacles, there is clearly no unanimity of opinion, even within the Government. There is agreement, however, that decentralisation is desirable and that it is implicit in the pattern of development that the country has in mind. To what extent Parliament realises the full implications of this principle to which it pays lip service, however, is not so clear. In the case of the State Bank, to cite a recent instance, there was no question of the Comptroller and Auditor General sitting in judgement over the manner in which the Board of the State Bank exercised its discretion or interpreted its functions. (The bank was to be administered as a commercial concern with 'due regard' to public interest). But neither the Finance Ministry nor Parliament (the former more specially, since in this matter it guides the latter), through questions in Parliament and through its officials nominated on the Board, has exercised a degree of control and interference which corroborates the reluctant judgement of another visiting expert that "the need for such delegation is not yet accepted in India". In fact, the following observations of Professor Galbraith made long before the particular instance cited here came up could be a most appropriate comment on these unfortunate developments.

"Even after it (the need for delegation of authority) is accepted vigilance will be necessary on the part of all concerned to see that what is accepted in principle is not modified in practice. One obvious danger is through the Board of Directors of the new corporations. The high public officials on these boards could easily become a channel for approving and checking management decision. In the end the public official could become a link in a chain of command running from the management of the corporation, so called, to the Minister. The corporate form would be merely a facade for an autonomy that had ceased to exist".

Financial procedures have to be changed, but before that Parliament and the Secretariat must accept the principle of delegation. The conversion of both is now overdue.

Statesmanship

PRESIDENT NASSER has emerged out of the Suez Canal crisis with an enhanced reputation for statesmanship. He has been firm on the basic issue of Egypt's sovereign right to nationalise the Suez Canal company. He has been equally adamant about Egypt's sovereign right to own, operate and manage the Canal as an international waterway. He emphasises that the crisis—"can be and must be solved by negotiation". His first announcement of Egypt's decision to nationalise the Suez Canal Company may have been indignant in tone. But his later gestures and actions have been commendably moderate. He has been diplomatic in not being provoked by the joint Anglo-French militant postures and attitudes. He has meticulously observed the principle of freedom of navigation through the Canal.

France's militant mood stems from the sinister implications of Egypt's control of the Canal. She is as much interested as Britain in west Asian oil. But Egypt's sovereign control over the Canal is an indirect threat to France's empire in Africa. This may explain, but not justify, France's bellicose attitude. M Mollet may find it politic to exploit the Suez Canal crisis to mobilise the nation's support to his hostile policy to Africa. He seems to have succeeded in diverting the people's attention away from his barren Algerian policy. But Sir Anthony Eden has fallen into a trap laid by the combative Suez Lobby. He has emphasised that Britain and France are prepared "to go it alone", to impose a dictated solution of the Canal crisis. He has informed the people and Parliament that his Government will never accept Egyptian control over the Suez Canal. As Egypt is determined to own, control and operate the Canal, Britain and France can enforce their solution only through military action. Strategists doubt whether Britain and France can wage a successful war against Egypt. But more relevant is Pandit Nehru's friendly warning to Britain and France that force and threats of force "do not belong to this age". As long as freedom of navigation in the Canal is maintained, Britain and France can have no cause or justification to use force. In the event of Anglo-French aggression, or even threats of aggression, Egypt will be entitled to appeal to the United Nations for help and protection against disturbance of peace.

While Britain and France are seemingly blind to this international aspect of the Canal problem, Egypt is secure in the knowledge that she can invoke the aid of the United Nations against aggressors or potential aggressors. That being so, Cairo could have ignored combined Anglo-French threat to use force as a policy of diplomatic bluff. President Nasser has informed Britain, France and America that Egypt will not attend the London Conference on the Suez Canal. Cairo's refusal to accept the three-power invitation was anticipated by New Delhi, and should cause no surprise. But President Nasser has shown diplomacy by reaffirming Egypt's determination to seek a peaceful and negotiated settlement of the crisis even while rejecting the Three-Power invitation. Reasons for Egypt's decision not to attend the London Conference are just. But President Nasser has emphasised Egypt's willingness to conclude an Agreement with the signatories of the 1888 Convention and other concerned Powers re-affirming and guaranteeing freedom of navigation in the Suez Canal. In agreeing to register such an Agreement with the United Nations, President Nasser has furnished clues as to the essential ingredients of a negotiated solution of the crisis.

As the London Conference deliberates the issue to devise an agreed solution of the Canal crisis, the world as a whole, including the Powers attending the London Conference, will welcome President Nasser's conciliatory gestures. There will be appreciation for Egypt's sincere intention to such a peaceful solution of the crisis through negotiation. Increasingly it becomes obvious that the solution formulated by Britain and France cannot be acceptable to Egypt or to any sovereign State. No rigid formula for international control of the Suez Canal can be accepted by Cairo, as it would mean that Egypt would have no decisive voice in controlling and operating the Canal. But President Nasser's conciliatory attitude encourages the hope that Egypt may, in the interests of global peace and world trade, concede some form of international supervision of the Suez Canal by an advisory body under the auspices of the United Nations. Some such solution would have been easier had Britain and France not adopted a militant and aggressive attitude. Both Britain and France should be wiser by the unfavourable world reaction to their hostile postures and actions. It is to be presumed that Shri Krishna Menon, India's representative to the London Conference, has been fully briefed by President Nasser about the essential conditions of any solution which can be acceptable to Egypt. Shri Menon will have valuable support from Russia and America in his efforts to reach an agreed solution. India will join other peace-loving nations in hoping that the London Conference will succeed in devising a plan which can be the basis of negotiations with Egypt for an agreed solution of the Suez Canal crisis.

"One has no protecting power save prudence."

Juvenal.

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Weekly Notes

Finance for the Private Sector

THE Company Law Administrator has been doing a sizeable public relations job in Calcutta. When he met the Bharat Chamber of Commerce, he was confronted with a formidable list of difficulties which the companies were experiencing in adjusting themselves to the new Act. The President of the Chamber sought to bring the point home by quoting the figures of new floatations which had declined during 1955 as compared to 1954. He referred pointedly to the depressing effect of the Act on medium and small scale companies and stressed the need for establishing new issue houses and investment trusts as well as for underwriting, to help stimulate new floatations, which had gone down so perilously.

Shri D L Mazumdar sprang a pleasant surprise on the Chamber by announcing that not only was the Government already seized of the problem but that it accepted the responsibility in principle of helping private enterprise to obtain adequate finance. "The Reserve Bank", he said, to quote a newspaper report, "was studying the organisation and working of the New Issue Market in post-war Western Germany, Japan, and other countries in order to find out which of the institutions could be adapted to the conditions prevailing in India today". The idea was to ensure that the new entrepreneures could obtain a fair proportion of the community's savings to provide them with risk capital. He hoped that within a year or so something might be done in the matter.

This should be a fresh provocation for the economists and statisticians engaged by the various chambers of commerce to undertake a fresh exploration of the problem of estimating aggregate savings and of their possible distribution between the two sectors. It is a widely held belief in the market circles that there is no dearth of funds for investment. What is lacking is adequate incentive to make these funds to flow into the desired investment channels. There would be no harm however, in having a fresh probe at the expert level. It is a challenge to private enterprise which should be met.

Parliament's Verdict on Bombay

A correspondent violently assails the "Opportunist Solution" which was held up as the 'Verdict of Parliament' in the last issue. He writes—

THE bilingual solution for Bombay will stand. Bombay Gujerati's have welcomed it. Ahmedabad opposition is not supported by leaders and money bags; it will blow off. Maharashtra leaders, crestfallen and afraid to leave Congress, have accepted it because it saves their face. What appears significant is the manner of reaching the decision. It was not the verdict of the Congress but 'fixing' of party members. The High Command figured out that now that Maharashtra Congress leaders are willing to cooperate, Congress majority would be assured in the bi-lingual State and Gujerat should be able to exercise the same over the affairs of the proposed state that it had exercised hitherto over the Bombay State. The Karnatak Members had been the balancing factor in the past and had generally supported Congress. Gujerat-Kanara combination had kept the Maharashtra bloc in its proper place. Now the Vidharbha group, pitted against Poona, will repeat the same balancing feat on the side of Gujerat.

When the High Command felt sure of this, it managed the rest. Signatures of M P's were canvassed by the Congress whip and Minister for Parliamentary Affairs. So it is not because Delhi is far away from Poona or Ahmedabad, but because it is in close touch with Congress representatives (present and to be) that this solution came up and was put through.

"What was the net gain or result of referring the S R Bill to Bihar and West Bengal assemblies?"

To the above, there is this angry rejoinder:

"May be, the Ahmedabad campaign will fizzle out. May be, Bombay Gujeraties and Maharashtrian Congress leaders welcome the larger bilingual Bombay plan. But, don't forget that the Ahmedabad Mill-owners' Association was one of the first organisations to reject the plan; Dalal Street has been closed thrice, since the beginning of the Ahmedabad troubles.

Your correspondent's interpretation of party politics and of Maharashtrian Congress leaders may be correct. Your editorial repeatedly stated that the new plan was not sponsored by Congress but by some parliamentarians. I don't know whether your correspondent's reference to Karnatak is correct. I doubt whether Nagpur will side with Gujrat merely to spite Poona. Treatment to Vidarbha has always been cavalier. Pandit Nehru admits that much in his Lok Sabaha speech.

Sequence of events in New Delhi, as suggested by your correspondent, may be correct. But neither Feroze Gandhi nor Jaypal Singh is either the Congress whip or the Minister for Parliamentary Affairs. According to reports, these two members took an energetic part in collecting signatures. Pant praised Asoka Mehta, Acharya Kripalani and Frank Anthony for blessing and for initiating the new plan.

Congress and the Congress Parliamentary Party (or the Congress members of Parliament) are different entities. It is not that Congress initiated or sponsored the thing. The distinction between Congress and its Parliamentary Party has potential significance. But why ignore the explicit emphasis on the people, as opposed to opportunist Maharashtrian Congress leaders?

Except the possible beneficial implication to all Bombayites of a bigger Bombay, there is every reason to believe that the whole of Gujerat will be sullen and that the solution will be finally rejected in five year's time by Poona. It will be surprising if Poona remains satisfied without Samyukta Maharashtra. Chintaman Deshmukh is not a political animal. S K Patil is a typical party boss. Kaka Sahib may not be subtle or sagacious, but he may yet prove to be a true prophet and representative of the people of Maharashtra.

No one would care to risk ones reputation by predicting the political behaviour of Gujeratis. But those who pooh pooh Ahmedabad's soda water bottle collective behaviour, ignore Sardar Patel's efforts to popularise Maha Gujerat".

All this by way of comment on Pandit Nehru's latest dictum that Congress is not for linguistic states. All the worse for Congress, then.

Assembly Prorogued

WHAT would have happened had the over-exuberance of Mr Toha Khan, a member of the East Pakistani Awami League, not baulked the combined Opposition in the East Pakistan Assembly of its achievement, is easy to gusess. Despite the confusion and uproar that prevailed for a few minutes as the Assembly re-opened at long last, Sheik Majibur Rahaman, an Awami League leader, managed to read out his no-confidence motion against the Sarkar Ministry. According to reports, the requisite number of members signified their consent to admitting the motion. It was at this point that the uproar started as Mr Toha Khan tried to prevent Mr Golam Sarwar, an Independent supporter of the Sarkar Ministry, from speaking. A tussle followed, and Mr Sarwar was forced out of the House. This provided the opportunity to the Speaker to announce the Governor's order to prorogue the Assembly under the advice of his Chief Minister.

Developing events clearly demonstrate that neither Mr Sarkar nor his Ministry has the confidence of the House. Almost all the parties are united in their opposition to the United Front Ministry of Mr Sarkar. Some days ago, the Assembly Procedure Rules were changed to enlarge the number of members who must agree before a no-confidence motion could be considered by the House. Under this changed procedure, it would not have been possible for the Awami League alone to muster sufficient strength to get a no-confidence motion admitted by the House. In the last few days, almost all other political parties, including Congress, had combined with the Awami League in its efforts to unseat the Sarkar Ministry. This combined effort has now been foiled by the Governor's order proroguing the Assembly.

Immediately after prorogation of the Assembly, the Opposition held a meeting which passed two resolutions. Under one resolution, the Sarkar Ministry's action in advising the Governor to prorogue the Assembly was condemned as unconstitutional. A second resolution was passed urging the Pakistani President to recall Mr Fazlul Huq, the Governor, for "gross misconduct in the discharge of his duty". Mr Sarkar is naive in his defence that he would have been within his rights to advise dissolution, but has chosen the less drastic course of advising prorogation of the Assembly in order to give time and opportunity to some members to make up their minds. Personal jealousies and rivalries may have worsened the situation. But recent political events leave no room for doubt that the Sarkar Ministry has lost the confidence of the House. If Mr Sarkar had reached the conclusion that, in the prevailing political chaos, dissolution was the only remedy, he should have been honest to his convictions. Many would have welcomed dissolution of the Assembly so that fresh elections could be held in Eastern Pakistan.

Mr. Sarkar and his Ministry have few sympathisers. For a long time, he has ruled Eastern Pakistan without the consent and support of the Assembly. From political groupings, it is evident that even those who do not support the Awami League are in favour of ousting the Sarkar Ministry. In the wider interest of democracy, a fresh election is desirable. Eastern Pakistan has shown commendable political consciousness. This explains the gradual loss of prestige of the United Front. Under the present grouping of political parties, the Awami League has emerged as the strongest single party. This is not as much a danger as the machinations of Mr Suhrawardy. There will be hope that Maulana Bhasani will have the courage and statesmanship to rid the Eastern Pakistani Awami League of the baneful influence of Mr Suhrawardy. Only then can the Maulana succeed in grouping all the progressive elements under the banner of his Awami League so that a stable, democratic government can be established in Eastern Pakistan in the near future.

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The New Line in China

(From A London Correspondent)

WITHIN the last six months there has been a most startling relaxation of tension both within China and in China's foreign affairs. The meek and mild language used by China to describe Britain's attitude towards the Suez Canal question contrasts sharply with that of the Soviet Union, for example. Although the overthrow of Stalin has undoubtedly had some effect in emphasising this new Chinese policy, it would be a mistake to think that there have not been signs of the loosening of controls over a much longer period. Two years ago it was almost impossible for any scientist trained in America or Britain to be promoted in Government service over the heads of Russian, French or German trained scientists. Today the emphasis is on being trained overseas and not in which country one acquired the training. There is an increasing number of new technical and scientific magazines being published in English and the previous policy of trying to translate all medical terms into Chinese has been abandoned for a more middle-of-the-road policy in medical schools. Some medical journals are published in English. This reasonableness seems to have permeated into all fields. In the recent English "dried egg scandal" in which the British Government had bought several million pounds of eggs from China, which were subsequently found to be carriers of typhoid, the Peoples' Government of China showed the utmost willingness to introduce new machinery into China to prevent this happening again.

During the last month, London has been visited by Bishop K H Ting of the Shen Kung Hwei, the Chinese equivalent of the Anglican Church. The Chinese Peoples' Government Charge D'affaires in London invited various prominent churchmen of the Church of England to meet him, including the Archbishop of Canterbury and the Chinese Foreign Secretary of the Church Missionary Society (which formerly worked in this part of China). An absentee was the Dean of Canterbury although whether deliberately or accidentally I am unable to say. The banquet in honour of Bishop Ting was held in one of the biggest London hotels and was presumably paid for by the Chinese Government. Shortly afterwards Bishop Ting departed for Galyateto, Hungary, where the World Council of Churches was due to meet. Bishop Ting's appearance at the World Council meeting marked the first occasion since 1948 when churches in China have been represented at a World Council Meeting. Although your correspondent did not have the opportunity of meeting Bishop Ting on this occasion he recalls the first meeting of the executive committee of the World Student Christian Federation in Switzerland after the war, when Bishop Ting, then a YMCA Secretary, was also present. At that time your correspondent was greatly impressed by his sound theological knowledge and his all round ability. He returned to China after the Communists had captured Nanking and has been consecrated since the new Government in China. He thus did not pass through the very difficult period after the Liberation as a Bishop.

Bishop Ting said in the course of his speech:

"In the early days of the Revolution Christians thought, it their mission because of the apparently sound historical analysis and moral positivism of the revolution to establish a theological synthesis between Marxism and Christianity, to go beyond the level of action in which Christians act with others in the same concerns. We have this danger in China. But in China, there is another sense in which the danger is less than in other countries because we are under an openly atheistic and non-religious government. This open atheism is a sort of guarantee that the communists' attitude to the church is not that of using it. All through history those who have used the church have done so under the guise of religiosity".

"Are we Christians in China too naive?" he asked. "Are we going deeply enough into the essence of the Communist? . . . We think we know the essence of the Communist. He is a child of God and in him there is something God regards as worth saving".

This speech was of course an extremely pleasant speech but it did not bear the slightest trace of any theological thinking. To argue that an atheistic government is the best way of guaranteeing that the State will not use the church (or any other religion for that matter) for its own ends really insults the intelligence of the members of the World Council of Churches listening to this speech. One of the best examples in the world of this happening at the present time is the Moslem minorities Peoples' Commission in the Peoples' Republic.

Bishop Ting stated that the fact that the Chinese churches, divorced from missionary funds, had developed a programme of self-administration, self-support and self-propagation was important but went on to say that "self-support is first a spiritual and theological experience".

The whole of Bishop Ting's speech was of this type, full of apparent information but in reality saying very little. After Bishop Ting had sat down, Bishop Manikam, Lutheran Bishop of Tranquebar, India, reported on his recent visit to China. During his speech he made the following points:

"My impression of the Three Self Movements (self-administration, self-support and self-propagation) is that a remarkable degree of self-support has been reached. But we must not forget four points. First, the churches do not any longer have to support schools and hospitals, which have been taken over by the Government, only churches and theological institutions. Second, all taxes on church property have been completely wiped out by the government. Third, the sense that the church is now 'our church' makes the will to give greater. Fourth, income from church property helps considerably, and this property is not originally the property of the churches but of western missions.

"Is there freedom of worship in China? Yes. But the question is how far the churches may say what is fundamentally against the government in power".

I am not so much concerned here with whether there is or is not freedom of religion in China. What puzzles me is that a Bishop of the Chinese church with a first class mind and an extremely able theological background who had deliberately sacrified many opportunities to go into occupations other than the Church, which are much better paid is prepared to go overseas as a semi-government representative and give a public lecture which is far inferior to his real capabilities. On the other hand an Indian Bishop, who, I think, speaks no Chinese, is able to give a much more powerful talk on the Church in China after a short visit lasting a few weeks. Since I am completely unable to accept the view that Bishop Ting is either a Government puppet or is intellectually inferior in any way to Bishop Manikam, I am forced to the conclusion that this Chinese thaw is still very much on the surface, whatever the actual attendance of the Chinese church at the World Council of Churches may portend.

It also happens that within the last few weeks, an article has appeared in ***People's China***, the foreign language monthly published by the Foreign Publishing House, Peking, by Prof Fei Hsiao Tung. Prof Fei is the Principal of the Minorities' College at Peking and holds an important Government position. He was a Vice-President of the defunct Democratic League. He is well known in the west as a lecturer and author, especially in economics and anthropology. His best book in English is **Earthbound China**, published by Kegan Paul, after the war. I have had the good fortune to meet him while he was on a visit to Oxford in 1947. Ever since the Red Army liberated China, it has become almost impossible to communicate with former colleagues in China except by subterfuge. Prof. Fei had a wide circle of foreign friends who respected him greatly. Some of these friends published a book of his called **China's Gentry** in the United States derived from various notes which he had left behind. Several times they tried to communicate with him but without success; so they published the book without his permission. During the six or seven years that he has been in China, overseas anthropologists and economists have been desperately eager to obtain news of any work which he might have written, but again without success. Suddenly Prof. Fei, like a bolt from the blue, publishes this article in English stating that he has been principal of this college for the last few years. During this period he has not published anything from pressure of other work. And then instead of describing the problems of new China as he sees them, he launches out into a bitter attack against his American friends who have published **China's Gentry** and against Kingsley Martin, the editor of the **New Statesman**, for not being able to "understand" each other when they recently met in Peking. The same problem puzzles me as in the case of Bishop Ting. In both cases, they sacrifice about 90% of the ability of which they are capable in order to prduce speeches and articles which are in an insult to the intelligence of their listeners and readers.

Under these conditions, it appears that even if the Chinese Peoples' Republic thaws out more than it shows signs of doing, little real understanding can be found between East and West (and here as part of the West I include India) until the intelligent and clever people in China are able to use their whole intellect and ability in communicating with their foreign friends. And until this comes about, China may be treated with respect but not friendship.



Our Delhi Letter

Green Signal for Saurashtra Refinery

THE green signal may be given at last to the Rs 20 crore project for the establishment of a refinery at Bhavnagar. The scheme, which has been hanging fire for more than a year, envisages the construction of works for processing 1.2 million tons of crude oil to begin with. The capacity of the refinery is to be expanded eventually to 2 million tons. Crude oil will be obtained from the National Iranian Oil Company which has the right to dispose of 12½ per cent of Iran's oil production, independently of the international consortium which controls Iran's oil industry. The NIOC is understood to have indicated its willingness to sell crude oil to the Bhavnagar refinery on a long-term basis at 12½ per cent below the international kerb prices. The NIOC also appears to be willing to subscribe as much as Rs 3 crores towards the share capital of the venture. Representatives of the NIOC are expected to be invited to India in a month or two to discuss the details. Iran's collaboration is likely to be eager and effective as the Shah of Iran himself is interested in the project and is understood to have discussed it with the Government representatives in New Delhi during his recent visit to India.

A series of important decisions are understood to have been taken at a conference in New Delhi last week between officials of the Ministry of National Resources and Scientific Research, and of the Ministry of Production and Mr. Nusserwanji H C Dinshaw, the sponsor of the project. A representative of the Birla Brothers, who are likely to finance the scheme substantially, was also present. The entrepreneurs appear to have agreed firstly not to insist on a guarantee against nationalisation of the project within twentyfive years which was demanded by them earlier; secondly, to give preference to the Indian oil, if available; and lastly, not to insist on exporting the refined products, even if better prices can be obtained abroad.

The Government in return may allow the construction of the refinery entirely in the private sector; Messers Birla Brothers and their friends might subscribe the entire working capital which may amount to about Rs 10 crores, in view of the fact that the refinery is to be constructed with the technical collaboration of Messers Krebs et Cie, a French company, willing to give export credits for equipment worth Rs 6 crores. One of the representatives of the Birla Brothers is likely to visit France shortly to discuss the subject with Messers Krebs et Cie with whom the Atlantic group of refineries in France are associated. Meanwhile the Ministries of NR & SR and Production will finalise departmental details and seek the approval of the Cabinet.

* * *

Perhaps no one has spoken recently with greater candour and accuracy on the role of Indian and British capital in the development of the Indian economy than Rt Hon John Strachey, the British Labour MP. In his report to the Government after a two-month survey of the Indian scene, Mr Strachey says:

"I was greatly impressed by the extreme relative weakness of Indian capitalism compared with western capitalism. It can exercise relatively little political leverage. Indian capitalists take short views. They are not really concerned about the fact that the Government's announced policies, if they are carried through, must mean that India will be a socialist country in which they will have little future as capitalists within, say 15 years' time. Indeed the main resistance to the new socialist policy seemed to come more from the older members of the civil service and from some of the older generation of Congress political leaders themselves than from capitalists as such. But this struggle within the Governmental apparatus seems to have been won, for the present at any rate, largely thanks to the Prime Minister's own predominant influence, by the pro-socialist elements".

Mr Strachey is convinced that it is immensely to the interest of Britain that India's Second Five Year Plan should succeed. It would offer Britain by far the best commercial opportunities in India. But Britain should be under no illusions as to the effect of the Plan on the older and more traditional types of British commercial interests in India. These are:

(a) The sale of consumer goods, chiefly Lancashire textiles, to India. The Plan will lead to acute shortage of foreign exchange and India will drastically limit the import of consumer goods. There is little or no future for the export of cotton textiles to India. However this is not a serious matter. Lancashire last year exported 3 million yards of cotton piecegoods to India whereas immediately before the second world war, she was still exporting 300 million yards. The bitterness of death is, in this case, almost past. Nor in the short run, is there much future for the export of other British consumer goods to India.

(b) The long established British business in India — manufacturing, mining and generally producing concerns—usually conducted by managing agents with mixed British and Indian shareholders, are not particularly or immediately threatened by the Plan. Nevertheless it would be foolish to suppose that they will survive any longer than any other part of Indian capitalism. They will be permitted to continue for years and even decades, but they will become less and less significant in the Indian economy and will be in the end absorbed into the major publicly-owned industries.

(c) The really important opportunity for British trade with India lies in the export of capital goods of every sort and description. India's demands for such goods will be literally limitless. The only limiting factor to India's ability to purchase them will be the shortage of foreign exchange. Britain will have to stretch herself to the utmost to provide India with foreign exchange by new loans, by credits and by "as generous treatment as we can afford in the drawing down of the sterling balances."

Village Studies

Copies of this book are available from the West Bengal Government Press, Calcutta.

Price Rs 4-8-0

Letters to the Editor

Human Relations in Industry

J R D Tata's Address at Oxford

I HAVE just read with much interest what is presumably a summary of Sri J R D Tata's address at the Duke of Edinburgh's Study Conference on the human problems of industrial communities in the Commonwealth. It would be excellent if the entire address were to be printed in your esteemed journal as the subject of Sri Tata's address is of interest to economists, sociologists, welfare workers and citizens in general. I hope this will be possible, and soon.

In the summary which I have read, Sri Tata has referred to the results of certain social surveys of Jamshedpur and the townships which have grown around the other Tata enterprises. I am naturally curious to know when and by whom these surveys were conducted, and whether they are available to the interested public for consultation? In case they have not been published already, I hope they will be published soon and made available to all those interested.

Sri Tata is reported to have stated (according to the British Information Services' summary of his address) that "These surveys had revealed the following general trends: loosening of family ties; an improvement in the position of women; weakening of the barriers of caste and untouchability ....." These conclusions about the social effects of industrialization in India are pretty generally held. In fact, one might say that they are very nearly axiomatic and anyone who doubts their validity is regarded as either extremely stupid or as one who wants to be different from everyone else. At the risk of being dubbed either, I must state that I have my doubts about their validity. My own guess is that family ties do not loosen, but their character changes. In fact, a case might be made out for exactly the opposite conclusion. Subsistence agriculture in a context of rapidly increasing population becomes more and more uneconomic, and industrialization and urbanization by opening up new channels of employment preserve not only the integrity of agriculture but the family system which goes with it. Let me make it more concrete by taking a hypothetical example: four brothers find that the patrimony of two acres of dry land does not support them. In the traditional economy two or three of them become part or whole-time agricultural labourers and they should consider themselves lucky if they earn enough to keep their body and soul together. What is more probable is that in a few years' time they will be forced to mortgage or sell the patrimony. If, however, two of the four brothers find employment in government service, or in a tea or coffee estate, or become workers in a nearby industrial town, their patrimony is less likely to be mortgaged or sold. The brothers staying in the towns usually send sums of money periodically to their homes. And one of the distinctive features of the Indian worker is his attachment to his ancestral land and village. In fact he frequently looks upon his life in the town as only a preparation for eventually settling down in his ancestral village. **My own hunch is that urbanization increases the strength of kinship bonds both at the worker as well as the white-collar levels.** The tensions generated by staying in a single small house are no longer there, and conflicts over small sums of money are also less. This, however, has to be tested in the field.

Regarding caste and untouchability—it is quite true that the more irritating and apparent features of caste exclusiveness decrease in urban areas. For instance, the buses which carry the workers to the factory do not pay heed to untouchability, and the workers' canteen ignores food taboos. But does caste consciousness decrease in other respects? Do marriages among urban workers ignore the barriers of caste and region? In fact, a certain continuity is traceable between caste and factory labour, and this is specially true in the case of the artisan castes. I learn, Sir, that one of the chief difficulties in the way of organizing workers in Jute mills stemmed from caste. As a sociologist, a study to which I would give high priority would be the forms which caste takes among industrial workers and in trade union activities. So far studies of the trade union movement have paid no attention to caste. There is no need here to go into the reasons for this.

I have deliberately kept the question of position of women to the last. It was the fashion among anthropologists of an earlier generation to have a chapter or section on the position of women in the particular society they were dealing with, but present day anthropologists find the concept is too vague and general to be very useful. What is done nowadays is to break this concept down to smaller and more manageable ones. One certainly does not expect a non-anthropologist to be aware of all this, but even at the level of ordinary observation, I wonder if it could be said that the position of women improves with urbanization. An urban woman worker earns her livelihood and this certainly makes for independence. And women in the rural areas may not earn a cash wage but they are indispensable to the domestic and agricultural economy of the peasant.

In the area which I know best viz., villages near Mysore, a woman cooks food for all the members of the family and carries the midday meal to the field where her husband and his brother or son are working. She does all other household work including carrying cattle-shed manure to the family manure heap, milking the cows, making and selling buttermilk and butter, and selling fowls and eggs. The income from the above activities belong to her alone, and it is not surprising to find that within the elementary family there is a certain amount of book-keeping. A wife lends money to her husband and a son to his father. (One of the disputes in my notebooks refers to a father's attempt to deprive his young son of his legitimate half-share in the money which the sale of a sheep fetched.) Besides, most women work in the fields at certain seasons, and the work is such that the men themselves admit it to be very arduous. They stand for hours in the paddy fields in the rains transplanting paddy shoots, they weed, they cut the grain stalks, and they winnow the grain. The value of women is recognised by everyone.

It is true that men regard themselves as superior to women in some ways but I have seen in disputes before the village elders, women standing up for themselves in a most vigorous fashion. (I once saw a Tamil Kallan wife tear the tali which her husband had given her at marriage and threw it in his face because he was unreasonably jealous. She was a mother of three, and she did

not go back to her husband till he had expressed his regret before the elders of her caste, and promised to behave in future).

I have gone on too long and I shall stop now. I hope Sri Tata's speech and the surveys he refers to will both be available to the public at an early date.

M N Srinivas
Professor of Sociology
Faculty of Arts,
Baroda
9th August 1956.

BOOK BANK AND LOAN FUND

I HAVE read with interest your comments on our loan scholarship scheme (Weekly Notes, issue of August 4). I feel rather encouraged by your appreciative remarks and give my sincere thanks to you. With the goodwill of the public, I hope the fund will be able to do its bit towards solving this problem of such a magnitude.

Your comments on "Book Bank" has attracted my attention. I may here tell you of a little experience I had in running such a service to High School students. While the Administrative Office of the Canara Bank was at Mangalore, the Staff Club of the Bank arranged this by collecting small donations from members. But lending was arranged through a teacher who undertook the responsibility to see that the book was returned. Students also gave such an undertaking. The scheme was successfully worked for 4 to 5 years when we were there. Not a single book was lost and all the books were handled neatly and carefully, to our great surprise.

If High School students could display such a high sense of responsibility towards books entrusted, certainly such a scheme should work well with college students.

S R Prabhu
Secretary,
Canara Bank Jubilee
Education Fund.
111|118 Silver Jubilee Park Road,
Bangalore—2
August 10, 1956.

UNITED ASIA

International magazine of Asian affairs, 12, Rampart Row, Bombay 1, India.

STATE BANK OF INDIA

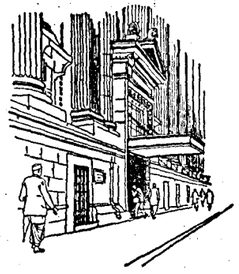
Successors to the Imperial Bank

The need of the day

Our country's economy is expanding rapidly and with the Second Five Year Plan in sight it will gather further momentum. The need for a strong and efficient banking system has never been greater than today as the nation's savings require to be pooled and managed in a resourceful, confident and prudent manner.

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The State Bank of India offers to serve you efficiently in many ways. It takes care of your savings and valuables, lends moneys against goods, produce and other approved securities and assists you by accepting appointment as executor and/or trustee of your will or trust. Its wide and varied services are at your disposal. Why not talk things over with your nearest bank agent, or write for information?



The State Bank's **local head** office at Bombay, one of more than four hundred offices waiting to serve you throughout India

STATE BANK OF INDIA

Largest of the Indian Joint Stock Banks

A Calcutta Diary

How To Be Very Very Popular

SORROW at the death, last week, of Dr H C Mookerjee, Governor of West Bengal, was both sincere and widespread. He was a lovable man, respected by generations of students. As a teacher of English literature he was able in his quiet way; as a donor he has left considerable funds with the University of Calcutta; and as a leader of the Christian community his services were rewarded when he was elected vice-President of the Constituent Assembly. It is however as a Governor that he died, and and one of the obituaries in a Calcutta daily affords an opportunity of discussing what, in free India, are the functions of a State Governor. Lost in the ill-defined elasticity of these, the newspaper wrote: "What are we to say of Dr Mookerjee as a Governor? Perhaps the truest thing would be to say that he never seemed one." Obviously intended as a compliment, it still remains a rather ambiguous statement. The Governor's office is what its holder makes of it, and what has been made of the office in West Bengal since the midnight of August 14-15, 1947, may tell us a thing or two about the political climate of the State.

The present writer was in Government House when C Rajagopalachari, the first Governor, was sworn in. The solemnity of the occasion is still vividly remembered, also the discordant noise floating on the midnight air. For reasons which seemed important to some at the time, there was an agitation against the new Governor. He, it was believed, was anti-Bengali; and there were strident cries in the streets: Go Back Rajagopalachari. The agitation was stupid, and C R's very considerable wits were taxed but slightly in getting the better of the argument. In doing so, however, the initially unpopular Governor resorted to methods which have since been acting as precedents—with results of questionable merit. As Governor, C Rajagopalachari "never seemed one;" he was to be seen anywhere, presiding over everything from public meetings to private ceremonies of christening babies. The method paid handsomely; he was a very popular man when the time came for him to leave West Bengal. At the numerous farewell ceremonies preceding his departure, one almost heard a cry: Don't Go Rajaji.

* * *

What confronted C R in mid-August, 1947, was a personal problem; his personal solution has since set the pattern of gubernatorial behaviour in the State. Rajaji had to show how to be very very popular with the Bengalis; he had his previous anti-Subhas orations to live down. His successor, another non-Bengali but with no great primary unpopularity to win over, just followed his highly successful predecessor. In the event, Dr Katju too was enormously popular, for popularity again was his sole objective, with less reason as has been suggested than C R. Once again the chief quality of a Governor was supposed to be his ready availability for presiding over sundry occasions of no moment. It is rumoured that C R occasionally tried to influence his Chief Ministers, that he resisted some of the Government's more partisan decisions, that he even met some of the members of the opposition within the Congress Parliamentary Party with a view to bringing pressure on the Government. Rajaji may well have enjoyed these manouevres, if he indeed indulged in them (which cannot of course be proved), but his successors had neither his taste for this game nor his talent. It is not surprising, therefore, that the office of Governor soon became something like an appendix, noticed only when there were suggestions of possible appendicitis.

It is indeed difficult for a Governor to be functional, for the Constitution is silent on what he is expected to do. The role given him, therefore, is an exceedingly difficult one, and nine years have gone by since Independence without the country (or the incumbents, present and prospective) getting anywhere near a definition. As has been suggested, the lack of a Constitutional definition is being made good by precedents, some of them bad ones. If the Governor is a strong man, he comes in conflict with his Government which promptly reminds him that he is nominated and has no authority to speak for the people. If he is a feeble personality, he just does not bother about what his Government is doing which he cannot restrain anyway. If he is neither strong nor feeble but only a good man, he does not press for a definition, he does not project himself on the Government; he just goes his own way, seeing that it does not cross his Chief Minister's. It is a tribute to Dr H C Mookerjee that, faced with the prospect of trouble or paralysis, he devoted himself to raising funds for hospitals and memorials. A little good must have been done in consequence, but these activities of Dr Mookerjee's (which some found to be inconsistent with what they conceived to be the dignity of the office) certainly do not add up to anything like a complete justification of the continuance of the office.

* * *

Several Raj Bhawans will shortly be looking for new tenants, and discussion should begin whether we want Governors and, secondly, if we do, what we expect them to do. It is by no means certain that the first part of the question will inevitably return an answer in the affirmative. If the Governors are given nothing useful to do—and there are valid arguments against giving them any power at all—we are bound to see some Governors behaving like buffoons. This, however, is less of a risk than certain other possibilities. In the absence of something to do, some Governors will only demonstrate how to be very very popular (a la C R, and how the Bengalis walked into his parlour!) and others will act in a manner which will rob the office of such dignity as may still be associated with it. It is not necessarily a criticism of the late Dr Mookerjee that it took him years to raise a meagre Rs 5 lakhs for his after-care colony whilst it takes no more than a two-minute for Dr Roy to secure Rs 17 lakhs for a hospital. Charity in a money-based society flows in strange channels; those that do not eventually flow into the sea(t) of power and patronage sadly dry up in no time. Those, therefore, who are inclined to assign to the Governor the role of a charity-tapper or art-patron should think again; whenever he is not totally ineffective he will, sometimes without his knowing it,

encourage certain forms of corruption.

A case can be made out for investing the Governors with certain powers. The States Reorganisation Commission wants them to take charge of linguistic minorities, although it is far from clear how, destitute of all authority, they can do much to right wrongs inflicted by popularly elected Governments. A more useful function for a Governor may be to act as "the eyes and the ears" of the Centre, which now may be more dependent on the State Governments than is good for the security of the country. (A non-Congress Government in any State will bring to the surface this real problem which escapes attention now.) Again, there are arguments against making the Governor a virtual spy on the State Government; that the idea may be dubbed undemocratic will leave others less cold than it does me. What is indicated is immediate discussion on the Governor's role. There is much to be said for effective Governors, almost as much for no Governors—nothing whatever for Governors as they are.

—Flibbertigibbet



The Technique of Production and Employment

In an Underdeveloped Economy

D Ghosh

The previous note on this subject which appeared in our issue of August 4 stated the conclusion or the choice of technique in the barest terms. The purpose of this note is to re-examine that conclusion in relation to the assumptions on which it is based.

THE long-term superiority of capital-intensive technique rest on the assumption that the larger producer's surplus that accrues from it is re-invested quickly enough by the entrepreneur-capitalist. In fact, however, a portion of the surplus is likely to be spent on consumption by him, and to the extent that this happens, the expansion of total output and of total employment will slow down*. Moreover, the market for the commodity in the production of which the first investment is made may have been fully exploited, while the entrepreneur-capitalist may not be active enough in exploring new fields of investment**. A part of the surplus would then be held in liquid form for a short or long period, with effects on the expansion of output and employment more unfavourable than if the surplus were consumed.

Secondly, it is assumed tacitly that the entrepreneur-capitalist extends production to the point at which marginal cost of the commodity is equal to price. But in an underdeveloped country, he has strong temptations to maintain or raise his total profits by restricting output. His competitors are few, while more often than not, he produces some commodity of basic importance for which demand is inelastic. Total employment is

Thirdly, the argument in favour of capital-intensive technique starts with the assumption that the market is wide enough for the product of the industry which adopts the technique. Now the "extent" of the market is a matter of its geographic reach as well as of the income of the buyer. But since the average buyer in an underdeveloped country is poor and can buy only a few units of the commodity, the number of buyers who must be reached to make large-scale production worth-while must be correspondingly large. For some underdeveloped countries, at least, this implies a geographic spread of the market and heavy investment in transport. But the minimum modern transport organisation may be bigger than is needed for the transport requirements of a single industry, so that either the development of transport is put off and the market for the single industry cramped, or the modern transport facilities that are set up are inadequately utilized or finally, a comprehensive programme of investment, including the creation of several industries and of a modern transport organisation has to be undertaken. The first alternative inhibits the expansion of employment; the second facilitates some expansion but at a disproportionately high capital cost to the community, while the third is not within the means of a poor economy.

As the third alternative is out of court, only the first two need be compared. In the first case, the total economy is broken up into a number of regional economies and the resources available for development are invested in a wide range of labour-intensive regional industries and a restricted inter-regional transport system. In the second case, only a single industry using capital-intensive technique and a developed transport organization are built on the national scale. The single national industry has still a potentially greater employment creating capacity than the multitude of less efficient regional industries. Moreover, the nation-wide transport network will promote exchange of goods and services that are already produced and the rise in their values through exchange will cover part of the higher cost of the national transport organization. But this may not reduce transport costs for the single capital intensive industry sufficiently to enable it to expand its market to the full extent. Total employment may in consequence be less than under a plan of regional labour-intensive industries.

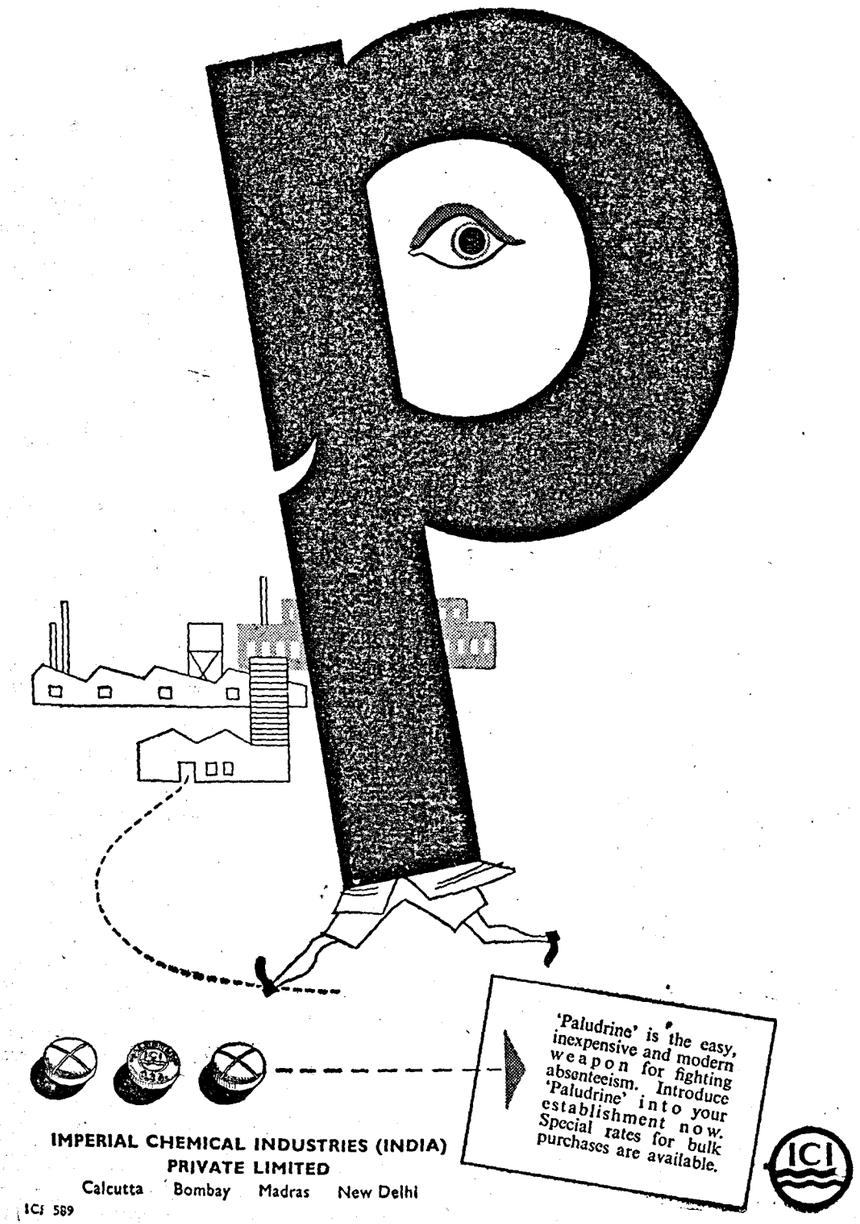
Finally, the argument in the previous note has reference only to closed economies. This is a restrictive assumption for it rules out the gains from international trade and from capital assistance from abroad. The main service of international commerce is to enable a country to obtain some commodities more cheaply by exchange than by domestic production, the gain being larger in the case of commodities in the making of which it has the greatest comparative disadvantage. For an under-developed country, capital goods belong to this category and it is in its interest to import them rather than manufacture them at home. But this may not be possible; for the economy must not only undertake the necessary volume of saving, that saving must take the form of an export-balance large enough to cover the cost of imported capital goods. Now this is often hard to manage; to convert a given percentage of the national income into the requisite export balance would require a much larger percentage expansion of exports or contraction of imports or of both. But the demand for the exports may not be elastic enough and the need for import of essential consumer's goods may be too rigid to permit the creation of such a balance.

This note and the previous one have sought to set out the framework of general economic considerations within which decisions have to be taken by any under-developed country that is faced with the pro-

* The income of the entrepreneur-capitalist too will rise less rapidly, but he will still improve his current level of living relatively to that of the mass of the people among whom he lives. After all, there is some pleasure in riding even an old car in a place where everybody else is walking.

** A distinction should be drawn between different degrees of enterprise. More enterprise is required to start a new industry than to establish a new unit in an old industry. then less than effective competition would create.

blem of choosing the right technique for development. But these considerations do not cover all aspects of development even within the economic field; for the economic advance of a country is influenced not only by the quantity of its capital and labour, but also by its natural resources, the skill, ingenuity and enterprise of its people, the efficiency of its government and the stability of its political life. There are, besides, serious non-economic considerations which must be taken into account in deciding the technique of production. For the technique of production has a direct and important effect upon the pattern of social life in a country. The widespread adoption of a new technique will almost certainly destroy old relationships and the old way of life. But these may, in the opinion of the people, embody ultimate values superior to any gain in material possessions that the new technique may bring. It is for the people itself, to decide where to give up the prospects of economic advance in the interest of "higher" values of life.



Changing Contours of Visakhapatnam

Caltex Refinery Coming Up

THAT the economic development of Andhra had been systematically neglected was one of the grounds, perhaps the strongest ground, for the separation of Andhra from Madras. Blessed with the Krishna and Godavari, rich with minerals, the deposits of which have not been fully surveyed yet, Andhra is still very backward, judged by any of the usual criteria. It has been fortunate, however, in having the third of the new refineries to be located in the State. The Caltex Refinery at Visakhapatnam is expected to come on stream early next year. Will it initiate a process of development which will gather strength as it goes along? Will its influence be powerful enough to sustain this process of change and eventually transform this potentially rich but hitherto underdeveloped State and set it firmly on the path of industrial advancement? Andhra is having some visible proof that it well may. Visakhapatnam was intended to develop into a big port, even in the inter-war period. Many years ago when the port was connected by rail directly to the then Central Provinces, great expectations were raised about the development of maritime trade. But for one reason or other, it did not come off. When the ship building yard came to be established in Visakhapatnam, the hopes were revived. The shipyard, however, experienced many vicissitudes; its rate of development has not been such as to lead to the establishment of many subsidiary industries. But a budding township has come up and its landscape has been gradually changing. The impact on the placid life of Visakhapatnam of the refinery is something quite different from what this part of the country has experienced before. For along with the refinery, the hydro-electric scheme which will supply power to it has also been coming up apace. The port is feeling the impact and will in turn release a powerful impact, for it is being considerably expanded to cope with the requirements of the refinery. So is the port town.

Power is to be provided by the Machkund Hydro-Electric Scheme, the completion of which is one of Andhra's major tasks under the Second Five-Year Plan. When complete, the project will generate over 1,00,000 KW of power. The Refinery will need 7,000 KVA for running the installation. This energy will be supplied by the Machkund Project and power will be carried from Machkund over a distance of 90 miles in three stages. The first stage is a 132,000 volt dual feeder line from Machkund to Simhachalam Supply Station. The second stage will consist of a 33,000 volt dual feeder line from Simhachalam to Visakhapatnam. Finally, the Visakhapatnam supply station, which will be adjacent to the refinery site, will step down the voltage from 33,000 to 11,000 volts. The refinery will use 11,000 volts and a number of small stations located within the refinery will reduce the voltage still further to suit various requirements. A shortage of power has so far impeded the industrial development of the State but with the opening of the Machkund Project, a new era opens for Andhra.

The choice of Visakhapatnam for the Caltex Refinery was partly influenced by the natural advantages of this port, both in point of location and weather conditions. It is mid-way between Calcutta and Madras. Hooghly is silting up and Calcutta harbour cannot accommodate ships with the required drought which will carry the crude oil and the port in Madras is closed for shipments of inflamable products for several months in the year. And since the crude oil for the refinery will come from Indonesia, the advantage of having the refinery in the east coast is obvious.

But however suitable the location, the same cannot be said about the existing facilities of the Visakhapatnam port which handles currently no more than a million tons of imports and a smaller volume of exports. As the capacity of the refinery was raised from 500,000 tons of crude as proposed earlier to 675,000 tons, considerable expansion of the harbour has been undertaken in order to enable it to meet the needs of the refinery. To begin with, the entrance channel as well as the harbour had to be widened and deepened so that ships upto 650 ft long and 30 ft draft may come in. To accommodate oil tankers continuous berths of 600 ft each have to be constructed, in addition to the various other improvements to the facilities of the port.

Besides the expansion of the port and large scale supply of power from the Machkund project, Visakhapatnam will enjoy another important facility which it has lacked all these years—an adequate water supply. Caltex has now joined the Navy and the Shipyard to help the municipality to finance the expansion of the water supply from a million gallon a day to four million gallons. Needless to say, the refinery will itself consume a substantial part of this increased supply.

Work on the refinery started a little over a year ago. Masses of equipment continue to arrive at the refinery site. Some of these have been purchased in India or rented from contractors and some, the heavy construction equipment, have been drawn from Caltex's worldwide pool to be shipped to construction projects in some other part of the world, when they have completed, their work in Visakhapatnam. This will enable a large saving in capital cost.

Though naturally the installation and equipments have to conform to the highest international standard, an interesting feature of the construction is the utilization of local materials where the latter can be used with advantage. Several thousands of tons of earth have been moved for the refinery site, the whole area has been drained and cleared of trees and even the contours of the landscape are taking on an industrial look. Around the site has been erected a 6 ft high stone wall two miles long. Stone is being used, where in America galvanized wire would be used for fencing. And yet, the cost is no higher, maintenance will be so much cheaper and replacement hardly necessary at all. Similarly, rubble stone walls with asbestos sheeting and cement flooring are replacing pre-fabricated frame works with ply-wood sheeting. The substitution is obviously indicated as a successful adaptation, for resisting heat, heavy monsoon and termites.

RUMANIAN FOREIGN TRADE

ORGANISATION PRINCIPLES

In the Rumanian People's Republic the entire operative activity of foreign trade is concentrated in a framework made up of a number of state enterprises (shown alongside), each one being specialized in the exportation and importation of a certain category of commodities. In the Rumanian P. R. transit operations, as well as chartering, loading, unloading, etc. are also carried out by a state enterprise for international transports and forwarding —"Romtrans". These are the only Rumanian enterprises which may enter into trade agreements with foreign countries.

With regard to financial and currency problems, the transactions of the Rumanian enterprises for foreign trade are being handled through the "State Bank" of the Rumanian People's Republic in Bucharest.

The fact that the foreign commercial exchanges of our country are entrusted to state enterprises constitutes an undeniable advantage for the commercial partners of the R. P. R. Being state enterprises any foreign trade engagement entered into by them is characterized by full guarantees of solvency.

Making a large scale use of both imports and exports, our foreign trade enterprises are called upon—within the sphere of their activity—to carry out the measures taken by the Rumanian State with a view to constantly developing the national economy and satisfying to an ever larger extent the continuously growing material and cultural needs of the population in towns and village.

As regards imports, the growing purchasing power of the R.P.R. population makes our country a potential market for foreign companies, while on the other hand as far as exports are concerned, due to the continuity in the Rumanian economy, a reliable source of supply is ensured to our foreign customers. From this point of view, another advantage for our commercial partners is the fact that the Rumanian enterprises often practise exchange of commodities of equal economic importance on the basis of compensation which does away with the consequences of the fluctuation of prices. The fact that the Rumanian enterprises carry out certain operations on the basis of consolidated prices constitutes another advantage for our commercial partners.

These are some of the practical advantages resulting from cooperation with the Rumanian State enterprises for foreign trade.

Connections with the Rumanian State enterprises for foreign trade may be established either directly (their addresses are shown alongside) or through the intermediary of the Chamber of Commerce of the R. P. R.

Since its inception in 1949 the Chamber of Commerce of the Rumanian People's Republic has carried on such correspondence with thousands of firms or economic organizations from all over the world. The connections thus established between foreign firms and Rumanian State enterprises for foreign trade have been lasting and the subsequent agreements resulted in real advantages for both parties.

Attached to the Chamber of Commerce of the R. P. R. are the "Goods Control Office" (O.C.M.) and a "Bureau for Foreign Patents and Inventions" which registers authors' certificates and inventors' patents, sees that these are kept in force and the rights deriving from them observed both in the R.P.R. and abroad. At the same time the "Bureau for Foreign Patents and Inventions" is assigned the task of registering and renewing the registration of Rumanian industrial and trade marks in foreign countries, as well as of the foreign ones in the R.P.R.

Furthermore, attached to the Chamber of Commerce of the R.P.R. an Arbitration Commission is acting, which is called upon to settle patrimonial disputes which may arise from foreign trade transactions between the Rumanian enterprises, and foreign persons or corporate bodies abroad, or between foreign parties.

The foreign economic policy of the R.P.R. is a policy of peace and of strengthening friendship among nations by means of a free exchange of commodities. That is why the R.P.R. stands for normalizing and extending economic relations with any country, on the basis of the principle of equality of the parties and of mutual advantage. The implementation of this policy has a strong material basis guaranteed by the constant development of the Rumanian industry and agriculture, the upsurge of which creates increasing possibilities for both exports and imports.

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For further information please contact:

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Telegrams: "ROMANOCOM" Telephone: 36796

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State enterprise for the export and import of industrial plants and rolling stock. Bucharest, Str. Mihail Eminescu No. 10; phone: 2.65.20; cables: "Masinimport"

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State enterprise for the export and import of petroleum products and ores. Bucharest, Bd. 6 Martie 42; phone: 5.70.17; cables: "Petrolexport"

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Agricultural Output in the First Plan – A Revision

Wilfred Malenbaum

I AM thankful to Mr S Naqvi for discovering the fact that the basic data used in my note on this subject (**Economic Weekly**, June 23, 1956) were incorrect. The sources which provided data on a state basis gave national totals which were *"revised estimates"* through 1952-53 only. It is now possible to have such estimates through 1953-54, and *"partially revised" for 1954-55, as* well as "final estimates" for 1955-56. Mr Naqvi's rejoinder (**Economic Weekly**, July 28, 1956) does in fact provide a welcome *opportunity to re*consider the position in the light of more recent data.

I wish first to point out that the major objective of my original note was to highlight the need for analysis of variations in crop output in India over recent years. ". . .no one has yet presented a convincing set of relationships between the additional output or even half of it. (i.e. the part which the Planning Commission suggests was not due to favourable monsoons) and the changes in irrigation, in seeding, in manuring or in other farm management practices. The need for such analysis is clear, both for current planning in India and for a more complete *understanding of the* developments of the past." (my article p 751)

The out-dated data which I used *did make* a rather dramatic case for further study. They seemed to show that yields per acre (not total yields as Mr Naqvi says) were moving steadily upward in most of India, at least since 1950-51. The very favourable monsoons, generally considered the major reasons for the large increases in grain output, thus appeared as rather localized phenomena, and in regions where weather conditions have long brought about large year-to-year variations in grain output. While this seemingly regular improvement in yields per acre did suggest the systematic operation of some in-put factors, the final paragraph of my article expressed the need for analysis both for the areas of highly variable yield and for those where the data suggested a steady upward movement.

Mr Naqvi is perfectly correct in doubting that *the more* recent data would make so convenient a case. The following table, based upon the latest official data, should replace Table III of the original article (ibid p 752). The highest yield per acre for both total India and residual India is in 1953-54, the very favourable monsoon year. Furthermore, there have been important declines in 1955-56 in both residual India and in Bihar and Bombay. Detailed comparisons still show that there is greater variability in the per acre yields for all India than in the residual. But the point again is not nearly so dramatic as it appeared to be on the basis of the earlier data.

There statistics for separate regions in India still reveal markedly different patterns, as was illustrated by Tables I and II of my article. In particular, West and East India show very irregular year-to-year movements and the two states of Bombay and Bihar are primarily responsible for these. Analysis of yield variations must proceed on data which are as localized as possible. Happily, *the systematic effort to uncover the* pertinent input-output relationships over this period which has now been initiated by the Directorate of Economics and Statistics, Ministry of Food & Agriculture, makes use of data on a district basis. All of us interested in the past patterns of agricultural output, to say nothing of future possibilities, await eagerly the results of this basic investigation.

Acreage and Yield Variation

	India			India minus Bihar and Bombay		
	Prod. (million tons)	Acreage (million acres)	Yield (tons/ acre)	Prod. (million tons)	Acreage (million acres)	Yield tons/ acre)
1948/49	51.8	233.0	.223	41.4	181.2	.228
1949/50	54.1	245.3	.220	42.6	188.4	.226
1950/51	50.0	240.5	.208	41.6	189.3	.220
1951/52	51.2	239.6	.214	42.5	188.5	.225
1952/53	58.3	252.3	.231	48.7	200.0	.243
1953/54	68.7	269.5	.255	56.7	214.5	.264
1954/55	66.6	267.3	.249	55.9	214.0	.261
1955/56	63.5	266.1	.238	53.6	215.0	.249

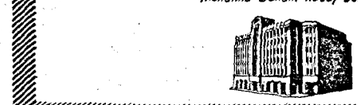
Source: *Ministry of Food & Agriculture, Directorate of Economics* and Statistics (in a letter of August 4 1956).

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Development of Chemical Industry in the Rumanian People's Republic

RUMANIA is one of the very few countries in Europe which are rich in natural resources. It has got the raw materials required for the development of a wide range of industrial products, especially of the chemical industry. Large deposits of oil and methane gas, reserves of coal ranging from brown coal to anthracite, the luxuriant growth of reeds on the Danube Delta, wood and wood waste suitable for chemical processing, deposits of pure salt and of non-ferrous as well as non-metallic ores—all these have endowed Rumania richly with raw materials for the development of its chemical industry.

In recent years, planning has given a tremendous impetus to this development. In the First Five Year Plan, large funds were allotted for investments in this sector and a great number of new factories were built and commissioned, while most of the old ones were modernized and new sections were added to them.

Among others, the new plants and factories that have come up are:

A big coal chemistry plant,

An antibiotics factory,

Two factories for manufacturing azotic fertilizers,

A plant for phosphatic fertilizers,

An urea factory,

A plant for ceramics and sandstone acid-proof articles,

A ferro-manganese factory,

Two factories for production of acetylene from methane gas,

A carbon black factory,

A plant for manufacture of electrodes and grinding wheels,

A factory for vegetable and extraction tannants,

A plastics factory,

A plant for extraction of copper from pyrites ores,

A factory for producing soap from synthetic fat acids obtained by oxidization of paraffin, etc.

Among old products, those tha are being manufactured in much larger quantities are soda ash and caustic soda, acids, alcohols, carbon black, etc.

The new branches of productior include dyestuffs, fine chemicals and pharmaceutical products grinding wheels, electrodes for electric steel ovens, vegetable tannants required by the leather industry and plastics, chemical fertilizers and various insecticides required in agriculture were also set up.

Of the new lines of production developed during the First Five Year Plan the chemical-pharmaceutical industry and dyestuff industry have made enormous strides. The drugs now manufactured include a number of heavy synthetic products such as aspirin, paramino-salicylic acid, phenacetin, hydrazide of isonicotinic acid, tebezone, etc. The dyestuffs industry manufactures various kinds of azoic dyestuffs, triphenyl methane and basic dyestuffs, sulphur dyestuffs, indantren and dyestuffs of the napthol A S type.



Not only did the output of Rumania's chemical industry in 1955 increase eightfold compared to 1938, the increased production, the wider range and improved quality of the products have made it possible for Rumania to occupy a preponderant position among the countries exporting chemicals. Thus in recent years Rumania has supplied the international markets with important quantities of soda ash, caustic soda, sodium, silicate, aluminium sulphate technical 15%, edible and industrial salt, ultramarine paradichlor benzen, salicylic acid, lactic acid, pharmaceutical lead acetate, butylic alcohol, organic dyestuffs, carbon black, varnish and paint, bone meal, anodic mass for aluminium ovens, etc.

In the Second Five Year Plan, the development of chemical processing of natural gases, of methane gas, oil-well and cracking gasses, etc. will receive special attention. Of particular interest in the developments projected in this period are the plant for synthetic rubber with a capacity of 50,000 tons and factories for high quality synthetic fibres. The production of dyestuffs will be stepped up by 60 to 80 per cent and the range of dyes will be simultaneously widened. A new factory for organic synthesis will increase the production of drugs, the output of antibiotics will be raised and extraction from medicinal herbs will be developed. The utilization of the reed in the Danube Delta will substantially increase the production of cellulose. A new plant will be set up in order to raise the production of chlor and chlorurated products required for fighting pests in agriculture.

The output of sulphuric acid will increase 2.3 times and that of ammonia from methane gas will be 7 times greater during the Second Five Year Plan compared to the First Five Year Plan. As a result of all these, the total output of the chemical industry is estimated to rise by 150 to 200 per cent by 1960 compared to the production in 1955. The export potential of this sector of the Rumanian People's Republic, both as regards quantity and types of products, will therefore go up correspondingly in the Second Plan period.

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The Warp of Ideology

R K Hazari

THE ambitious programme for the Ambar Charkha announced by the All India Khadi and Village Industries Board some months back called for the appointment of a technical committee to study and evaluate the possibilities of this ingenuous spinning device. The *Khera Report** is an essay in the fulfilment of this objective. It has recommended the introduction of 75,000 of these charkhas during the current year and of possibly up to 200,000 charkhas during 1957-58. The expenditure recommended for the current year amounts to Rs 3 crores in grants and about Rs 4.6 crores in loans. The charkhas distributed this year should produce, it is expected, sufficient yarn to weave 50 million yards of average count 18s, with a conversion ratio of 3.6 yds of cloth to one lb of yarn. The textile policy recently announced by the Government, it may be recalled, allocated a quota of 300 m yds for Ambar cloth during the Second Five Year Period.

Recommendations

The main recommendations of the committee may be briefly summed up as follows:

1) Further experiments are required to test the efficiency of the Ambar Charkha and of the yarn spun on it. The only reliable data available to the committee were the results of the tests carried out by the Ahmedabad Textile Industry Research Association (ATIRA) at their laboratory on 5 charkhas (20 spindles) and only one loom for three weeks, and the results of the test on a single charkha (4 spindles) carried out at the Technological Laboratory at Matunga, Bombay. The data from Khadi centres were neither conclusive nor perhaps reliable.

2) Research and experimentation are essential to improve the productivity and design of the charkha. Charkhas should be adequately tested for quality and performance before delivery. Government should immediately set up a Textile Research Centre for decentralised spinning and weaving, and set up regional centres in due course.

3) Manufacture of charkhas should be on a decentralised basis but precision parts should be made by a central agency. Yarn production should be up to count 24s. Cotton of staples ¾″ to⅞″ suitable for these counts should be grown in all villages as part of a drive for regional self-sufficiency and this programme should be integrated with Community Projects and allied projects.

4) Daily wages for Ambar Charkha workers should be fixed 1½ as per hank for counts 16s to 32s. Since the average output per working day is estimated for the present at 6 hanks per spinner, this would give a daily income of 9 as. If the production rises to 8 hanks, the daily income at this rate will go up to 12 as.

5) The cost of Ambar Charkhas may be recovered in 5 years, without interest and in deserving cases, half the cost may be treated as a subsidy. All overheads like the cost of training, depreciation, maintenance, subsidy on purchase of charkhas, waiving of interest, working capital (which would amount to 6 months' production value) maintenance of sample looms, finishing and stocking centres, quality control, servicing workshops (together with the expenditure of the Khadi Board itself, etc), should be left out from the cost calculation of Ambar yarn. Since the cost of Ambar yarn, even without overheads, would be Rs 2-14 per lb of 18s as against the mill yarn price of about 1-11, a subsidy of 4 annas in the rupee on Ambar cloth is recommended in order to equalise the price of handloom fabrics made from mill yarn and Ambar yarn.

6) At least 75 per cent of the spinners under the programme should be from weavers' families and the aim should be to have a charkha in each weaver's family "subject to organisational problems being solved in a possible manner". Subject to the same qualifications, spinning should be done at home and not at spinning centres.

7) As the success of the programme hinges on adequacy of organisation, special attention should be paid to training of personnel, study of markets and decentralisation of functions. A directorate should be set up to watch and assess the progress of the scheme for two years.

8) The technical progress and efficiency of organisation should be such as to remove eventually the need for subsidy. The proposal for a cess on mill cloth to bring up the price of mill cloth to that of Ambar cloth has been rejected.

The Committee deserves credit for frankly admitting that the programme it recommends is based on very slender experience. It also merits praise for sobering down the Khadi Board's proposals which **inter alia** demanded a ban on further extension of spinning mills as also for rejecting the proposal for further cess on mill cloth. What astonishes the present writer, however, is the Committee's apparently inadequate grasp of the technical and economic aspects of the Ambar Charkha. Alternatively, if the Committee really did grasp these matters, they must have been under severe political or other pressure to make some of the statements which they probably did against their better judgement

Technical Aspects

To deal with the specific technical points of the Report first.

(i) Tests on productivity have given a production range on the charkha of 4 to 8 hanks of 18s per 8 hours The average is taken for the present at 6 hanks This gives a production of 2.67 oz per spindle shift, as compared to the Khadi Board's estimate of 3.2 oz. This difference indicates that production on the Ambar Charkha is not such a simple matter as the Khadi Board had led us to believe.

(ii) Tests at the Technological Laboratory at Matunga, Bombay, indicate that the lea strength pressure in lbs required to break 80 threads of 1½ yards each) of Ambar yarn counts below 20s is lower than the required minimum (pp 153-55) The more detailed tests at ATIRA confirm that Ambar yarn suffers from greater irregularity, unevenness and neppiness than mill yarn and that its breakage in wind-

*Report of the Ambar Charkha Enquiry Committee 1956. Government of India, Ministry of Production: Manager of Publications, Delhi. Report pp 1-56, Appendices pp 57-489. Price not mentioned.





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ing and on the loom is also higher (pp 136-139). On account of these factors, handloom production from Ambar yarn is estimated to be 5 to 25 per cent lower than that from mill yarn.

While no test has been made on Ambar yarn and cloth for dyeing and bleaching, it is obvious that due to its lack of uniformity, Ambar yarn cannot go through these processes satisfactorily. While some or all of these defects may be removed in the long run through technical improvements (ATIRA has already suggested quite a few), the problem in the immediate future is whether handloom weavers would be prepared to purchase Ambar yarn in preference to mill yarn. Mere equalisation of prices through subsidies will not ensure demand.

(iii) The Committee proposes a flat rate of 1½ as per hank to spinners and trusts that proper inspection and modification of piece rates in future, if necessary, will prevent spinners from producing lower counts. Yet human nature and the organisational difficulties of quality control being what they are, it is difficult to believe that yarn of the requisite count and consistency would be delivered at the proper time to keep up a regular supply for the handlooms. A flat rate of payment for yarn irrespective of count is particularly dangerous when textile statistics suggest that handlooms are changing over to finer counts and higher construction.

The production programme for the Ambar Charkha is restricted for the present to the count range 16s to 20s. If the counts produced are even lower, Ambar yarn will be less and less suitable for handloom weavers.

(iv) As part of its self-inflicted philosophy of regional self-sufficiency, the Committee makes the fantastic recommendation that at least 75 per cent of the spinners should be from weavers' families so as to make the family a self-sufficient cotton manufacuring unit. The Committee forgets that at least one-half of the commercial handlooms are devoted to the weaving of dhotis and saris which cannot be made from counts less than 25s* —counts which are outside the programme for the Ambar Charkhas. This is surprising since the Committee knows it full well that Ambar yarn is not suitable for the high reed/pick combinations which are necessary for weaving dhotis and saris.

Cottage weaving is a family occupation and all members of a weaving family are generally engaged in some preparatory or finishing job or other. At most, some leisure may be available during the rains when sizing and warping cannot be done but yarn spun during this period can provide only a seasonal supply and can hardly be depended upon. Why make the assumption then that weavers' families are (a) willing to take up spinning and (b) able to spin just the varieties which the weaver (and the market) demands?

A few other specific technical points may now be taken up. It has been found in various tests that cotton wastage in Ambar Charkha ranges from 4 to 25 per cent. In cost calculations, the wastage is taken at an average of 12½ per cent. This figure would, however, differ from one cotton to another and from one spinner to another. The writer expects this percentage to be higher on account of storage of cotton in godowns of all sorts, calling of bulk tenders by government or Khadi Centres and storage in spinners' huts. The dilemma would be that if the wastage is higher than 12½ per cent, it would upset the cost calculations of Ambar Yarn, and if wastage is as low or lower, it would worsen the quality of the yarn!

Any one acquainted with the elements of cotton spinning would find it hard to believe that the technical part of the report has nothing to say on the subject of mixing of cottons, or on the influence of climate and humidity. These of course, could be discussed as matters of detail by a committee ordered to submit its conclusions and recommendations within four months, without the benefit of adequate test reports, but what about any reflection on the need for the production of different yarns for warp and weft? Further, in recommending an inspectorate for imposing quality control, the Committee has shown no adequate comprehension of what this process involves. Even organised industry has found it a strain on management in a number of ways. For a technical committee to suggest that an inspectorate should be set up to check on the quality of yarn delivered and on the purity of Ambar cloth, without mentioning how this is to be carried out and enforced for a cottage industry hardly justifies faith in its technical competence.

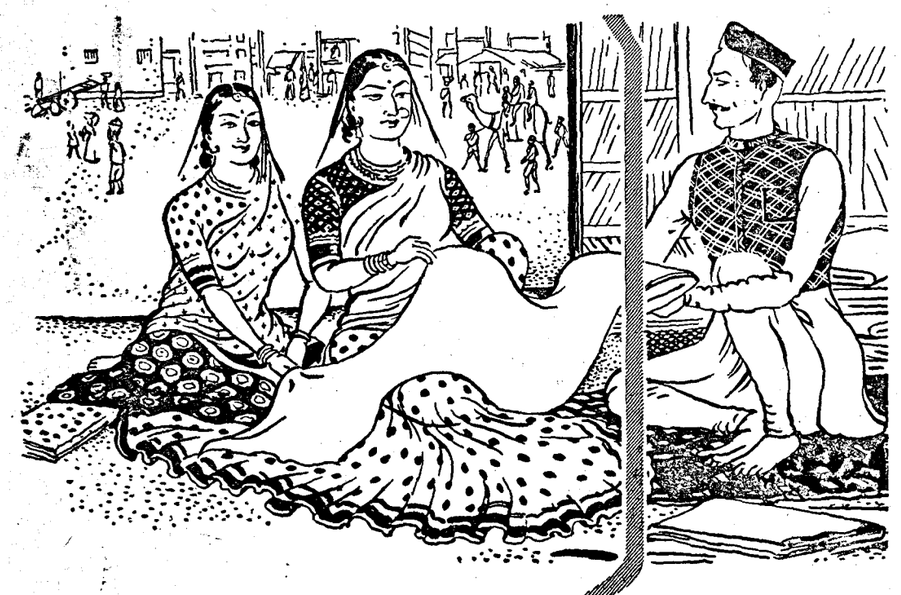
Economic Aspects

To come to the economic aspects of the Report. The pricing formula recommended by the committee is akin to the marginal cost principle i.e., that commodities should be sold at the level of current costs and that all overheads should be borne by the state which can recover them from taxes. The admission of this pricing principle into Government policy—for the Report has been accepted by Government—is an innovation which would have justified publicity as well as the presentation of some cogent arguments in its favour. Will this be taken as a precedent for price fixation in other spheres as well, or is it a special favour for the industry producing the livery of power alone? Has the Planning Commission or the Ministry of Finance investigated how these overheads should be recovered? And has the Khadi Board, with its penchant for statistical acrobatics, cared to estimate the relative "social costs and net benefits" of this policy? This formula is merely a device to cover up the essentially uneconomic nature of the whole Ambar Charkha programme and to conceal its true costs from the taxpayer.

The Committee estimate the cost of Ambar yarn (excluding overheads) at Rs. 2-14-0 per lb. of 18's and consider that a subsidy on Ambar cloth to the extent of 4 annas in the rupee would place it at the same (or higher) level of preference that the consumer has for mill cloth. Even assuming that handlooms will take up Ambar yarn, the further implied assumption that this yarn would sell at the same price as mill yarn and, therefore, require a uniform subsidy is likely to be belied because, at present, yarn of the same count from different mills is sold at markedly different prices.

Moreover, the yarn market is notorious for price fluctuations. In the light of these two factors, on what precise principle will the subsidy be fixed so as to neutralise the handloom preference for mill yarn? I consider the first of the two factors to be of great importance since Ambar yarn will be made with a hand-driven device by thousands

*In their original programme, the Khadi Board's technicians and economists completely ignored this inconvenient fact.



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(and later, one believes lakhs) of spinners with varying skills, training and aptitudes, and who will, therefore, turn out yarn of different prices to handloom weavers, thus necessitating a scale of subsidies rather than a subsidy as such. A further complication would be that, in a large number of cases, the supply of yarn would at best be seasonal and at worst spasmodic, so that quality will vary all the more according to the state of maintenance of the **charkha**, storage of cotton and the skill of the spinners.

The Committee (as well as the Khadi Board) assume that a sufficient number of spinners would be forthcoming at 12 annas a day, though according to present estimates the daily income would be only 9 annas on the basis of 6 hanks per 8 effective hours. In its typical slipshod manner, the Committee presumes that "regular work at 12 annas for 300 days would be preferred to Rs. 1-4 or Rs. 1-8 (a day) for half the year." Now, Rs. 1-8 per day for 150 days provides the same annual income as 12 annas a day for 300 days, besides leaving one-half of the working year free for seeking work elsewhere. Moreover, why should a person, who is not a nitwit, not work 150 days at Rs. 1-8 or 1-4 per day and then ply the **Charkha** for the rest of the year? The logic of the facts of the Indian rural situation makes it doubtful if many whole-time spinners would be forthcoming at 9 annas or 12 annas per day. It is only during the agricultural off-season that one can expect a spinner to devote himself wholeheartedly to the charkha. Women may have more spare time than men, but would all or the larger portion of it be available for spinning for the greater portion of the year?

Story of Ambar Centres

It is always unwise and often illegitimate to generalise from limited data. But the experience of Ambar training centres mentioned in the report may be related here. Of the 4,700 persons who joined the various training centres only 3,600 completed the course (many of them joined during the course). The reported low productivity rate during tests is explained by the Khadi Board as follows:

"Owing to severe heat in most regions of the country during the months of March and April a very large number of spinners were disabled by diseases such as dysentry, smallpox, chicken-pox and other diseases. Moreover, as these months coincided with the occurrence of the new year, several religious festivities and also the marriage season, attendance of the **Parishramalayas** as well as regularity of work was poor." We are, therefore, expected to believe, **inter alia** that (1) severe heat in most regions of this country is experienced only in March and April, as against the prevalent feeling that these months are only the beginning of the hot season, (ii) the susceptibility of our rural folk to the above mentioned diseases is abnormal, that such diseases burst in suddenly during spinning tests and that they will disappear once the programme is under way, and that (iii) religious and marriage festivities occur only once in a blue moon and shall not affect either the training or production programme later on. While lesser men may not be convinced by these suggestions, the Khadi Board is obviously not to be discouraged by such "abnormal" events and its economic analyst, after having a look at the classification of men and women spinners by their age groups, finds that it "conclusively proves, that handspinning on the Ambar Charkha is attractive to the bulk of the labour force in the rural areas" and that "the Ambar Charkha can attract a sizeable number from among young men and engage them in productive activity". Comment is superfluous in the face of such overpowering faith.

The Committee recommends that Charkhas should be distributed near intensive handloom centres, in cotton-growing areas and where the employment situation is highly unsatisfactory. Nothing is said about how these conflicting criteria are to be reconciled. If Ambar yarn is to be used on existing looms and not on new looms (as the Committee suggests), then how can charkhas be located at a great distance from handlooms? And if yarn is to be transported from, say, a cotton growing area where there are no looms to a distance of 100 miles or more, how is it that the cost estimates in the report have not mentioned transport cost and said nothing about equalisation of possible regional disparities of costs? Actually, we were so long under the impression that the main argument in favour of the Ambar Charkha was its employment potential in the rural areas and that implied the location of the programme primarily in distress areas, regardless of the proximity of handlooms or cotton. It appears now that in trying to make (or pass off) the charkha as a commercial proposition, the Committee and the Khadi Board have diverted their attention from the principal objective of providing employment in those rural areas which need it most. So far as the environs of the handloom centres are concerned, the Ministry of Commerce and Industry has already expressed its preference in giving licenses for installation of spindles to be located near handloom centres. The fact that this policy is resented by the Khadi Board in one of its pamphlets 'Textile Policy X-rayed' indicates the confusion in which that Board has involved itself—and which unfortunately, it has imposed on the Khera Committee as well. It should be clear to all that the Ambar Charkha is essentially a means to provide employment in distress areas like Bengal, Bihar, Eastern U. P., Telengana and Malabar, together with a few other pockets. Since it cannot compete with mill yarn, even though its overheads are borne by the general tax-payer, it should be clearly recognised as a non-commercial proposition and be treated as such. To integrate this programme with the CPA and or NES, as the Report recommends, would be inadvisable, since these projects are required to propagate only those technical and other devices which are of proved efficacy and which bring about the best possible use of national resources, especially technical knowledge and available funds. In any case, the CPA projects are confined to the better off areas while the scope for the Ambar Charkha lies in the areas which are the worst off.

Conclusion

There is a place for the Ambar Charkha in the rural economy. In its own limited way, it could make a useful contribution by providing gainful employment and by raising the level of incomes of the unemployed. But if it is to make that contribution, all concerned must come down to brass tacks. Ambar cloth woven from the warp of ideology and the weft of wishful thinking is no contribution to the national product. From which may be drawn the trivial deduction that it should be made from good quality yarn!

Around Bombay Markets

Continued Buoyancy

Thursday, Morning

DESPITE only two working days during the week, conditions continued to be favourable for trading on the stock exchange and equities ruled buoyant for the third week in succession. Budla charges for the last fortnightly settlement did not indicate a heavy long position and professional operators were quick to exploit the position by accumulating lines. In spite of occasional profit taking, leading equities forged ahead and closed at peak levels. Intervening holidays and closures on account of the firing in Ahmedabad failed to affect the buoyant tendency.

The announcement of the borrowing programme of the State Governments for a total amount of Rs 64 crores could not produce any bearish effect on equity values, despite the already tight conditions obtaining in the money market. According to market observers, the return of funds from the moffusil is satisfactory but demand from trade circles, however, continues to be brisk. The support for the States' loans under the circumstances is mainly expected from institutional investors. The insurance companies are likely to go in for these loans, but, as these investors have only last month invested their surplus funds in the Central loan it is to be seen to what extent they would be able to help the State Governments. The terms of the new State loans, however, will ensure their success as they are medium dated and offer an yield of four or a little over four per cent. Meanwhile, 3 per cent 1986 conversion loan has declined to Rs 75-2 from Rs 75-8 in the previous week. Other plan loans and medium loans were also quiet for want of support.

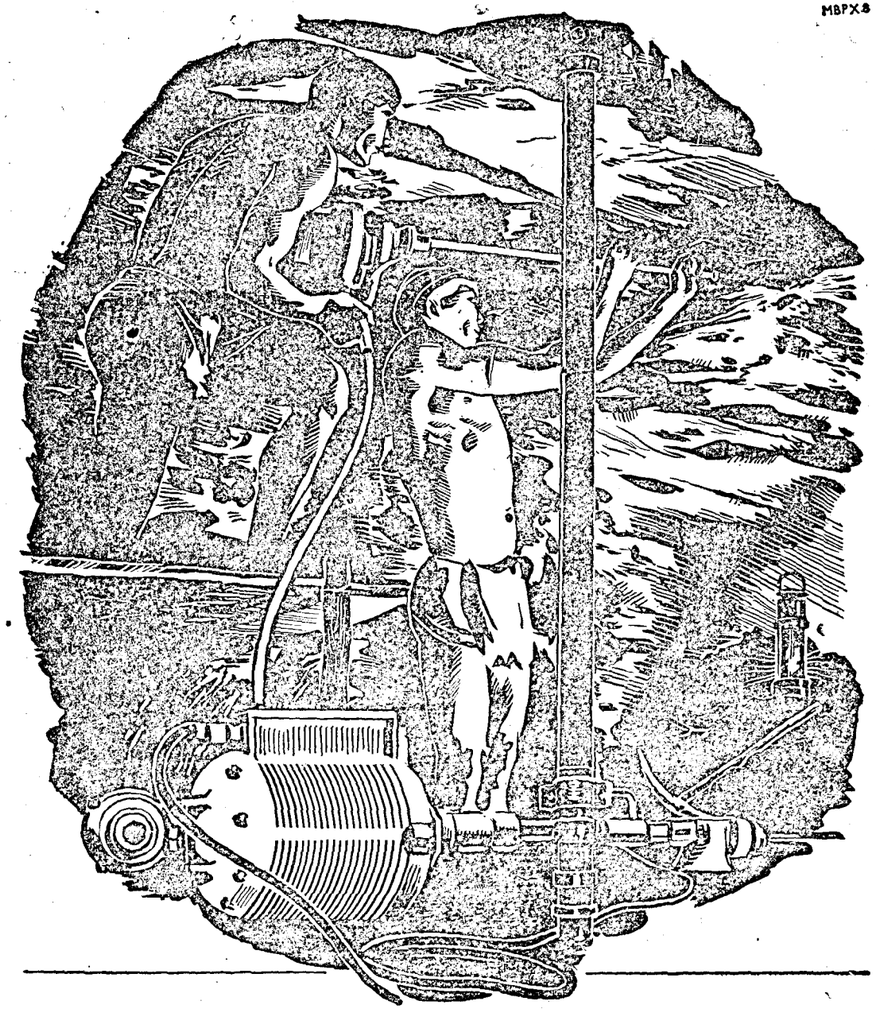
Though little or no interest was shown in securities and loans during the week, there was increased tempo of activity by professional operators as also investors in selected equities on continued encouraging company reports and hopes of a still brighter outlook for industries during the current year.

With the revival of activity in the cloth market, and with prospects of increased demand for cloth both from Calcutta and locally, operators extended increased support to selected textile shares which recorded handsome gains. Even equities hitherto neglected also gained prominence, some recording fancy gains. Shares like Bombay Dyeing, Century, Finlay, Swan, Swadeshi, Tata Mills, India United Ordinary and Deferred attracted investment enquiry. On hints of three shift working and higher profit, Bombay Dyeing shot up by fifteen points during the week and have gained more than thirty rupees over the last fortnight. Century jumped twenty points on reports that the company's new rayon plant was expected to go into production shortly. Revival of rumours regarding the amalgamation of Tata group of textile mills and considerably improved working took up Tata Mill to a new peak while Swadeshi scored seven points from the week's low. Finlay and Swan hardened by five to eight points. Indu Ordinary, even after being quoted ex-dividend (five annas per share), shot up on sustained support from Rs 14-3 to Rs 14-10 on conversion rumours. Indore Malwa, Shrinivas and other cash shares also received support.

In the engineering sector, there have been persistent support for the shares which have recently been listed on the exchange. Engineering industries have been prospering. They will further prosper during the Second Five Year Plan period. With satisfactory working results of Tata Steel Company, and with the shares quoting cum-dividend, there have been sustained support which pushed the rate to a new high level. Indian Iron were very firm. Small priced shares like Larsen & Toubro attracted considerable investment enquiry on better yield consideraions and on reports that the company had secured a contract for about Rs one crore worth of Caterpillar manufactured equipment. The shares shot up by three points to Rs 19. Mahindra and Mahindra were also sought at higher levels.

MARKET LEADERS DURING THE WEEK

	Aug 14, 1956	Week's Range High	Low	Aug 8, 1956
Steel Shares :				
Tata Ordinary	210-12	210-12	207-12	208- 4
Indian Iron	37- 8½	37- 8½	36-11½	36-11
Textile Shares :				
Bombay Dyeing	696-14	696-14	673- 2	681-14
Central India	163- 0	163- 0	158- 0	159- 0
Century	609- 8	609- 8	590- 8	589- 8
Kohinoor	391- 8	391- 8	384- 0	389- 0
Simplex	217- 0	217- 0	214- 0	214- 8
Swadeshi	271- 0	271- 0	263- 4	265- 0
Miscellaneous Shares :				
Associated Cement	197- 0	197- 8	194- 4	196- 4
Belapur	254- 0	254- 8	253- 0	254- 0
Burma Old	761- 4	761-14	730- 0	735- 0
Premier Const.	211- 0	212- 0	204- 0	205- 0
Scindia	19- 4	19- 4	18-10	19- 1
National Rayon	276- 0	276- 0	270- 0	269- 8
New India Assc.	49- 4	49- 8	49- 0	49- 4



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Cash shares like banks and insurance were comparatively quiet. Electrics, however, were easy, and attracted more sellers than buyers. Electric companies have undoubtedly been doing well. But the scope for increased yield being limited, they lack support when market rates are getting adjusted to a higher yield basis. There were sellers in Bombay Suburban, Ahmedabad, Electric and Tata Group of shares all of which closed lower.

In the miscellaneous section, Associated Cement, Digvijay Cement and Asoka Cement received fresh enquiry from investors. There was selective buying in sugar shares also. Shipping shares attracted influential speculative support. On revived hopes that the Founders' shares will be eliminated on terms favourable to ordinary share holders, and that the company's reorganisation scheme will get through, there was heavy buying and short covering in Bombay Burma, Old. They jumped by more tahn thirty points.

On reports of fresh capital issue shortly, National Rayon were also in the limelight, and, advanced more than six points. On expectation of maiden dividend of Rs 6 per share, Tata Loco rallied by ten points to Rs 175. The company having acquired a soap factory at Calcutta, which is expected to go into production as revealed by the Chairman, Mr J R D Tata at its annual meeting, Tata Oil received investment support. The company is also to instal a second solvent extraction plant in the South for de-oiling oilseed cake and is also considering plans for modernising the crushing and oil expelling plants at Bombay and Tatapuram. Tata Chemical, and other small priced shares closed firm.

Cotton

Export Duty Abolition Rumour

COTTON, both spot and futures, ruled strong during the week under review. Sentiment was influenced by persistent rumours about the abolition of export duty and further export quota. Towards the close of the week, there was a spate of buying both in futures and spot on reports of rains in the Punjab and some parts of Uttar Pradesh.

Jarilla futures shot up fifteen points per candy and were done at one time at the new high level of the season at Rs 705 per candy. Vijay April futures also advanced from Rs 825 to as Rs 837 on the last working day of the week.

In th spot section ,there was brisk mill demand for popular varieties like Surati, Vijay, Jarilla, Laxmi and Hubli Jaydhar. Bombay's prominent group of mills purchased fairly good lots of Hubli Jaydhar, Kapadvanj, Amraoti and Vijay. Rates, therefore, improved by ten to fifteen rupees per candy. Specific delivery contracts also ruled very firm. Khandesh, Berar, Khamgam, Morvi, Punjab 320F and 216F, and Punjab-American moved up by ten to sixteen rupees per candy.

In the export section, there was keen demand from shippers. Main varieties in demand were Bengal, Wagad, and Zoda cotton.

Local and upcountry mills bought Sudan X G 6S and Sudan G 4L.

In continuation of the announcement of the export of 20,000 bales of Bengal Deshi, it has been notified during the week that:

(1) licenses will be granted to established exporters and registered dealers, also to displaced cotton traders from Pakistan,

(2) a small quantity has been reserved for co-operative societies, and

(3) the percentage for allocation of individual quota to established exporters is 1.36 per cent (with minimum of 4 bales) and dealer 0.16 per cent (subject to a maximum of 24 and minimum of 3 bales).

Oilseeds

Export Demand for Castor

OILSEEDS and oils ruled buoyant during the week. With small floating stock and higher overseas advices, ready castor and oil were bid up to new high levels. America accepted Indian offers for oil up to 15.00 cents per lb as against 14.50 cents per lb in the previous week. Business was also reported with Britain and the continent for about 250 tons at higher rates. Indian shippers appeared hopeful about further deals with America in the next week.

Supported by the firmness in the ready section and in cotton and other forward markets, operators went long in castor and groundnut futures. With increased bull support and heavy bear covering, castor September futures shot up further by nearly seven points per candy.

Company Note

Birla Jute

For about two years now, the jute industry has been plagued by an unfavourable spinner's margin. Production has moved up. Sales have improved. But profits are not higher. This is reflected in the working results of the Birla Jute Manufacturing Company, Ltd., for the year to March last. Sales of the Company's Jute mills department were higher, but profits were lower. Even so, the ordinary dividend has been maintained at ten per cent.

During the year under review, the calcium carbide factory reached full production. Permission of the Central Government has been sought to raise the plant's installed capacity from ten to twenty tons per day. This factory worked at a loss during the year. A cement factory is to be installed at Satna. It will have the capacity to produce 800 tons of cement per day. Orders for the necessary plant and machinery have already been placed. A staple fibre spinning plant is to be erected at Birlapur. Machinery for this plant has also been ordered. The factory is expected to go into production from March next.

To secure additional finance for these projects, the authorised capital of the Company was raised from Rs 1.45 crores to Rs 4 crores by the creation of 800,000 ordinary shares of Rs 10 each and 175,000 second preference shares of Rs 100 each. Second preference shares for Rs 75 lakhs were issued. This issue was fully subscribed.

Power for Employment

NO loan has so far been sanctioned by the Government of India for the current year to any State for the expansion of power facilities. A provision of Rs 4 crores has been made during the current financial year for schemes of expansion of power facilities for increasing employment opportunities. So far requests for loans have been received only from the Governments of Rajasthan and Andhra and these are under consideration. No great was sanctioned during the First Five-Year Plan to any State Government, but loans totalling Rs 827.523 lakhs were made during the First Plan period to various State Governments.

Around Calcutta Markets

Spurt in Jute Shares

Thursday, Evening

BOTH cash scrips and speculative shares have moved up in the last three weeks. It started with the spurt in clearing shares. Strength in speculative scrips had a sustaining influence on equities in general. But, in the last few days, it has been the other way about. Activity in cash scrips has encouraged confidence about the immediate outlook for equities. This is a healthy development. For, it indicates the gradual re-entry of investors in stock markets. Initiated by the Suez Canal crisis, the spurt in equities has continued as investors have taken interest in the market.

Certain background factors have been discussed in these columns in the last few weeks. Manufactured prices have now started moving up. This has encouraged hopes that industrial profits will not suffer. Effects of public loans on stock markets are now better appreciated. In the main, these loans are taken up by institutional investors. Individual subscriptions are negligible. So, the flow of investment is not likely to be affected. Meanwhile ,there are growing doubts whether the Kaldor tax proposals will be introduced in the next budget.

These basic economic influences have combined with technical factors to hasten a spurt in equities. When the Indian Iron and Steel Co's proposal for issuing eight shares at a premium of Rs 3½ per share was first announced, it had a depressing effect on Indian Iron. It was then argued that investors have no surplus fund to invest. Now that the time for the right issue is approaching, there are some indications that investors are picking up this share at low prices so as to reap the maximum advantage of the offer. That was how the upswing in Indian Iron started a few weeks ago. It continues, however, because, even at current prices, Indian Iron is worth accumulating on the terms of the proposed right issue.

Along with Indian Iron, all other clearing shares are moving up. But the spurt in Burrakur Coal is worth emphasis. Coal shares still continue to be neglected. But the only coal share which is on the forward list is moving up because the impression is gaining ground that coal shares are speculative "buys" for, at least, the duration of the Second Plan. Rising labour costs have been partially, if not wholly, offset by higher controlled prices for coal. Even the pessimist concedes that the scope for expansion in the private sector of the industry is ample in the next few years.

Besides the revival of demand for jute shares, the sustained improvement in miscellaneous shares is the most encouraging feature of recent trading on Lyons Range. Spurt in these shares is mainly due to investment support. It is not influenced by speculative activities like cornering or buying in anticipation of right issues. Yield considerations, at current low levels, are the main motive behind the continued investment buying of miscellaneous shares. These same influences are responsible for the slow, but steady, improvement in Paper shares as well as in sound Engineering shares. Evidently, investors are interested in accumulating shares at bargain prices.

By far the most dependable event in recent weeks is the revival of demand for jute shares. For the last eighteen months, these shares have remained depressed. Investors have been the victims of false hopes and promises. Some time ago, the industry unsealed looms to raise output. This was interpreted by the market to mean that the demand for jute goods was expanding. But Russian purchases have not materialised in expected volumes. Despite lower prices, exports of jute goods have fallen, though internal despatches continue to be satisfactory. Meanwhile, the spinner's margin has been consistently unfavourable.

Stocks of jute goods with the mills have been rising every month since the industry started expanding output. In the first seven months of this year, mill stocks have doubled. Some time ago, IJMA decided to reseal 2½ per cent of loomage. This was effected in the middle of last month. IJMA has now announced its decision to reseal a further 5 per cent of loomage from the middle of next month. For the last few days, reports have been current that a further 2½ per cent of loomage will be re-sealed. IJMA's decisin to re-seal as much as a further 5 per cent of coverage has had a "bullish" effect on jute shares.

IJMA was not in favour of un-sealing looms. With its present decision, the industry will be functioning, as in recent years, with 12½ per cent of loomage sealed. It is emphasised by IJMA that the aim is to adjust supplies to demand, and that sealing and un-sealing will be effected according to changing circumstances. Compared with the earlier Government move to fix minimum prices of jute goods, the process of adjusting supplies to demand through controlling output may be a better device. Jute goods have hardened in the last few days. This is reflected in the revised demand for jute shares.

There is a fly in the ointment. Strange as it may seem, raw jute prices have not softened since the move to re-seal loomage. Mills are short of stocks of raw jute. In the last two months, mills have been active buyers of raw jute for immediate delivery. This may be the reason for the continued strength in raw jute. But soon this season's crop movement will gather momentum. Re-sealing of 7½ per cent of loomage will curtail mill consumption. If raw jute prices develop a downward trend, the improvement in jute shares is likely to be sustained.

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CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1451.78	1447.15	1474.80	1307.13
2. Rupee Coin	112.42	112.12	108.71	107.73
3. Deposits				
a) Central Government's	54.04	61.05	52.08	75.02
b) Banks'	51.04	47.90	53.56	53.74
c) Other Governments'	9.38	5.86	6.94	9.44
d) Others'	11.88	12.22	12.19	15.66
4. Foreign Securities	616.68	616.68	626.68	637.04
5. Balances held abroad	32.02	36.79	41.63	81.94
6. Rupee Securities	708.62	708.62	728.56	543.69
7. Investments	49.41	49.41	37.31	62.02
8. Loans and advances to Governments	7.08	5.04	3.34	3.57
Scheduled Banks				
1. Demand liabilities (net)	623.26	628.02	629.40	590.79
2. Time Liabilities	458.08	456.97	454.97	410.41
3. Cash on hand	36.01	37.91	37.46	34.37
4. Borrowings from Reserve Bank	36.56	47.27	44.81	8.99
of which against Usance Bills	25.34	34.35	33.68	8.45
5. Advances and Bills discounted	692.83	693.15	710.86	602.15
of which State Bank's	126.34	126.44	134.08	106.79
6. Invst. in Govt. Sec.	361.85	353.39	346.90	369.91
of which State Bank's	106.08	100.52	100.17	93.38
Cheque Clearance	121.53	142.06	128.90	109.79

†For Reserve Bank and Cheque Clearance week ended 10-8-56. Scheduled Banks week ended 3-8-56.

Bombay Money Rates	10-8-56	3-8-56	13-7-56	12-8-55
Inter-Bank Call Rate	3½	3½	3½	2
3 months deposits	3⅜	3⅜	3⅜	2⅝
6 months deposits	3⅜	3⅜	3⅜	2⅝

Bombay Bullion — In Rupees and Annas

	16-8-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	104-4	103-1	100-9	95-0
Forward	104-4	103-1	100-3	92-4
Silver (per 100 tolas)				
Spot	172-5	172-8	173-7	161-0
Forward	172-5	172-9	173-9	159-4

COTTON STATISTICS

MILL CONSUMPTION

(in '000 bales of 400 lbs each)

Description:	May '56	Apr '56	Mar '56	Feb '56	Jan '56	Sept '55 to May 56
Indian	349.42	341.82	347.76	347.06	353.76	3260.02
Foreign of which	55.19	51.28	51.95	52.19	49.60	445.86
American*	1.94	2.33	2.21	3.18	3.02	26.88
Egyptian	17.42	16.42	18.53	16.63	15.60	149.09
E. African	24.02	20.67	18.77	41.42	21.40	177.82
Sudan†	11.58	11.27	11.72	9.93	9.46	91.98
Pakistan	—	—	—	—	—	xx
TOTAL	404.61	393.10	399.71	399.25	403.36	3705.88

Consumption in corresponding periods a year ago:

	May '56	Apr '56	Mar '56	Feb '56	Jan '56	Sept '55 to May 56
Indian	335.8	345.9	350.1	322.6	348.6	3054.7
Foreign	48.1	47.2	51.1	50.1	57.3	491.2
TOTAL	383.9	393.1	401.2	372.7	405.9	3545.9

* Includes United States, Mexican and Peruvian cotton.
† Includes both Sudan Egyptian and Sudan American
xx Negligible

MILL STOCKS OF COTTON

(in '000 bales of 400 lbs each)

	May '56	Apr '56	Mar '56	Feb '56	Jan '56
Indian:					
1955-56	1687.2	1512.7	1359.8	1188.0	1137.9
1954-55	1587.4	1487.4	1346.4	1161.2	1043.9
Foreign:					
1956	219.3	213.4	211.5	174.6	156.4
1955	145.9	138.9	145.8	135.4	135.7

Source : East India Cotton Association

COTTON IMPORTS

(in '000 bales of 392 lbs each)

Source	May '56	Apr '56	Mar '56	Feb '56	Jan '56	Sept '55 to May 56
USA	1	2	—	1	—	6
East Africa*	42	29	29	7	3	142
Egypt & Sudan	22	12	37	88	44	306
Other countries	1	1	3	5	8	15
TOTAL	66	44	69	101	55	469
Total imports in corresponding months of the previous year	53	56	58	66	42	418

*Includes Kenya, Tanganyika and Uganda.
Source : Indian Trade Journal

COTTON EXPORTS

(in bales of 392 lbs each)

Destination	† 1955-56	1954-55	1953-54
	from 1st Sept to 26th July		
United Kingdom	56,617	38,050	142,66
Continent	75,001	57,904	253,76
China	54,337	17,392	293
Hongkong	30,994	5,103	—
Japan	215,481	101,775	64,333
USA	3,771	170,64	127,40
Other countries	2,514	2,512	1,552
Total of all foreign countries	438,715	239,800	118,565
Coastal Ports	99,057	144,691	158,442
TOTAL	537,772	334,491	277,007

† Excluding Zoda and yellow pickings etc.
Source : East India Cotton Association.

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group	Week ending 28-7-56	Week Ago 21-7-56	Month Ago 30-6-56	Year Ago 30-7-55
I **Food Articles:**	**386.5**	**382.3**	**373.4**	**313.3**
Cereals	486	484	475	364
Pulses	393	386	361	278
Others	257	250	245	246
II **Industrial Raw Materials:**	**496.6**	**493.2**	**481.8**	**414.9**
Fibres	475	473	470	427
Oilseeds	545	540	537	390
Minerals	534	523	435	425
Others	420	419	421	418
III **Semi Manufactures:**	**397.7**	**394.9**	**395.5**	**325.7**
Leather	391	396	401	316
Mineral Oils	208	208	208	201
Vegetable	553	544	553	390
Cotton Yarn	482	476	473	406
Metals	327	327	328	256
Oilcakes	446	432	426	339
Others	361	362	361	329
IV **Manufactures:**	**386.0**	**386.0**	**377.0**	**371.8**
Textiles	419	419	409	408
Jute	386	386	381	429
Cotton	430	430	419	402
Rayon & Silk	470	470	453	474
Woollen	266	264	264	282
Metal Products	388	388	377	352
Others	291	291	286	286
V **Miscellaneous:**	**562.0**	**560.8**	**545.4**	**554.6**
All Commodities:	**412.3**	**409.9**	**402.0**	**357.3**

EXPORT OF ART SILK FABRICS

(Through Bombay, Calcutta and Madras Ports)

Destination	March Yds.	Feb Yds	Jan Yds	Value of Exports (Jan-Mar)
Aden	17,668	9,087	10,826	50,099
Mauritius	5,402	10,901	—	33,263
Zanzibar	8,864	8,456	7,212	103,328
Nyasaland	—	16,945	30,126	54,834
Tanganyika	5,289	1,780	3,000	21,789
Sudan	11,800	46,400	2,560	49,115
Afghanistan	29,885	97,498	245,112	390,457
Ceylon	1,253	4,370	9,743	28,358
Fiji	25,968	5,235	18,003	64,883
Malaya	44,291	43,393	—	137,538
Other Countries	13,969	4,242	59,734	149,357
TOTAL	164,389	248,307	386,316	1083,021

EXPORT OF RAYON FABRICS

(Through Bombay, Calcutta and Madras Ports)

Destination	January to March 1956 Quantity Yds.	1956 Value Rs.	1955 Quantity Yds.	1955 Value Rs.
Aden	37,581	50,099	64,209	92,979
Tanganyika	9,969	21,789	2,608	2,767
Sudan	60,760	49,115	44,267	50,021
Afghanistan	372,495	390,457	16,043	19,876
Ceylon	15,366	28,358	125,023	294,885
Other Countries	304,742	543,203	346,526	581,064
TOTAL	800,913	1,083,021	598,676	1,041,592

Source : The Silk and Rayon Textiles Export Promotion Council.

WORKING CLASS COST OF LIVING INDEX

(Monthly averages or calendar months)

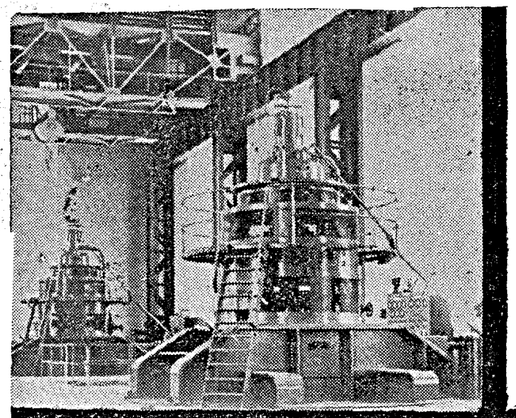
Base : 1949 = 100

	Bombay	Calcutta	Madras	Kanpur	Delhi	Jabalpur	Kharagpur	Ludhiana	Cuttack	Jharia
1952	110	100	102	92	107	99	97	92	109	110
1953	118	99	109	95	107	100	101	90	107	104
1954	117	94	106	85	103	93	93	90	100	82
1955:										
Jan	115	93	103	78	100	86	91	86	95	75
Feb	112	89	101	80	97	86	89	84	94	77
Mar	111	89	99	79	96	86	87	81	93	76
April	111	89	97	74	95	86	87	79	95	73
May	109	91	95	70	92	85	87	80	100	75
June	108	91	96	73	93	87	93	80	101	76
July	111	93	98	78	99	90	96	82	101	77
Aug	111	95	98	78	101	88	95	83	103	78
Sept	108	94	100	78	101	88	94	84	106	79
Oct	108	96	100	81	101	89	95	85	100	80
Nov	107	97	101	82	103	91	96	88	100	79
Dec	108	95	103	82	106	94	96	90	99	77
1956:										
Jan	109	92	103	85	105	96	93	90	98	77
Feb	110	91	103	82	104	94	93	89	97	78
Mar	114	93	105	83	105	96	96	90	99	80
April	117	97	110	86	106	99	101	92	105	86

Source : Labour Bureau, Government of India

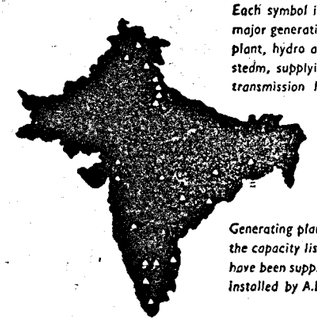
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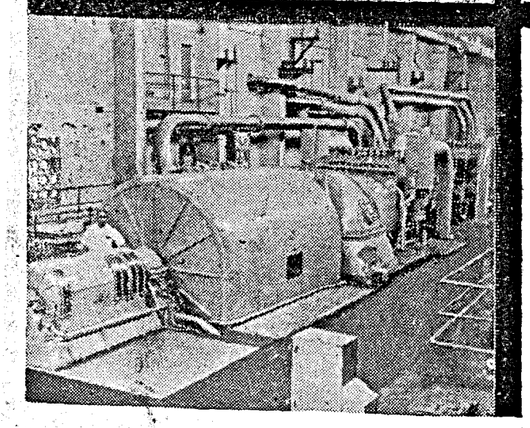
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Jogindarnagar	48,000 KW
Greater Calcutta	1,61,000 KW
Madras (Basin Bridge)	2,15,450 KW
Pykara, Mettur, Papanasam and Moyar	
Mysore (Jog)	48,000 KW
Travancore	22,500 KW
U. P. (Harduagang)	40,600 KW
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GOVERNMENT OF MADRAS 30 AUG 1956

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No Mandate from the People

BOMBAY was, until recently, the most disciplined State in the Indian Union. Honesty, integrity and administrative ability of Bombay's Chief Minister are beyond dispute. Shri Morarji Desai is a respected Congress leader. His services for the country are widely appreciated. He is a strict disciplinarian. His mortification over the prevailing atmosphere of violence in Gujerat is sincere. There will be sympathy for his austere decision to undertake a fast "till I am able to address a public meeting and people hear me patiently". Even those who may question the means pursued by him will devoutly hope that his laudable aim will be achieved. Projection of morality into politics is not new or novel in this country. In undertaking a fast, he has emulated Mahatmaji. All sane persons will wish that his self-purifying gesture will shock the people of Gujerat to sobriety. Mob violence must be condemned. There are welcome signs that Shri Morarji's spartan action has already had the intended effect.

To condemn violence, however, is not to minimise the grave issues involved in New Delhi's attitude to the problem of re-organisation of States. It would be uncharitable to dilate on the ethics of Shri Morarji's political decision to undertake a fast. But the political problems posed by the people's reaction to New Delhi's policy to linguistic States must be properly appreciated. There will be no quarrel with Pandit Nehru's emphatic assertion that Parliament's decision cannot be challenged in the streets. That would be negation of democracy. Whether supreme sovereignty vests in Parliament or with the people, is an academic political issue which is not in question here. But political pundits will not deny that not even Parliament can impose a solution on the people against their wishes. In a democracy, both the Government and Parliament have a moral as well as a constitutional obligation to seek a fresh mandate on an issue on which the people are visibly and demonstrably opposed to the verdict of the Government and of Parliament. Developments in Bombay and in Ahmedabad prove beyond the shadow of a doubt that neither the earlier nor the present plan for Bombay has the support and consent of the people concerned. In the circumstances, Pandit Nehru disowns the fundamental principles of democracy by his over-emphasis on sovereign, constitutional status of Parliament.

Those who deplore violence and intimidation by the citizens of Ahmedabad will hope that the shock therapy administered by Shri Morarji will hasten the return of normal conditions in that city so that the inhabitants "are able to follow their ordinary avocations of life without let or hindrance". Passions have been aroused in Gujerat over the Government's imposed decision to form a bigger, bilingual Bombay State. No sane person will, or can, encourage or endorse mob violence. But the circumstances which directly provoked Shri Morarji to undertake a fast were not manifestly outbursts of violence. It was a self-imposed "Janata curfew" which deprived Shri Morarji of an audience in Ahmedabad on Sunday last. It would be absurd to maintain that the "people's curfew" was enforced without any intimidation. Such an essentially Gandhian technique can hardly be implemented on a mass scale without some coercion and intimidation. But it was a unique demonstration by the people of Ahmedabad that they would ignore leaders who had ignored their wishes and aspirations. It was a supreme manifestation of democracy.

One false step leads to another. Developments in Gujerat are poignant reminders of the Congress Government's mistaken policy of reorganisation of States. Not only is Congress wrong in its policy of readjustment of State boundaries. Frequent changes in its policy have created additional complications. A revered Andhra leader had to fast unto death before New Delhi conceded the principle of linguistic States. For some time, New Delhi fostered the impression that, though forced by coercive tactics to concede Andhra, it was reluctant to implement the principle of linguistic States. Later events compelled it to change its policy. With certain mental reservations, it accepted the principle of linguistic States. This hesitant attitude was, to some extent, shared by the States Reorganisation Commission, though its proposals conceded, in effect, the principle of linguistic States. Trouble arose over the conflicting claims over Bombay City. New Delhi's decision to run the City as an area administered by the Centre was rejected by Maharashtrians. To appease the advocates of Samyukta Maharashtra, the bigger, bilingual Bombay plan was proposed. This plan was endorsed by Parliament. Gujerat is angry at the reversal of the former decision to form a separate linguistic Gujerat State.

During and since the formation of SRC, the Congress party and the Government have seemed to speak with two voices on the issue of reorganisation of States. At the Centre and in the States, Congress governments have been hesitant in their support to linguistic States. But the Pradesh Congress Committee and Congress members of Parliament and of State Assemblies have been vocal in their demands for linguistic States. To avert the growing conflict between the party and the Government, Congress decided at Amritsar to streamline the organisation. On the issue of the bigger, bilingual Bombay, most of the Congress members of Parliament of the States directly concerned seemed to be in agreement with the decision of the Union Cabinet. This plan has been endorsed by the Gujerat Pradesh Congress Committee. As was to be expected, the Maharashtra Pradesh Congress Committee is not opposed to the proposal. But the popular revolt in Gujerat is convincing proof that not only the Congress Government, but Congress as a political party is completely out of touch with the people.

It is natural that both Pandit Nehru and Shri Morarji Desai will blame the opponents of Congress for instigating and fanning the popular agitation against Parliament's decision to create a bigger Bombay State. Insinuations have been made that the disturbances in Ahmedabad have been instigated by vested interests. Impartial observers will reject the implication that the people of Gujerat are not opposed to the plan for a bigger, bilingual Bombay. Such distorted interpretations are serious reflections not only of the political sense of prominent Congress leaders, but of their political integrity.

On the issue of linguistic States, both the Congress party and the Government have ceased to represent the aspirations of the people. Either Parliament must initiate a procedure which enables it to reverse its decision relating to the plan for a bigger, bilingual Bombay. Or, the Bombay issue must be postponed so that Gujeratis and Maharashtrians can express their wishes in a decisive and democratic manner during the forthcoming general elections. Some of Pandit Nehru's observations in his Lok Sabha speech during the debate on the bigger Bombay proposal emphasises the need for Congress to seek a fresh mandate on the issue of linguistic States. In his Lok Sabha speech, the Prime Minister made the categorical statement that Congress was not for linguistic States, and that he was in favour of redrawing the map of India by creating a few, big States. If Pandit Nehru represents the views of Congress, it is imperative for Congress to make the problem of linguistic States an issue in the next elections. Thus alone can Congress acquire the democratic right to decide the problem of linguistic States in the name of the people. Certainly, Pandit Nehru is entitled to his personal views on the issue of re-organisation of States. But his preference for a few large regional States is not shared by those who claim political maturity or familiarity with the political history of this vast country.

Export Credit Insurance

IN view of the anticipated foreign exchange difficulties that the Second Plan is likely to encounter, export promotion to increase foreign exchange earnings has been rightly given a high priority. The proposal for an export credit guarantee scheme stems from it. Exporters have to face a variety of risks and if some of these are adequately covered, it should help to promote exports. Superficially, therefore, any such scheme has much to recommend it. Difficulties begin to appear when one looks at the problem a little more closely. And the moment one does that, one runs up against odds. The bulk of our exports are very well organised and flow along established channels through foreign firms who have arranged the whole thing fairly satisfactorily from their own point of view. The established exporters, therefore, need little assistance from the Government and would rather be left alone.

Looking at the matter from a different angle, 60 per cent of our exports move under the cover of letters of credit; banks take over all the credit risks on such exports. So any scheme that may be devised for covering credit risk would apply only to 40 per cent of the exports and would presumably appeal only to the exporter who is not so firmly established. If export promotion and substantial increase of export earnings are to depend on the energy and enterprise of this minority, can special assistance be extended to them in the form of risk cover without dragging in the others who do not need such cover? It might be an oversimplification to suggest that the situation is not unlike that in the textile industry where the organised sector is well able to take care of itself, but there is another sector, which cannot do without assistance. The solution boils down to one of taxing the one in order to subsidise the other.

In pursuance of its policy of promoting exports, the Government of India appointed an Export Credit Guarantee Committee to report on the feasibility of establishing an organisation for providing the exporter insurance cover against credit risks which he has to carry at present. (This report will be reviewed in our columns next week). The Committee has recommended that an Export Credit Insurance should be set up without delay, as an important export promotion measure and an Export Risk Insurance Corporation be floated with an authorised capital of Rs 5 crores, wholly subscribed by the State. The

Corporation is to cover both the pre-shipment risks which start as soon as the exporter enters into a commitment with the foreign buyer and post-shipment risks which become operative after the goods are despatched from India.

The risks borne by the exporter are many and they vary in degree. To offer cover against every such risk is neither feasible nor desirable. The Committee has therefore followed the usual practice abroad, and recommended that only those risks should be covered, except some pre-shipment risks, which are beyond the control of the exporter and occur outside the exporter's country. It toyed with a variation on this theme: If covering of a certain risk does not lead to larger exports, it asks, what good is such cover? Thus, if the Government imposes a ban on the export of a certain commodity, compensation to the exporter for his inability to comply with his obligation will not increase exports. On the other hand, insurance against export control risk will lead to one Government organisation to suffer losses (while paying compensation) for the action of the Government. The Committee, however, did not carry the argument any further and agreed to cover such loss provided the exporter had a valid export licence when entering into contract with the over-seas buyer.

The crucial problem in insurance business of any kind is the spread of risk. Export credit risk, however cannot be spread wide because the range of our exports, the number of foreign buyers and the countries which import from us are all very limited. Under such circumstances, the scope for the spread of risk will necessarily be narrow. This scope will be further narrowed—to an extent which will militate against the successful operation of the scheme, according to a dissenting member of the committee—if exporters are allowed to take such cover only if and when they desire. This may result in the proposed organisation being left with too many unwanted babies to carry. The established exporters in India are mostly foreign firms with global net work of branches and agencies and they will keep away a large share of their business from such coverage. The organisation may then have to be an asylum for bad risks only and will not be able to offer a reasonably cheap rate for coverage of risks. The rate, in that case can be lowered only if the Government subsidises the organisation heavily. The opposition of big firms established in the export business to compulsion to get all evports except those which are effected under letters of credit, insured, may be overcome to some extent, if such exporters are allowed a substantial rebate for 'no claims' made during the period fixed for the purpose. The committee, however, has fought shy of recommending compulsory insurance, because the business community does not like compulsion. If spread of risk is the cardinal principle of insurance, the principle cannot be sacrificed, without sacrificing the benefits of insurance at the same time.

The committee estimates that about 60 per cent of our export is covered by letters of credit. Financing of such export does not put any strain on the exporters as the banks purchase or advance against bills drawn under letters of credit, provided the terms have been properly complied with. The committee, however, has not estimated how much of the remaining exports bills are purchased by the banks or against

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what proportion of such bills advances are given. It is exports which are not covered by letters of credit which confront the exporter with the problem of finance. Credit risk insurance can play a significant part in reducing the difficulties of financing exports by offering insurance cover, as the position of the exporter will be strengthened by export credit guarantees. When such gurantees are endorsed by them, banks will certainly be willing to advance against exports which in normal case they would never do.

The banks, however, are already fully extended. Any further increase in advances towards export will be possible only if the banks are offered facilities to rediscount export bills in their portfolio. No spectacular increase in export financing by banks is possible without such rediscounting facilities. The Reserve Bank has had considerable experience of rediscounting through the bill market scheme. The mechanism can certainly be extended to cover this new field of financing. The proposition appears only as a suggestion in the report, being outside the terms of reference of the committee. But it is, nevertheless, an integral part of the scheme, if the latter is to help export promotion.

Weekly Notes

Best of Both Worlds

OF the import licences that are issued in any half year, how many are actually utilised? This, of course, no one knows for certain, because revalidation of licences and licences brought forward are difficult to relate to the imports which actually reach our stores in a particular half year. The general barometer of the import situation are therefore two-fold: lines for which licensing is stiff and lines for which licensing is easy and free and and both can be measured reasonably well by the premium offered in the free market and the enquiries for such licences. Of late both the latter have shown a distinct slackness. This time, Import Control Organisation has released somewhat fuller data than usual, from which the situation may be gauged roughly. The number of licences issued has steadily been on the increase in the last three half-years, having risen from a little over a lakh in the first half of 1955 to 1.14 lakhs in the second half, and 1.30 in the first half of the current year. An achievement of this organization for which it may take legitimate pride is the quick disposal of applications and the progressive reduction of the number of applications awaiting disposal from 2,500 to less than 200 in the last three half years.

Along with the increase in the number of licences issued, the total value of these licences has also gone up from Rs 304 crores in the first half of 1955 to Rs 344 crores in the second half and then sharply to Rs 517 crores in the first half of the current year. The actual imports for these three half years, not the imports corresponding to these licences, however, did not show much of a change between the first and the second half of 1955; in the first half of 1956, however, there was a big jump, the value of licences issued having risen from around Rs 309 crores to Rs 381 crores.

The above figures of licences issued obviously include those for import on Government account also, for the press note ascribes the increase "almost entirely" to the imports of capital goods for steel plants, expansion of Rayon plants, railway requirements and purchases by the Directorate General of Stores and Disposals.

The general impression fostered by authoritative pronouncements is that the bulk of the imports nowadays is capital goods and that barring a limited range of everyday necessities like drugs and books, only token imports of luxury consumer goods are allowed and that, too, for very special reasons. How correct is this impression? No breakdown is given either of imports or of the import licences issued in terms of capital goods not to speak of a further division of the latter into utilities and luxuries.

British business interests, as doubtless others, however, have noted that over a series of years the ceiling on imports of consumer goods has not been lowered; on the contrary, it has been raised. In an article contributed to the **Financial Times** Survey on India, Shri H V R Iengar, Secretary, Ministry of Commerce and Industry, gives the breakdown of our imports as shown below.

Breakdown of Indian Imports

(Each group show as percentage of total)

	1954-5	1953-4	1952-3	1951-2
Capital goods	15	17	15	13
Producers' goods	54	49	48	47
Foodgrains	7	12	17	22
Other consumer goods	24	22	20	18
	100	100	100	100

Without pausing to ask how are capital goods defined and distinguished from producers' goods, one may still note that the table confirms both the popular impression that imports of consumer goods is being progressively reduced—this will be apparent from the steady decline of the percentage share of 'foodgrains' and 'other consumer goods' in the total of imports from 40 to 37, 34 and 31 in the last four years ending 1954-5—and the fact that the percentage share of 'other consumer goods' has steadily risen during the four years from 18 to 20, 22 and 24.

So we can really have the best of both worlds, reduce non-essential imports and yet increase imports of *consumers goods to foster foreign* trade and attract foreign capital.

Fluid Situation

WITH the budget provision lapsing at the end of the month, President's rule in East Pakistan was a foregone conclusion, but for how long?

The prospects of a general election, which, it might be hoped, would clear the air and bring about a more stable order, however, are dim. In East Pakistan, the prospects are dimmer because the legislature, which is not allowed to meet or function, has first to decide whether electorate will be joint or separate, before the elections can take place under the new constitution of the Islamic Republic.

The situation is fluid by any count, but it is no fluider than it was before.

Welcome Slant on Operational Efficiency

THERE is a commendable shift of emphasis in railway publicity from passenger amenities to operational efficiency. Good wine needs no bush and when passengers find railway travel so much more comfortable, they do not have to be coaxed; the new amenities are talked about and the news travels from lip to lip. But operational efficiency which can be measured by increase in ton miles of goods moved or wagon miles per wagon day are not so easily grasped by the public. The Railway Board, it is good to see, has not been impervious to the barrage of criticism and is taking some pains to prove that it is steadily improving utilisation of its rolling stock and is moving more goods and passengers with the same equipment. The carping critics may complain, what had the railways been waiting for? But better late than never, the shift in emphasis is to be welcomed, not for what it has already achieved but for the promise it holds for the future.

It is also welcome news that General Managers of Railways held a three day conference at New Delhi to discuss improvements of operation. The Deputy Minister, Railways, concluding the conference, struck the right note when he said that:

> "the railways must develop a genius for improvisation to secure the maximum immediate results from existing assets, pending the procurement of more modern equipment through additional investment. With the help of better planning, the railways could obtain more satisfactory results".

That the Minister officially admitted that railways could obtain more satisfactory results was itself a gain. It is wise to concede what must be pretty obvious to all and has been repeatedly pointed out by experts. A concrete achievement of the conference was the target of performance laid down for the next busy season, higher than in the past season, which is to be attained largely through speeding up goods operation and by improving the present carrying capacity through better methods of work.

A bright little brochure brought out by the Central Railways appropriately called 'Facts and Figures' brings out the improvement that has already been achieved, mainly through intensive use of existing resources. It gives the number of new trains, passenger trains, that had been put on the lines. By the end of the First Plan period, the Central Railways has been able to carry 25 per cent more gross ton miles with only 16.4 per cent increase in the number locomotives. Similarly, the freight ton miles carried has shown an increase of 43 per cent and this has been possible 'only by making an intensive use of goods wagons and engines'.

An appreciable increase to rolling stock has been made possible on the Central Railway by keeping on the line overage passenger coaches, which had run their normal life and were thus due for replacement by carrying out repairs on them. By overhauling arrangements for repairing wagons, the proportion of wagons in sick sidings to wagons on lines was cut down from 7 per cent to less than 4 per cent, thus releasing almost a thousand wagons for goods traffic. Again, time spent by wagons in workshops undergoing periodic overhaul was also reduced. Working hours in goods sheds were increased to enable unloading and reloading to be completed in a single day. Work in marshalling yards was speeded up to shorten the period of detention to through loaded wagons. Express goods trains reduced by half the time spent in transit, thereby increasing availability of wagons. A "wagon chasing unit" was set up to minimise delays to through loaded wagons at terminals and at intermediate marshalling yards and stations. All this resulted in speeding up the movement of wagons and cutting down delays in transit. The cumulative effect of these measures has been an appreciable increase in the quantum of goods traffic carried on the Central Railway during the last busy season. The freight ton miles of goods traffic carried during 1955-56 busy season stood at 8,448 million against 7,532 million carried during the previous season, showing an improvement of 12 per cent.

Progress on Western Railway

A SIMILAR story is related in the brochure "A bird's-eye-view" issued by the Western Railway. In 1952-53 1,183 wagons were loaded daily on the Western Railway; in 1955-56 the average was raised to 1,400 wagons on the broad gauge, an improvement of 18.4 per cent in three years. On the metre gauge, there was a 15.2 per cent improvement, the number of wagons loaded being 1,939 in 1952-53 and 2,234 in 1955-56. Net ton miles rose from 3,430 mn. in 1952-53 to 4,658 mn. in 1955-56 an increase of 35.8 per cent! As in the Central Railway, by cutting down detention at terminal points, junctions and marshalling yards, reducing the time between unloading and reloading, increasing the working hours in goods sheds—transhipment by night helped a great deal, at Viramgam, transhipment was stepped up by nearly 80 per cent—and other measures, the Western Railway was able to carry 20 per cent more on the broad gauge and 30 per cent more on the metre gauge during the last busy season, as compared with the previous one.

Between rows and columns of figures, percentage changes from varying base years, one is apt to get lost somewhat. This effect is perhaps not quite unintended; what is publicity if it does not hit the eye and daze the reader, if only for a moment? But all this is to the good, if it makes the Railway Board also take note and ponder. All the world over railway men love to run trains. They also love to use more and more and better and better equipment and to expand. This proclivity is sometimes expressed by the proposition that the elasticity of demand for capital in railways is infinite. This insatiable appetite for capital has unfortunately to be held in check for the Second Plan period and yet more goods have to be moved. To say this, is not to expect the railways to perform the rope trick. It is pleasing to note that the railways do not think so any longer.

Oil Statistics, DGCI Lends a Hand

AMONG the functions of the Oil and Natural Gas Commission, the constitution of which has been announced by a Gazette Notification, will be to supply correct information about oil. This is now sorely needed, after the Directorate of Commercial Intelligence and Statistics has taken a hand in further mystifying even the routine statistics of oil which one would normally expect to be able to look up, say, from the monthly Accounts relating to Foreign Trade and Navigation. In the March issue of the Accounts, which also gives the returns for all the 12 months of the financial year 1955-56, imports of crude for the year have been lumped together in the March 1956 figure, though a note says that "imports of petroleum, crude or partly refined for

further refining have been separately specified from April 1955." They have certainly not been separately specified in this particular issue.

With two of the refineries using imported crude as raw material and working full steam, one would naturally like to know the volume of these imports, to have a rough check on oil refining in the country. While the import of crude has been put at 296 million gallons, export of mineral oils, apart from petrol lifted in air-crafts for the outward journey or oil fuel taken by steamers which are "not an export in the ordinary acceptation (sic) of the term and the value thereof is, accordingly, not included in these Accounts", are put at the sizeable figure of 58 million gallons, of which a third is petrol and the balance mineral oils of other kinds. Now the Production Ministry's latest report had mentioned "The production of existing refineries has made the country surplus in motor spirit and furnace oil. The surplus is being exported to other countries. There is, however, still deficiency of kerosene, diesel oils and bitumen."

Strong Points in Saurashtra Refinery

DESPITE such high authority, however, it would be misleading in the extreme to infer from all this that we are already surplus in some of the oil products and deficit in others, though the deficiency in kerosene, diesel and fuel oils is not only large but growing, with the increase in demand for all three. There is a lot of cross haul in oil products; this is because the storage and transport available is not always adequate to cope with the stream of oil flowing continuously from the refineries and exports have often to be allowed, just because the refined products' storage capacity is exhausted and transport may not be available as and when it is needed. One of the strong points for the proposed Saurashtra refinery is just this: its willingness to meet the deficiency, particularly in Saurashtra. Gujarat and Rajasthan, of kerosene, diesel and fuel oils. The Government of Saurashtra which sponsored this scheme has been very keen on having the refinery at Bhavnagar and has offered not only port facilities but the other services required by the refinery—water supply and electricity. The metre gauge rail line which connects this port with the area that the refinery is especially to serve already offers the minimum of transport needed, supplemented by water transport which can be readily pressed into service. The broad gauge line to connect Bhavnagar via Tarapore with the main line, projected in the Second Plan period, can well be depended upon to take care of the expanded transport needs, when the refinery develops its scale of operations more fully.

Now that Saurashtra will cease to be a State, it might be feared that local patriotism may not be as effective as in the past in pushing through the proposal and getting Delhi's acceptance for it. On the other hand, with Pandit Nehru in charge of Finance, the Ministry of Natural Resources is now less cramped in its style and freer to move. So the green signal might very well mean a move forward. Foreign participants in the scheme, who have committed themselves to every kind of assistance, from the regular supply of crude, transport by oil tankers, supply of equipment on long term credit and even finance, if need be, may not be able to stomach Delhi's dilatory methods indefinitely; after all, no offers can be made without some time limit.

The sponsors are willing enough to hand over the project to the public sector, if the Government of India wants to have it. The Ministry of Natural Resources, however, is at the moment keen on investing all the money it can get in oil prospecting to have any surplus left to take over this project. Malaviyaji has, therefore, nothing to ask from the present Finance Minister; he has only to guide the Prime Minister gently over the ideological hurdle. No objection to nationalization, here and now, or at any time later, is a good formula with which the sponsors should be able to get their project through. They are willing enough to have Government directors on the board, too, with or without capital participation by the Government and why not? Government fixes prices of petroleum products. Government Directors may be useful also in helping with transport and in dealing with the Secretariat.

There is one point, however, in our Delhi letter in the last issue which requires a slight modification viz. the role of Messrs Birla Bros. in the project. "The project has been assured association of Shri G. D. Birla" but Birlas are not the prime movers behind the Saurashtra refinery. Nasserwanji Dinshaw is the main pillar and the moving spirits behind are quite humble folks, an economic consultant and a consulting chemist!

Birla Paper on Free Enterprise Forum

"WHETHER the Forum of Free Enterprise will turn out to be a great crusader or a whimpering protestant it is too early to say. It is easy, of course, to write up a high-sounding manifesto; it is easier still to buy advertisement space for it in the Press. But where does the Forum go from here?

Its success will naturally depend very much on the energy, enthusiasm and above all the technical efficiency with which it does its job of educating public opinion on the worthiness of what it calls free enterprise. But it will depend even more on the faith it has in its own cause.

Has it got this faith? If so, why do not the men who are sponsoring it come boldly out into the open and say that they are speaking for a cause they believe in? The Forum stands behind a Bombay address, but why should not its personalities take their stand proudly in front of it? It must, in any case, be apparent even to the most ordinary intelligence that the Forum must have been organized by leaders of the business community and it ought not to be difficult for informed opinion to make intelligent guesses at identification. What would have been lost, then, had the Forum dispensed with the device of anonymity? On the contrary, much might have been gained and may still be gained if the Forum is given its due local habitation and name. After all ghost voices can hardly inspire us and while shadow gestures may amuse us in patomime, they only irritate us in real life."

Et tu Brute ?

— **The Hindustan Times,**
June 25, 1956

IRON ORE

The production of iron ore reached a new peak of 4.64 million tons in 1955 valued at Rs. 3.24 crores. It was 10 per cent higher than in 1954 and 27 per cent higher than in 1951.

Employment in iron mines increased by 11 per cent from 30,772 in 1954 to 34,218 in 1955.

Letters to the Editor

Profile of A Southern State—Mysore

IN his letter published in the **Economic Weekly,** Vol VIII-32, 11th August 1956, Shri G N Acharya narrates an incident which shows how even among those sections of the population of Mysore which are noted for their respect for the Royal House of Mysore, the issue of caste rouses fierce passions. Shri G N Acharya's implicit distinction between facts as they really are and facts as they are seen by the people, is very important. It is nowadays common for every action of an important political figure to be interpreted in terms of caste. The outsider is bewildered at the ease with which accusations of caste favouritism are hurled at everyone, and the people who do this are the so-called educated.

The Rajpramukh of Mysore has a Private Secretary and an ADC, who are both Lingayats, and are popularly believed to exercise a considerable amount of influence with the Rajpramukh. (I am neither agreeing with this view nor disagreeing with it. I am only stating that such an impression exists.) Under the prevailing circumstances the incident narrated by Shri G N Acharya is likely to be interpreted as providing further evidence of the influence of the Lingayats on the Rajpramukh. The political atmosphere of Mysore is so polluted nowadays that every event is seen through caste spectacles. Very few bother to inquire whether they are right in doing so.

Under the circumstances, Sir, I wonder whether it would not be better all round to have for New Mysore a non-Mysorean as Governor. The Rajpramukh of Mysore is too intimately bound up with the local situation, and there is a distinct possibility that his personality will be drawn into the caste politics of the State. Caste animosities are likely to be, if anything, sharper soon after the formation of the New State, and it will take some time for conditions to achieve a new stability. The services of the Rajpramukh of Mysore could still be made use of outside Mysore as Governor or Ambassador.

In the last few days we have learnt of the election of Shri Kadidal Manjappa in place of Shri K Hanumanthayya as the leader of the Congress Legislature Party in Mysore. One wonders why the MPCC could not listen to the suggestion of the Congress High Command and hold an election after the formation of the New State on 1st November 56? Why did they insist on going through two elections in the course of eight weeks?

Students of Mysore politics are aware of a keen struggle within the Mysore Provincial Congress Committee between Shri K Hanumanthayya and Shri S Channayya, the present President of the MPCC. Shri K C Reddy and Shri Channayya were good friends, and the latter was piqued at the unceremonious way in which the former was relieved of party leadership and Chief Ministership. The supporters of Shri K C Reddy formed a 'Reddy Group' inside the Legislature, and it is common knowledge that a struggle for supremacy has been going on between the Reddy and Hanumanthayya Groups for the last four and half years. In the pattern of political allegiances prevailing in the State today, anyone who is in power is bound to be not very popular, and this is specially so when the ruling party is deeply split by faction. Each supporter of Shri Hanumanthayya who was refused a favour joined the 'Reddy Group'. And Shri Hanumanthayya's sudden espousal of the cause of union of Mysore with north Karnatak lost to him the support of many of his followers in Mysore. For let it not be forgotten that Okkaligas are not yet quite reconciled to a State in which the Lingayats, and not themselves, will be the largest single group.

It is possible that had the election of a new leader been postponed till the New Mysore State had been formed, Shri Hanumanthayya would have been able to secure the support of enough north Karnatak Congressmen to assure him of the leadership of the Congress Party in the Legislature. For the Karnatakis have been far more keen on a Kannada-speaking State than Mysoreans. In fact, the unwillingness of Mysore to become part of a large Kannada-speaking State, and the enthusiasm of Karnatak for the same, placed the latter in a disadvantageous position vis-a-vis the former.

The 'Reddy Group' has therefore forced the election of a new leader when circumstances have been most unfavourable to Shri Hanumanthayya. The latter has been clearly outmanoeuvered, and it is not unlikely that he will now seek friends in Karnatak and S Canara to wrest the Chief Ministership once again.

There is another aspect to the election of Shri Kadidal Manjappa: the latter is an Okkaliga but from the Western, Malnad Part of Mysore State. His election at this juncture will make it difficult to choose someone else as leader after 1st November when the New State will be formed. If the Karnatak Congressmen propose a Lingayat for leadership, they will then be liable to be accused of naked casteism and the 'Reddy Group' will say that this is just what they had feared. If, however, they propose Shri Hanumanthayya's name, the latter will be dubbed as a stooge of the Lingayats of north Karnatak, and this may lose him more support in Mysore. Shri S Channayya, the astute leader of the MPCC, now has the double satisfaction of disposing of Shri Hanumanthayya as well as ensuring that a Mysore Okkaliga will lead the New State.

Astuteness is not, however, synonymous with statesmanship. Shri Channayya must be knowing that Karnatak leaders are meeting in small groups in Dharwar and Hubli to discuss how to win power in the New State. The election of Shri K Manjappa might be interpreted by them as a clear sign that mildness does not pay. It might force them to take a regionalist as well as a casteist line. And Shri Hanumanthayya will have plenty of time to brood on how best to avenge his defeat.

I must make amends for a lapse in my article. In it, towards the end, there is the suggestion that in New Mysore there will be three major groups, Lingayats, Okkaligas and Harijans, and that the Okkaligas are currently seeking friends amongst the other castes in order to build up an opposition to the Lingayats. This suggestion of mine was clearly anticipated by the States Reorganisation Commis-

sion and unequivocally stated by them:

"In the United Karnataka it has been estimated that a little more than 20 per cent of the population may be Lingayats, between 13 and 14 per cent Okkaligas, and about 17 to 18 per cent Harijans. It is clear that no one community will, therefore, be dominant, and any one section can be reduced to the status of a minority if other groups combine against it. These estimates of the communal composition of the new State are naturally not firm, because the figures which have been quoted vary considerably. They serve, however, to illustrate the Problem."

SRC Report, p 91 para 324.

It must be said to the credit of the SRC that they are in no doubt about the fact that the principal pressure groups will be the three caste groups, and they point out that in the arrangement suggested by them no one caste will rule the roost. Their argument is a direct tribute to the strength of caste in Mysore, and I regret that I forgot to acknowledge that my analysis of the future trend of events in Mysore was borrowed from that august Report. This was also recognised in an article published in the **Economic Weekly** (VII-49, 3rd December '55, p 1421) entitled "Karnataka in Sight."

Your Correspondent

19th August, 1956

Demand in Food Grains —Its Statistical Measure

A Reply

IF the statistician from Poona (Letter to the Editor, in your issue of August 11) were a little bit more careful in reading my article, he would have noticed that I was talking about food-grains (i e cereals and pulses) and not of food items all taken together. The table he supplies and the figure for elasticity he quotes both refer to expenditure on food.

I need not add that they do not have any bearing at all on my statements regarding demand for foodgrains.

A Rudra
Planning Division
Indian Statistical Institute.
203 Barrackpur Trunk Road,
Calcutta 35,
15th August, 1956

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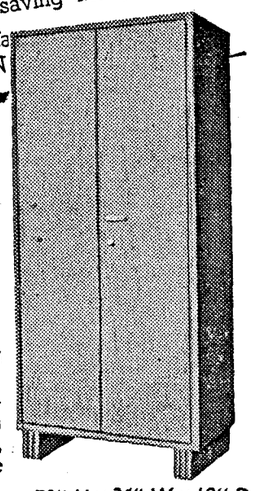
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A Calcutta Diary

Honours Easy

THE heart of the city of Calcutta, a common enough description of the central area, is perhaps inapt inasmuch as this is not where one can hear Calcutta throbbing. In the north live the largest number of Bengalis; some of the families came and settled down as the East India Company came. In the south live relative newcomers, the lower-upper middle class Bengalis who are mostly dependent upon jobs in the Government or in the mercantile offices. The centre is inhabited by Anglo-Indians, non-Bengali Muslims (or refugees from East Bengal who have occupied Muslim property) and the Europeans—these last on the south of Park Street, needless to say. There are a few Bengalis too, but they know that for reasons of their own they have torn themselves from their original milieu; they do not influence Bengali life and are influenced by it but slightly. This is not perhaps the nicest way of proving the northerly-and-southerly location of the heart of Calcutta, but it will do as corroborative evidence that, whenever something happens to stir Bengali emotions, it is at the two extremes that buses are burnt and trams are stoned. Even on Holi day it is not altogether impossible to go out in a clean shirt in and around Chowringhee and come back with no more than a drop or two of coloured water on it. The heart of Calcutta, to close this long preamble, beats in the north and the south of the centre.

It is to this centre, Chowringhee itself where the Congress Party has its offices now, and the shift may be more than physical. Whatever the position in the other States, whatever the majority of the Congress in the State Assembly, the incontrovertible fact is that the Congress and the people of Bengal have been falling apart since the day Independence came. A part of this was inevitable; nothing fails like success in political movements, at least in terms of obvious popularity. In West Bengal the natural process was accelerated by several other factors. The Administration's failure was, quite properly, attributed to the Party, and the Party itself became the plaything of political opportunists. A large number of Congress leaders before Independence came from East Bengal; after partition the local boys seized the Party, and what is left of the Party has been in their keeping for some years now. Congress Bhawan is an impressive building today—as impressive as the temple in Kalighat would be after the deity has departed from it.

With the elections approaching, the Congress could scarcely be unaware of the vacuum inside. The leadership knows that the Party today is deficient in that one thing without which a political party is not a party at all: popular enthusiasm. With more money and fewer volunteers than ever before, the Party is now safely situated on Chowringhee. Even on Holi day its leaders can go to that office in their white khadi; they are also spared the spit which would have been on them when passions rose over, say, the increase in the tram fare or States reorganisation. It is to be doubted whether the Congress leaders count these as unmixed blessings. It is possible that they sometimes feel rather lonesome, forlorn in their unbearable immunity from popular excesses.

Except for Independence Day in August and Republic Day in January, the hibernation of the Congress in West Bengal would have been disturbed only quinquennially. As in recent years—the years of affluence, the years of unpopularity—there has been an Independence Week Festival. The first evening was dedicated to The Buddha; there were speeches and there was a play. The second went to honouring Pandit Bidhu Sekhar Sastri, an eminent Sanscrit scholar. The third was caught by Rev S K Chatterjee, a footballer of 1911 vintage, when winning the IFA shield was considered a nail in the coffin of British imperialism. (This is perhaps the nearest the festival got to politics.) A novelist, a musician, and the girl students who got Firsts in the last degree examinations came next — and every evening there was music to attract crowds, to regulate which there were policemen. Rows of lamps ("a riot of colour," said a newspaper) adorned the large pandal, and there were automobiles outside to indicate that there were men inside. "People" has become an extremely imprecise term, but they were not there to take part in the festival organised by India's foremost political party. There was a touch of pathos in all its glamour, even as one finds on the plastered cheek of an ageing woman raucously declaiming poems of passion that nobody wants to hear.

All this, of course, is no more ridiculous than churches of certain denominations organising cinema shows in order to draw crowds of believers. Worse things, one may be sure, happen in the American Conventions. As for taking notice of culture for political ends, the Communists did it long ago; and there is no reason at all why the Congress should be debarred from adopting similar tactics. The fact, however, that they are not original takes away something from their political efficacy. There is a further difference of some import. Those who chose to be honoured by the Communists—and those were the days when neither the Government nor the Congress had any time for artists and such folk—did so as much for the well-known infirmity of artists, a craving for recognition, as for the other craving of the sensitive mind, being a martyr. The thing stands devalued now. There are State awards of various vargs, and whatever other rewards may come with the felicitations of the Congress martyrdom is not among them. Few artists and acrobats are averse to money, but they are performing fleas too; and the hazards of honour by the Communists may have been missed by some of the men and women who recently received Ashok Chakras in ivory from the hands of the ruling party.

These sudden gusts of windy honour are capable of creating disturbances in the minds of sensitive men, unused as they are to any kind of recognition for the rest of the year. Individuals apart, it is the dissentient voice for which Bengal was known when she was known. Too intimate an association with the ruling party is a deterrent to the dissentient mind. And there is a whole lot of things —in West Bengal and in India—to which some people should be left to say NO.

— Flibbertigibbet

From the London End

Britain's Trade in the First Half of 1956

THE Suez dispute has tended to divert attention from the problems of the British economy and in particular, from the no less significant war against inflation in Britain. The Board of Trade and the Treasury, under instructions from the Chancellor of the Exchequer, have been compiling statistics of a more fundamental character which, the Government hopes, will enable a quicker and more adequate assessment of the impact of financial and monetary policy on economic developments. Statistics on industry's investment intentions and on new hire-purchase transactions are already being published. The Board of Trade has now brought out a detailed statistical analysis of Britain's foreign trade in the first six months of this year.

These statistics show a considerable improvement in Britain's foreign trade. Indeed the deficit in the first half of this year has been the lowest for some years. British exports shot up by 14 per cent in value to £1,591 million compared to the first half of 1955. In volume, exports rose by 10 per cent, though here account has to be taken of the exceptional export to the U S A of £6½ million of silver (in repayment of a past loan). The Board of Trade calculates a net increase of 6 per cent in the volume of exports which is not unusually high (having regard to an annual increase of 5 per cent in volume over the past five years). Nevertheless, the increase in exports is noteworthy. It indicates the bouyancy of world trade and of Britain's ability to maintain its share in all the world markets.

The more remarkable feature of the trade figures and which in the view of your correspondent, explains to a great extent the sharp fall in the deficit, is the low level of imports in this period. According to the trade figures, imports in the first half of 1956 amounted to £1,956 million which was about £72.5 million more than that of the first half of 1955. In terms of volume, imports had increased by only 4 per cent. To appreciate the significance of this low level of imports it is necessary to note the correlation in the rates of increase in exports and imports over the past 5 years. This correlation suggests that U K exports can be increased only by a more than corresponding increase in the level of imports. Since 1951 for every one unit increase in exports, an average increase of between 1½ and 2 units of imports had to be made by the U K. There have been various fluctuations in the volume rate but on an average it has been between 1½ to 2 units of imports against every 1 unit of exports. It is, of course impossible to establish this correlation on any permanent basis —the historical evidence is partially lacking.

The exceptional feature of the first half of 1956 is the fact that (with regard to the increases in the volume of exports and imports) for every one extra unit of exports, there was only an extra 2/3rds of a unit of imports. It would appear that this exceptional position was achieved by the conscious attempt on the part of industry and the Government to keep down the level of imports and to maintain a high level of exports by working seriously into their stocks of raw material. The favourable position achieved in the first half of the year must be explained by the high rate of stock liquidation in the United Kingdom.

This explanation possesses some degree of validity when account is taken of the impact of the credit squeeze. The most prominent effect of U K's monetary policy has been to make it difficult for merchants and importers to finance their stock-holdings. And in the past six months the running down of stocks for lack of bank credit has been a visible feature of every commodity market in London.

If we are to forecast what the likely consequences of this position will be, then it is certain that a time will soon appear when the U K economy will be forced to replenish its stocks and so again to build-up its import volume to compensate for the very heavy running-down of commercial stocks.

A favourable factor which has assisted Britain in the past year has been the movement of international prices or the terms of trade. We can discern three tendencies over the past year: a decline in the general level of commodity prices, a remarkable stability in the prices of manufactured goods and thirdly high level of world trade in manufactured goods. This situation has certainly assisted the United Kingdom. To what extent it has contributed to a possible deterioration in the earning power of the overseas sterling area is not yet clear. There is however the possibility that this favourable movement in U K's terms of trade may cause a future fall in British exports to the primary producing countries (unless of course production in these countries has increased sufficiently to explain the fall in raw material prices and which would not lead to their import demands being depressed). It is however to be noted that the GATT Survey on **International Trade 1955** published recently shows that between 1954 and 1955 trade between the industrialized regions increased by 15 per cent while that between the industrial and non-industrial regions increased by only 7 per cent. The relative importance of the primary producing areas both as importers and exporters continued to fall. This does suggest that the favourable terms of trade for the U K can still lead to decline in export earnings, especially where exports to the primary producing areas are concerned.



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Finances of Jammu and Kashmir State

P N Kaul

PUBLIC revenue and expenditure in the Jammu and Kashmir State have had a slow rate of growth throughout the last half century. The rate of growth has been slow in comparison to Mysore and Hyderabad and other States of the country. From Rs 21 lakhs in 1871, the total revenue of the State increased to Rs 107 lakhs in 1906-07, Rs 229 lakhs in 1914-15, Rs 314 lakhs in 1942-43 and Rs 557 lakhs in 1945-46. While the ordinary revenues of the Government of India (for undivided India) increased by 4½ times and that of nine part A States by a little over 4 times between 1938-39 and 1953-54, (Taxation Enquiry Commission Report, Vol I, p 15), in the case of Kashmir State the increase has been only two times. In real terms, making allowance for the increase in prices from the pre-war level, the public revenue of the State seems to have fallen during the war and post-war period and the position of Kashmir in this respect has been worse than that of any other major Indian State.

The financial structure of the State has undergone some changes since 1947-48, in that revenue and expenditure in 1954-55 or even in 1953-54, remained almost the same as in 1945-46, though one-third of the area of the State went to Pakistan! Again, since 1947-48, public debt and expenditure on capital account have increased by more than three and five times, respectively. In 1954-55 (revised estimate) the total revenue of the State was estimated at Rs 542 lakhs and the total expenditure at Rs 539 lakhs, showing a surplus of Rs 3 lakhs. The total public debt, mostly from the Government of India, amounted to Rs 3 crores. During this year, expenditure on capital account was estimated at Rs 3.91 crores, as against Rs 1.56 crores in the preceding year. Taking the capital and revenue accounts together, both net receipts and expenditure stood at Rs 9.66 crores—an increase of Rs 2.14 crores over that of 1945-46.

Per capita revenue and expenditure in Jammu and Kashmir has risen from Rs 12.8 and Rs 13.8 respectively in 1945-46 to Rs 17.5 and Rs 17.7 in 1953-54 and Rs 18.4 and Rs 19.0 in 1954-55. While the revenue and expenditure of the State are so much less than those of U P, Bombay, Hyderabad. Mysore and PEPSU, Jammu and Kashmir do not lag much behind the other States of the Union as regards per capita revenue and expenditure as can be seen from Table I. There has been a deterioration, however, if we take into account the population in Pakistan-occupied areas of the State the inclusion of which would not make any significant difference to the total revenues of the State.

Before April 1954, Jammu and Kashmir had one of the most regressive systems of taxation as 95 per cent of the tax revenue came from consumption taxes covering about 20 - 25 per cent of annual public revenue. Although the most regressive of taxes, customs duty, has now been abolished, the present tax structure continues to be regressive, though its incidence has been considerably softened. The major portion of revenues still comes from non-tax sources, particularly since 1953-54. Tax revenue has gone down by Rs 127 lakhs since 1954-55 in comparison to the preceding year. After the financial integration of the State with India and abolition of State transit duties, the State gets about Rs 250 lakhs as a block grant from the Centre which forms about half of its total revenue. Under the financial agreement with other Part B States, this block grant is to be progressively reduced and stopped after 10 years; consequently, the financial position of the State will become precarious in the future unless new sources of revenue are tapped. One of these sources, obviously, is the sales tax which has proved so fruitful in other States, both A and B.

Of the total revenue of Rs. 557.30 lakhs, in 1945-46, tax and non-tax revenue amounted to Rs 222.62 and Rs 334.68 lakhs i e 39.8 per cent and 60.2 per cent of the total. Of the total tax revenue of Rs 22.62 lakhs in that year, Rs 209.48 or 94.1 per cent was from tax on consumption and Rs 13.14 lakhs or 5.9 per cent were direct taxes. The tax and non-tax revenue in 1953-54 show that the percentage share of former increased by about 10 per cent and that of non-tax revenue decreased to almost the same extent. The respective shares of direct and consumption taxes (94.64 per cent and 5.36 per cent) however remained almost the same.

Since 1954-55, the tax structure has undergone a significant change after the abolition of customs duty which accounted for about 25 per cent of the total revenue. With income-tax and central excise duties going to the centre, the share of tax-revenue has gone down. After taking into account the 60 per cent of total income-tax to be refunded to the State by the centre, out of a total revenue of Rs 542 lakhs, only Rs 95 lakhs or 17.53 per cent were covered by tax revenue in that year and the rest (Rs 447 lakhs or 82.47 per cent) was non-tax revenue. Again, of the total tax revenue, even now 95 per cent comes from indirect taxes.

The pattern of expenditure has also undergone a change. It shows a progressive increase in the share of developmental expenditure and social services and a corresponding fall in non-developmental expenditure. Thus, while in 1945-46 of the total expenditure of Rs 518 lakhs, the respective percentage shares of non-developmental, developmental and social service expenditure were 64.4, 23.9 and 10.7, in 1953-54 and 1954-55 these percentages changed to 57.0, 28.5 and 14.5 and 54.5 30.4 and 15.1 respectively. This change

TABLE I

Revenue and Expenditure in 1953-54

	REVENUE		EXPENDITURE	
	Total Rs lakhs	Per capita Rs	Total Rs lakhs	Per capita Rs
Hyderabad	25,92	13.7	27,44	14.5
Mysore	20,62	22.1	22,20	23.8
Travancore-Cochin	17,04	17.9	16,15	16.2
PEPSU	6,96	19.9	7,26	20.7
Jammu & Kashmir	5,24	17.7	5,21	17.5

Source: R N Bhargava, **Public Finance, In Theory and Practice.**

For the Kashmir State, the calculations are our own.

is discernible only after 1946-47; even in that year the percentage under these three heads 63, 24 and 13 was almost the same as in 1938-39. This change in the pattern of expenditure is commensurate with the change in other States. The Taxation Enquiry Commission estimates that in nine Part A States, between 1938-39 and 1953-54, non-developmental expenditure fell from 53 per cent of the total to 45 per cent while developmental and social services expenditure increased from 17 per cent to 26 per cent and 21.5 to 24 per cent of the total.

The revenue of the Government of Jammu and Kashmir is pretty low, compared to those of other States of India, though its expenditure would compare favourably with many other States. (See Table II) The big difference came after 1953-54. The burden of taxation per head of population in the State is now one of the lowest in India. The tax revenue per capita came down from Rs 8 in 1953-54 to only Rs 5 in 1954-55. Moreover, it is the only State in India among the bigger States in which tax revenue is less than 20 per cent of the total revenue; in the other States it is not less than 40 per cent and in some of them, it is as high as 75 per cent. Despite such low tax revenue, the financial position of the State continues to be stable because of the annual block grant of Rs 2.5 crores and other grants, subsidies and loans made by the Government of India after the accession of the State to the Indian Union. But for these grants and loans, the finances of the State would have been in a sorry state.

TABLE II

Revenue and Expenditure of Selected States in 1954-55

(Value in Rs Lakhs, figures within brackets denote percentages)

	REVENUE			EXPENDITURE			Surplus (+) or Deficit (—)
	Tax	Non-Tax	Total	Non-Developmental	Developmental	Total	
Hyderabad	21,51	700	28,51	16,31	13,73	30,04	—1,53
	(75.2)	(24.8)	(100.0)	(53.3)	(45.7)	(100.0)	
Mysore	6,77	8,46	15,23	5,45	11,77	17,22	—1,99
	(44.4)	(55.6)	(100.0)	(31.6)	(38.4)	(100.0)	
PEPSU	5,18	2,34	7,52	3,85	4,01	7,86	— 34
	(68.8)	(31.2)	(100.0)	(48.9)	(51.1)	(100.0)	
Assam	9,36	7,22	16,88	6,30	12,54	18,84	—1,96
	(55.4)	(44.6)	(100.0)	(33.4)	(66.6)	(100.0)	
Bihar	24,75	21,61	46,36	21,59	26,14	47,73	—1,37
	(53.4)	(46.6)	(100.0)	(45.2)	(54.8)	(100.0)	
U P	53,33	20,64	73.97	40,32	33,65	73,97	— 7
Jammu & Kashmir							
1945-46	2,23	3,34	5,57	3,20	1,68	4,88	70
	(62.2)	(39.8)	(100.0)	(65.4)	(34.6)	(100.0)	
1953-54	2,63	2,61	5,24	2,97	2,24	5,21	3
	(50.4)	(49.6)	(100.0)	(57.0)	(43.0)	(100.0)	
1954-55	95	4,47	5,42	2,95	2,44	5,39	3
	(17.5)	(82.5)	(100.0)	(54.4)	(45.6)	(100.0)	

*Source: (Except for Jammu and Kashmir, Reserve Bank of India Bulletin, May 1955.)

Figures for Jammu and Kashmir have been compiled from Annual Administration Report of 1945-46and Jammu and Kashmir Budget 1955-56.

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Disguised Unemployment and Economic Development

A K Dasgupta

ONE of the distinctive features of an under-developed economy is the prevalence of what our economists are in the habit of calling 'disguised unemployment'. Too many people subsist on agriculture. Seemingly they are employed. But their employment is not wholly productive. It is not wholly productive in the sense that production does not suffer even if some of the so-called employed are withdrawn. The ratio of labour to land and other resources is so large that the marginal productivity of labour is reduced to zero, although the average productivity remains positive. And, unlike in the organised sector, it is this average productivity and not the marginal productivity that determines the earnings, and hence consumption of the labourers. The result is that the marginal body of labourers consume, but they do not produce. They are employed physically, but not economically.

The organisational set-up (such as we have in a subsistence economy) is what makes for this. Farms consist of family holdings, and productive operations are done by the members of a family as a group. Labour is not dissociated from capital, and workers may be said to be self-employed. There are the landlords and the money lenders. But they get their rent and interest at stipulated rates; they do not perform the function of an employer. Whatever output is derived from productive operations therefore vests in the family and is enjoyed by all the members irrespective of their specific contribution; the redundant members are not just thrown away. The share of output that goes to the redundant units of labour is of the nature of transfer income. If, of ten persons working in a farm, four are redundant, in the sense that the farm could be managed equally efficiently with six persons, then, from the economic point of view, 40 per cent of the output of the farm can be viewed as being transferred to unproductive consumers. It is as if the entire output is the contribution of six persons who just 'save' a part of this contribution and hand it over to the remaining four. Prof Nurkse calls this the 'saving potential' of a subsistence economy.

It is on this concept of 'saving potential' as a concomitant of disguised unemployment' that Prof C N Vakil and his colleague have built a theory of economic growth.* Planning in an under-developed economy, if it is to be effective, must, according to our authors, take account of 'disguised unemployment' of the subsistence sector and make full use of the "saving potential" that is associated with it. The process can be initiated only if the increase in the volume of employment in the planned sector is made to exceed the addition to the labour force consequent on the growth of population. So long as our plan seeks just to absorb the additional labour force that comes into the market as a result of population growth, the disguised unemployment remains untouched and with it the saving potential. Once, however, our planned investment passes this limit, a cumulative process of expansion sets in. The argument in this context runs in terms of a theorem thus: Suppose that the value of wage-goods needed to employ an additional unit of labour in the planned sector is Rs 400 whereas the actual consumption of a corresponding unit in the subsistence sector is Rs 200. Then, if the planned sector can somehow secure an extra saving of Rs 400, the additional employment created will be two units instead of one. For, while with the saving of Rs 400 done in the planned sector one unit of labour is productively employed, the withdrawal of this unit from the subsistence sector is accompanied by a release of Rs 200 worth of wage-goods. This can now be added to another equivalent bundle of wage-goods to be released if one more unit of labour is withdrawn from the subsistence sector. The economy is therefore in a position to absorb altogether two units of labour in productive employment, although the initial dose of saving was just enough for one unit. Saving thus breeds saving, and we have a so-called 'multiplier effect' on employment, the value of the 'multiplier' depending upon the ratio of 'wage unit'** in the planned sector to what may be called the 'consumption unit'† in the subsistence sector. The lower this ratio, the higher is the value of the 'multiplier'.

So far, so good. The emphasis on the implications of 'disguised unemployment' for the economics of growth is commendable. The proposition that employment is limited by the flow of wage-goods that can be made available to labourers, though apparently commonplace, is worth emphasizing at a time when economic thinking, is so widely influenced by the Keynesian theory of effective demand. In an under-developed economy, the scope for expansion of the current output of wage-goods is limited, and the Keynesian investment multiplier is insufficiently operative. Yet an opportunity for a 'cumulative process' offers itself in such an economy if the 'disguised unemployed' is released from the subsistence sector and the 'saving potential' that it carries is used as a supplement to whatever additional savings can be drawn from the rest of the economy. For this to happen, the rate of growth of employment must pass the critical limit set by the growth of population. Our authors' crusade against India's Second Five Year Plan is based largely on this concept. The employment target set in the Plan is much too inadequate to draw in the 'disguised unemployed and to bring the cumulative process into play.

However, if our authors had reflected upon their hypothesis a little more closely they would perhaps realise that they had started from the wrong end. Not that their proposition is wrong; of course it is not, so far as the arithmetic is concerned. But the way it is presented suggests a certain lack of awareness of the obstacles to the growth of an under-developed economy. In their excitement at what they thought was a discovery they forgot to notice that if the proposition were put the other

* Vakil and Brahmananda: **Planning for an Expanding Economy.**

** The authors use a term 'employable unit' in this context which they define as 'labour plus wage goods', apparently forgetting that 'labour' and 'wage goods' are not additive. There are many such unpardonable lapses in the book against which the reader must guard himself.

† The term is used here to signify the actual consumption of a unit of labour.

way round, it would take a form which has been familiar to most of us most of the time. Let us revert to our authors' example. The 'consumption unit', as we have called it, is Rs 200 and the 'wage unit' is Rs 400. Assume, with our authors, that along with the transfer of the 'disguised unemployed', the goods that they used to consume in the subsistence sector are also transferred to the planned sector. The market is then provided with an additional Rs 200 worth of wage-goods for each extra unit of labour employed in the planned sector. It is true, then, that if an extra saving of Rs 400 is made available in the planned sector, possibilities will be opened up for the employment of two units of labour instead one which is the labour content of the extra savings, and the so-called multiplier effect will be operating. Now look at this same thing the other way round. A unit of labour is released from the subsistence sector and with it a bundle of goods worth Rs 200. The consumption unit thus released is not sufficient to provide employment to one additional unit of labour in the planned sector; the market has to somehow secure another Rs 200 worth of wage-goods by way of savings. The transfer of a unit of labour from the subsistence sector releases wage-goods whose value is only one-half of the actual wage that has to be paid if it is to be productively employed. If we look at the matter this way, which is the correct way, the 'consumption-goods multiplier' takes on an altogether strange complexion and turns out to be a myth.

One feels tempted, at this stage, to turn back and to see wherein our crucial problems lie. The problem of growth in an under-developed economy with a large and redundant population is basically a problem of capital formation. Employment in the investment goods sector needed for capital formation is no doubt limited at any moment by the availability of wage-goods. But the output of consumption goods in general and of wage-goods in particular is itself a function of the stock of capital. An increase in the stock of capital increases the scope for the employment of labour, although during any given period of investment needed for the production of capital goods, it is the current release of wage-goods that determines the extent to which employment can be increased‡.

The principal aim of economic planning in an under-developed country is to raise the rate of investment and hence of capital formation with a view to an increasing flow of consumption goods in the future. Since there is a plethora of unemployed in the economy, the speeding up of investment does not require curtailment of activities in the consumption goods sector; the economy can draw upon the reserve of unemployed. If concurrently with the increase of investment there is also increased production of consumption goods, as happens when there is excess capacity in the consumption goods sector, the wage-bill of the additional labourers can be met out of the additional output of consumption goods, and there is no pressure on the consumption goods market. We are, so to say, in the Keynesian world of plenty where an increment of investment leads by itself to an increment of consumption.

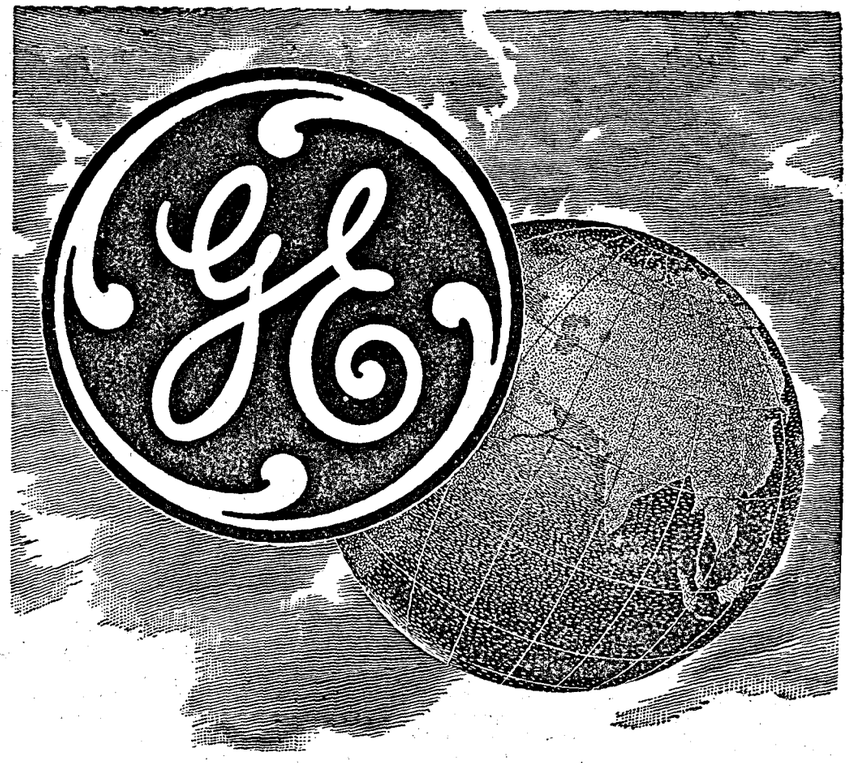
It is wrong to suppose that these Keynesian effects are altogether absent in an under-developed country such as India. The capacity in our organised sector does lend itself to fuller utilisation, as findings of competent statisticians indicate. Moreover the Plan period that we have in view is not exactly the Keynesian short period where resources and technique are given and fixed; certain investments may well be made to bear fruit during the Plan period. There is therefore some scope for the expansion of output of consumption goods to be set against the additional employment in the investment goods sector. But these possibilities are negligible in the context of the volume of investment that is needed to fully absorb the reserve of unemployed, when account is taken not only of the existing volume of 'disguised unemployment' but also of the addition to the labour force resulting from the normal growth of population.

Assume, then, to bring out the essence of the matter, that there is "full employment" in the organised sector. What happens if, as the need for economic development demands, more employment is to be provided in the investment goods sector towards the production of capital goods? We are in the Classical world of Scarcity, and an adequate volume of wage-goods has to be released from the rest of the economy to make provision for the additional labourers engaged in the investment goods sector during the investment period. The rest of the economy has to put up with reduced consumption, the extent of this reduction being determined by the wages-bill (assuming that wages are wholly spent on consumption) of the newly employed labourers. This is the raison detre of "saving" in the context of the economic development of under-developed countries. It is "saving" that makes possible an expansion of investment needed for the growth of the economy.

Now, the distinction between 'disguised unemployment' and new labour force generated in the process of population growth is often too sharply drawn. They are not necessarily distinct and separable entities. In practice, very substantially one merges into the other. The major impact of the growth of population in an under-developed economy is on agriculture. And there what happens, as population grows, is that an increasing degree of congestion occurs in the age group that call themselves 'occupied'. The 'saving potential' remains more or less the same, but the mouths to draw upon it increase in number. In fact, the distinction drawn here is not a distinction between two categories of unemployment; it is rather a distinction between two ways of looking at it. However, the distinction becomes analytically significant if we assume that the 'saving potential' gets released for use in the planned sector only at a level of employment beyond what would be needed for the full absorption of the newly emerging labour force. At any rate it is in this sense that the distinction is used here, although it is clear that there is no knowing in practice, at what level of employment this process of release of the 'saving potential' starts operating, if it does operate at all.

Since in the context of the situation that we are contemplating, additional employment is devoted entirely to investment and is unaccompanied by any expansion in the

‡ There is therefore no contradiction, as the authors imagine there is, between their theory of 'wage-goods gap' and the Planning Commission's 'logic' stressing the need for fixed capital. One refers to the short run and the other to the long run scope for employment.



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output of consumption goods, the wages-bill of the additional labourers has to be matched entirely by 'saving' done in the rest of the economy. In so far as these additional labourers are recruited from the newly emerging labour force, the entire saving needed for meeting their wages-bill has to be newly created. It is only when investment is pushed so far as to enable the economy to encroach on the 'disguised unemployed' that some relief is found, on our assumption, in the release of goods that the labourers drawn into the planned sector used to consume in the subsistence sector. Even here, the 'wage unit' in the planned sector being substantially higher than the 'consumption unit' in the subsistence sector, further new savings have to be created for covering the gap.

All this becomes familiar story, when put in terms of money-wages and prices. An under-developed economy with a reserve of unemployed embarks on a process of planned investment. Additional employment is created in the investment goods sector. Payment is made to the labourers newly employed at the current money rate of wages. These wages are spent on the purchase of wage-goods. There is an increase in the aggregate money demand for wage-goods. If, to start with, there is excess capacity in the consumption goods sector, output of wage-goods expands in response to the increase of demand, and there is no rise of prices, except to the extent warranted by the emergence of 'bottlenecks' here and there. If investment (and employment) is pushed beyond a level where excess capacity is fully exhausted, increased money demand presses on an inelastic supply of wage-goods, and prices start rising. The tendency is checked if the additional expenditure done by the newly employed labourers is offset by reduced expenditure elsewhere in the economy. The need for the offset is only lessened to the extent that there is transfer of wage-goods from the non-monetized sector to the monetized sector where the additional expenditure has its impact. If therefore prices of wage-goods are to be held constant in order for the real wage rate not to fall, the volume of additional (planned) savings needed in the monetized sector for the full absorption of the unemployed (disguised and undisguised) would be equal to the total money wages accruing to this entire body of newly employed labourers (assuming that wages are all spent) *minus* the money value at current prices of the increment of output of wage-goods, including the amount transferred from the non-monetized sector.

It is not difficult now to see the kind of hurdles that have to be got over in order for the economy to be able to utilise the 'disguised unemployed' for purposes of development. First, there is the problem, how to create conditions under which the disguised unemployed would get released from the subsistence sector and be drawn into the planned sector? Is wage incentive enough? If not, what 'organisational changes' would be necessary for the purpose? Secondly, supposing that men are transferred, what guarantee is there that the goods that they were consuming would be transferred, too, to the planned sector? Is it not probable that those who would stay back would choose to retain at least a part of the consumption of the group that are switched on to the planned sector? The exodus of the 'disguised unemployed' will no doubt leave the subsistence sector with a 'surplus' of wage-goods. But those who will be still there will in all probability be reluctant to part with this surplus. This is partly because they will now wish to improve their standard and partly because they will have perhaps some more mouths to feed in view of a possible increase in the number outside the employable age group, as is likely to happen as population grows during the Plan period. What steps could be taken to prevent them from behaving that way? Will the normal price incentive be enough? Above all, thirdly, how are the necessary savings to be created in the economy, so as to cover the gap between the 'wage unit' and the 'consumption unit'? In an economy where normal savings do not take care even of current additions to the labour force, this would appear to be the most serious obstacle to optimum growth, particularly when planning is conceived against the background of a democratic way of life.

Oppressed with these considerations, our Planning Commission has chosen to go slow and has contented itself with making provision in their Second Five Year Plan at best for the current additions to the labour force, having to rely even there largely on deficit financing and foreign aid. Nobody, not even the framers of the Plan, will say it is an ideal Plan. But one has to have a sense of realism. It is no good just contriving an arithmetical jugglery and indulging in gratuitous criticisms, when the big socio-economic questions that the Commission is confronted with remain unanswered. We have to show the way to the solution of these before we take up the cudgel. Prof Vakil and his colleague with their new-fangled 'consumption-goods multiplier' notwithstanding, we have not done that.

Indian Agriculture In Brief

A useful handy and pocket-size booklet has been recently brought out by the Economic and Statistical Adviser, Ministry of Food and Agriculture, Government of India, with a view to meeting primarily the need of those who wish to have a snap-shot picture of Indian Agricultural Economy as revealed by the current Agricultural Statistics. Certain essential data in allied spheres, e.g., population, national income etc. needed for an understanding of the agricultural economy in its broader perspective have also been included in this booklet.

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Commerce Minister on World Capitalistic Development

Fredie A Mehta

IN his recent speech at Madurai, reported in "The Hindu" of 6th August, the Minister of Commerce and Industry let the capitalists of India have it. In effect, he seemed to say, Indian capitalists were a pretty unimaginative and uninspired lot who would never have been able to move an inch but for the magnificent support of his benign and benevolent government. Then the giant unleashed his tongue, and began to lash not merely "Indian capitalism" but "capitalism" the world over.

What sort of an animal was TTK flogging? A dead horse or a horse that was alive and kicking? From TTK's account, it would seem that world capitalism was not exactly dead but certainly it was dying. How many laughs must TTK have given good old Karl Marx in his grave by saying that but for "something or the other" the American economy would virtually collapse. For in the land of Holy Marxism itself, there has been recently a complete revaluation of the prowess and powers of capitalism: "the old dog is still kicking vigorously," now say the present priests of Russia about capitalism. But good old TTK begins his dreams of a "Capitalist collapse" where even pious Marxists have almost given up theirs. Perhaps, perhaps, we are all Communists now!

In any case, TTK has put economic historians in great debt by providing them with a classic case of complete confusion in the contemporary world. This is what "The Hindu" reports:

> "Mr. Krishnamachari pointed out that American newspapers now and again referred to the ghost of depression raising a boom in Wall Street followed by a collapse. Something or the other sustained the economy of the country with the surplus being diverted to other countries. Therefore, inherently, capitalism had proved to be a success only in countries where there were enormous resources, rich soil and where there was no over-population. There was no use, he said, of thinking of capitalism in a country like India which was terribly over-populated."

It would be most interesting to learn from this doubtless widely-read politician which leading economic papers in America keep on speaking of depression. Is it "The Wall Street Journal" or "The Daily Worker"? Seriously speaking, there is one word that has in recent years suffered a great depression, and that is the word "Depression." It may or may not be true that "the trade cycle is now a thing of the past"; likewise it may not be completely true that Keynesianism has proved to be the Waterloo of Marxian ideologues. What is certainly true is that the economy of the USA, as also that of nearly all the countries of Western Europe, particularly of Western Germany, gather greater and greater strength as each year rolls by. Everything booms but the guns! We now speak of a 'recession', of a 'rolling re-adjustment,' of 'an inventory rundown' and so on and so forth. But nobody seriously maintains that short of armament-manufacture or disposal-of-surpluses, there is going to be an acute depression in the USA. Such pessimists have been proved wrong again and again, and there is now a real danger that even when they have truths to tell and pointers to indicate, they will not be taken seriously. This, it is clear, is a wrong and unscientific attitude, but it does show in an unmistakable manner, how the body of "depression-economics" has been given a gorgeous funeral. The trouble is not that the "dying horse" of capitalism needs to be given water and fresh air: the trouble is, as the British have found to their regret, that "the old dog" of capitalism is kicking and barking aloud so much that it may even be necessary to have him caged for a while! Be that as it may, no one who has studied the post-war capitalist economies can fail to be struck by the confidence and capacity of these countries to control and counteract downswings in economic activity.

But if TTK was needlessly pessimistic about the present state of the capitalist economies, he was emphatically wrong in his assertion that capitalism had succeeded only in countries that had no population problem. What does TTK imagine Great Britain to have been when she stood on the threshold of the Industrial Revolution? An under-populated country? In fact, with the exception of the Utopian Socialists, there was almost major agreement then that Great Britain was grossly over-populated. In fact the tremendous influence and impact of Malthus' theory of over-population was largely due to the aura of pessimism that hung around the thinking of all the great contemporary minds of the time. Within a century of Malthus' death, however, the ghost of Malthusianism was definitely laid low, and the aura of pessimism gave way to an atmosphere of unbounded enthusiasm and energy, accompanied by a naive but profound belief in the ultimate triumph of humanity over poverty, disease and illiteracy.

In the sociology of history, there is seldom one single cause to which an entire chain of effects and events can be readily traced. Nevertheless if one particular system can be held as revolutionising the entire career of the world economy, it was the system of Industrial Capitalism, as it grew in all its variety in the different Western European countries. By creating a high volume of savings and canalising the savings into investments; by unleashing a vast and almost miraculous chain of inventions, innovations; by bringing more and more lands into the orbit of world trade —capitalism inaugurated a process of dynamisation of the world unprecedented in human history. Man dormant and docile awoke to the freshness of a new life bursting with independence and individuality; the sleep and stupor of the world was broken, and empty lands buzzed with the ham of men, money, machinery and markets.

It is not only possible, but it is absolutely necessary, to point out the disfigurations and disturbances that capitalism caused both at home and abroad in its process of world-dynamisation. Its high rate of capital-formation could not have been possible but for the sufferings of industrial labour and for the secular span in world prices in favour of industrial against agricultural products almost throughout the century from 1842 to 1939; its tremendous vitality and vigour involved grave waste of capital resources; its religion of success made "conspicuous consumption" a tragic feature of an acquisitive society; its

forcing of foreign lands into the orbit of world trade not merely saddled a number of countries with colonialism but cruelly destroyed the handicrafts of many peripheral countries. While all this is true, yet the fact remains that it was capitalism that not only laid the foundation of the material prosperity of the modern world but also initiated the concept of individual liberty as the major premise of the social syllogism*.

Far from capitalism being able to survive and succeed only in countries which are not over-populated, capitalism evolving in all its varied forms has been for the hitherto advanced countries of the world the best answer to, and the great solution of, the pressing problem of over-population. It was not the previous existence of rich resources and under-population that enabled capitalism to succeed; it was capitalism that discovered and dynamised hitherto poor and over-populated countries, and thus laid low the bogey of Malthusianism. Indeed, from these patent facts of economic history, a number of historians of capitalist economies, favourable or adverse, have actually seen in over-population one of the most essential conditions for the success of capitalism.

From the Marxist angle, over-population creates a large pool of labour which has a secular tendency to depress wages and this helps increase the rate of profit-accumulation of the capitalists. Over-population is thus a source of savings for the capitalists.

Non-Marxian writers who are favourable to capitalism also see in over-population a favourable condition for the success and survival of capitalism: for every expansion in population is a potential expansion in the markets, and hence in the profits, of the capitalists. Conditions of mass production and mass consumption required not only a rapidly expanding stream of incomes, but the spread of this stream into all the sectors of society; above all for the average run of commodities, and for the large scale construction of buildings and railways, it called for a rapidly growing population. Thus not only did capitalism convert existing "over-population" into a virtual stage of "under-population" relative to the demands of economic expansion, of income dispersion, of expansion of national frontiers, and of new inventions of products and processes; but the climate of over-population was in fact and in theory favourable to capitalistic development.

A very subtle, and doubtless unconscious, tribute to the population-sustaining capacity of Western capitalism was paid by one of its most severe critics, Rajani Palme Dutt in his 'India Today', 1947 when he said,

> "The decisive difference between India and the European countries is not in the rate of growth of population, which has been more rapid in European countries. What makes the difference between the conditions of India and Europe is that the economic development and expansion of production which have taken place in the European countries, and have facilitated a more rapid growth of population, have not taken place in India."

Finally, to clinch the issue between Western capitalism and population-pressure, it needs to be noted that these two are obviously not separate variables, revolving around economic growth. It is now almost a truism that increasing incomes, by changing psychological motivations and economic desires, tend to bring about small families. This tendency is strongly re-inforced by increasing urbanisation, rising cost of technical education, more facilities of recreation, availability of effective and clear contraceptives, etc etc. But it cannot be forgotten that in the early stages of capitalist development, particularly as the latter evolved in Great Britain (between 1820 and 1880), Germany (between 1865 and 1914), and Japan (between about 1885 and 1939), there was in fact a tremendous upsurge of population. Thus capitalism not only begins its innings in a general atmosphere of "over-population" but in its early stages it also tends to encourage an increase in population. Though this is historically true, there is no necessity however why in the changed conditions of the present day such a phenomenon should repeat itself. However it does put another nail in the coffin of the argument that capitalism in the past has been successful only where there has been under-population.

The argument has has also been used by TTK that rich resources together with under-population also played a part in ensuring the success of the capitalist system. This argument is on a par with and as fallacious as that of some critics of Soviet Russia who maintain that so rich in natural and mineral resources is the continental economy of Soviet Russia that any system other than communism would have given equally good, if not better, results. However, to this type of argument Schumpeter has a very relevant answer: "Objective opportunities — that is to say, opportunities that exist independently of any social arrangement—are always pre-requisites of progress, and each of them is historically unique. The presence of coal and iron ore in England or of petroleum in this and other countries is no less important and constitutes an opportunity that is no less unique. The whole capitalist process like any other economic process that is evolutionary, consists in nothing else but exploiting such opportunities as they enter the businessman's horizon and there is no point in trying to single out the one under discussion in order to construe it as an external factor. There is less reason for doing so because the opening up of these new countries was achieved step by step through business enterprise and because enterprise provided all the conditions for it (railroad and power plant construction, shipping, agricultural machinery and so on). Thus that process was part and parcel of capitalist achievement and on a par with the rest."

—"Capitalism, Socialism and Democracy", page 109.

I have tried not to draw any inferences from the above line of thinking either to buttress or to run down the Indian pattern of capitalism. Such inferences have little validity. What is required is a sincere non-partisan study inquiring why, if at all, Indian capitalism, as it has developed so far, has been different both in its spirit and in its structure from the type of western capitalism which we have broadly considered.

* The methods Soviet Russia used for economic growth were those of Planning: the technics and technology she used were those of capitalism. In this sense it is true to say with Schumpeter that the true architects of Socialism were neither the intellectuals nor the agitators who preached it, but the Vanderbilts, Carnegies and Rockfellers.

In India, at the present time, there are not enough healing hands... not enough trained doctors and nurses to bring skilled medical care to all who need it, especially to those who live in the villages. But in the Second Five Year Plan, the sum allotted for the improvement of rural medical and health care is twice that in the 1951/56 Plan. By 1961 it is proposed to establish over 3,000 'health units' in community project, national extension and other areas. Hospital accommodation will increase by about 26% and there will be 30,000 more hospital beds available throughout the country.

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IN INDIA'S LIFE AND PART OF IT

Britain's Second Thoughts on Suez

(From Our London correspondent, delayed in transmission)

FOR the British thinking public, the second week of the Suez crisis has been very much like that crucial period when a hysteric patient gets over his delirium and asks "What is it all about?" And it is re-thinking—this somewhat embarrassing return to reason —which has been responsible for the considerable lack of sympathy on the part of Britain's more thinking public for some of the Prime Minister's assertions in his much-publicized radio and television speech. The talk of "plunder" which Sir Anthony indulged in was more in keeping with the charged atmosphere which was so all-pervading in the first week of the crisis. The breeze of reason which blew in from official Indian quarters was to an extent responsible for the rethinking in Britain.

Thought in Britain today is centred on the implications of all the military preparations that have taken place and more important, on the consequences of the Conference failing to agree on the suggested scheme for international control of the Canal. It is true that the British Government cannot pronounce on a possible failure of the Conference. But it is equally true that Sir Anthony's much repeated insistence on international control and that Britain can accept nothing less, carried with it possibilities of war on a decisive scale. The nature of India's acceptance (and certainly that of Russia's) makes it abundantly clear that the Conference cannot be unanimous in accepting the Western proposals. More important, very few of the Conference participants would wish to see a settlement imposed upon Egypt, that is, without Egypt having voluntarily agreed to such a settlement.

For Britain, all these possibilities carry problems of prestige. Is it now conceivable for the British Government to retreat from the positions they have taken? If not, how and by what means will Britain be able to inject the vital elements of morality and law in any military adventures she undertakes? It is thus that the **Economist** has significantly characterised the nature of the crisis to Britain:

> "The problem which Colonel Nasser has flung in our faces is a problem of politics and in the end it will have to find a political solution, whether or not the military adventure is tried first."

This description of the crisis, however, carries with it an implication which is certainly dangerous and which has become the subject of an unprecedently heated controversy in the columns of the **Times**. The problem is certainly a political one at the present time. It is, however, unlikely to lead to a political solution satisfactory in any form to Britain, if this solution is to be preceded by military sanctions. The **Manchester Guardian** has once again reiterated that "there is no ground for military action" and the **Daily Mirror**, sensitive to the opinions of its many-million readers, now says that "world opinion is against the use of force."

The most reasoned and sustained attack on military action has come from the influential letters appearing almost daily in the columns of the **Times**. And most of these letters are from well-known members and leaders of the Labour Party. Douglas Jay and Dennis Healy have argued cogently the patent insanity of a policy involving military action but, by a remarkably queer line of reasoning, they have suggested the legality and appropriateness of "economic sanctions." Similarly, Dr Edith Summerskill made a singularly strong protest against the position taken by the Government while others have expressed fears about the effects of military action on (a) the United Nations; (b) the Bagdad Pact and Britain's relations with the whole Arab world and (c) on the economic strains which such a policy would place on a dangerously poised British economy.

Most significant of all has been the re-thinking in the Labour Party. The first unqualified support of Mr Gaitskell to the Eden Government is now considered to have been a blunder of considerable magnitude. A movement sponsored by the once-Bevanite **Tribune** and by the **New Statesman** but more important, by a group of twenty-four Labour MP's has forced the deputy leader of the Labour Party, Mr James Griffiths, to acknowledge that "there is a growing concern of the British people at the prospects of being plunged into a bloody military adventure in the Middle East". Mr Gaitskell, whose position as a fully accepted leader is still to be established, has now cut short his holiday, called a meeting of of his shadow cabinet and, we hope, will retrieve the situation in the light of the new thinking in his party.

There have been some prominent commentators who have questioned military sanctions not from the view that such sanctions are wrong in principle, but by reference to the physical incapacity of the United Kingdom to undertake military action at the present. The **Economist** sees military action as nothing less than a "long haul"—a protracted war and military occupation inevitably of long duration. It asks:

> "Is Britain in fact prepared, having clamped a control by force on an actively unwilling Egypt, to sit on the lid for ever, while keeping further massive military strength handy to deal with inevitable wide repercussions in the Arab world?"

An informed writer in the **New Statesman** goes further. He suggests, with considerable evidence, that the present character of Britain's armed strength does not appear to be capable of military and armed conflict of the nature which the Egyptian situation involves. The situation in Cyprus, the limited accommodation in Malta and Libya's refusal to provide assistance, are all unfavourable to British adventures in Egypt. Above all, the entire Middle East is actively on the side of Egyptian Government.

The re-thinking in British public circles has been fundamental and, it is hoped, sufficiently influential to change the course of British official policy. The problems, however, are not solved. British prestige is in the melting pot. By some graceful retreat it may just be possible for some of this prestige to be salvaged. The great question is whether the Eden regime is capable of a graceful retreat.

India's Villages

Copies of this book are available from the West Bengal Government Press, Calcutta.

Price Rs 4-8-0

Our Delhi Letter

Ominous Signs

PLANNERS and economists in New Delhi are in a grim mood. The buoyancy generated by the Second Five Year Plan has disappeared. Hope in the Government's *ability to bungle through somehow* is now tinged with misgivings; ominous signs, too clear to be ignored, are gathering on the horizon. Prices are rising; shortage of shipping and surface transport is getting acute, costs of projects are rising; internal resources remain inadequate; and a foreign exchange crisis is in prospect.

India has drawn on her sterling balances during the last four months at the rate of Rs. 276 crores a year. The Second Plan provided that the country could draw down the sterling assets by Rs. 200 crores during the entire Plan period, to leave just enough of foreign balances for currency cover. Yet many of the foreign exchange bills still remain to be paid. During the six months since March 1956, India's commitments for the imports of machinery involve payment of Rs. 164 crores, a sum which is presumably more than what India paid for machinery imports during the whole of the previous financial year. During his recent trip to Europe, Shri B. K. Nehru is believed to have discovered that Indian firms have entered into contracts for securing export credits from foreign concerns to the extent of a little less than Rs. 100 crores and the entire amount will have to be repaid during the next five years. Where will the foreign exchange come from?

The cost of industrial projects has risen in the meanwhile. One major item is steel plants. It is computed that the three steel plants in the public sector will cost nearly Rs. 500 crores all told, against a provision of Rs. 350 crores in the Plan. The former figure, however, includes the cost of three steel townships expected to amount to Rs. 45 crores. While the Ministry of Food and Agriculture has impliedly asked for another Rs. 116 crores to raise the target of additional food production to 25 per cent, the Ministry of Production is budgeting for an expenditure of nearly Rs. 300 crores for its own projects.

The cost of hydro-electric schemes is simultaneously going up and no one knows how much money would be required for building heavy industries. The Railways are claiming more money as usual. The Ministry of Commerce and Industry is however taking a chance on a Rs 140 crore plan for the establishment of heavy industries by sending it to the Cabinet in the hope that its claim for additional allocations would be recorded and it would receive first priority in case any other Ministry surrenders funds!

Not only is the rupee cost of projects going up, the foreign exchange component of these costs is going up even faster. This is partly because of a deliberate change of policy. In the contract with the Russians for the Bhilai project, for example, it had been provided that the maximum amount of equipment for the plant would be manufactured within the country; only essential machinery would be imported. The Government, however, has now changed its mind and the contract is likely to be expanded. For it is now considered more prudent to secure machinery in 'packets' from Russia and reserve the available surplus capacity with the country for other purposes. Partly the decision is also the result of technical considerations and experience. Bolts and nuts, brackets, pipes and such other ancilliary equipment fabricated in India do not often fit the heavy units obtained from the U S S R. The result is that the export credits expected from Russia have already increased from Rs. 55 crores to Rs. 63 crores and the figure is likely to mount higher, as equipment to lay the foundation of the Bokharo Steel Plant, contemplated under the Third Five Year Plan, is likely to be included in the Bhilai Deal. There is a similar tendency in the case of other projects also.

In the meantime the spectre of

Outline of the Third Plan for Industrial Development

	1960-61 capacity target	1955-56 capacity target	Estimated fixed capital investment (Rs. Crores).
Iron & Steel			
(a) steel ingots (mn tons)	6.0	15.0	1000.3
(b) pig iron (mn tons)	0.9	2.0	
Aluminium ('000 tons)	30.0	70.0	35.0
Cement (mn tons)	16.0	32.0	120.0
Ferro-manganese ('000 tons)	170.0	300.0	10.0
Refractors (mn tons)	1.0	3.0	18.0
Nitrogenous fertilisers ('000 tons N2)	382	1000.0	6.0
Phosphatic fertilisers (P 205) '000 tons	120	350.0	10.0
Heavy Chemicals			
(a) Sulphuric acid ('000 tons)	500	1000.0	6.0
(b) Caustic soda (tons)	150,000	300,000	18.0
(c) Soda ash tons)	300,000	700,000	30.0
Oil and organic chemicals			
(a) Petroleum refining or synthetic petrol (million tons of petroleum products)	4.0	7.5	60.0
(b) Organic chemical industries—dyes, drugs, pharmaceuticals etc.	..	..	75.0
Paper and paper board ('000 tons)	450.0	900.0	75.0
Newsprint ('000 tons)	60.0	150.0	15.0
Rayon and staple fibre (mn lbs)	110.0	300.0	75.0
Sugar ('000 tons)	2.5	3.0	30.0
Chemical pulp ('000 tons)	30.0	90.0	16.0
Structural fabrication ('000 tons)	500.0	1500.0	40.0
Cotton textiles (mn yds)	8400	12000.0	140.0
Engineering and other miscellaneous industries, including mining equipment	..	..	137.0
Shipbuilding	..	..	100.0
Power Plants	..	..	100.0

spiralling food prices is looming large. The wholesale price index for cereals has risen from 364 to 486 within a year. Apologists of Government policies say that the rise is not so spectacular compared with 1954 but everyone concedes that the trend is alarming. A series of new measures, including further restrictions on bank advances and compulsory registration of stocks with tradesmen, may be instituted. Simultaneously a drive may be undertaken to increase food production by short-term measures. Hope is also pinned on the prospective 350 million dollar loan from the U S for the purchase of 3 million tons of surplus American wheat and 300,000 bales of cotton and other surplus agricultural commodities.

Official circles in New Delhi however realise that the problem is extremely complex. The priorities allotted in the Plan have already become out of date and the subject will have to be reopened soon, if the race for funds between warring ministries is to stop.

Knowledgeable opinion is not averse to the speediest possible completion of the industrial projects, despite their higher cost, because delays may indeed prove even more expensive. At the same time a caveat is often entered for staggering expenditure so that too much purchasing power is not pumped into the economy in the first two years of the Plan. Simultaneously measures for mopping up the circulating currency are being devised; a unit has been set up under Shri A C Bose, Joint Secretary in the Ministry of Finance, who has been shifted from the Central Board of Revenue to the Department of Economic Affairs for this purpose, to assess the feasibility of capital gains tax, expenditure tax and a tax on wealth.

Meanwhile the Government is increasingly realising that the fatal flaw of the First Five Year Plan was its preoccupation with agricultural production almost to the complete exclusion of heavy industry. During the past five years little or no attempt has been made to develop capacity for building machinery. Thus the country has still to spend precious foreign exchange to import immense quantities of capital goods for textile, jute, cement, paper, chemical, fertilizer, mining, power and other industries. A beginning is just being made towards the manufacture of complete sugar plants. But a good proportion of the requirements for the steel plants would be imported. Since establishment of machines to make machines requires perspective planning, Government has already drawn up the outlines of the Third Five Year Plan for industrial development. Targets have been tentatively fixed and the order of investment required to achieve them has been roughly worked out. The figures in the table on p 1019 have been suggested as the basis for discussion.

The new investment in industries will be of the order of Rs 2,250 crores. Adding another Rs 250 crores for renewals and replacements etc., the total outlay in major industries will be about Rs 2,500 crores during the Third Plan. The machinery element in this investment is estimated at Rs. 1,250 crores or an annual average of Rs 250 crores. The comparable figure at the end of the first plan is placed at Rs 50—60 crores. It is hoped that the capacity to manufacture most of the required machinery would be developed in India during the Second Plan.

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Around Calcutta Markets

Steady Undertone

Wednesday, Evening

BUOYANT conditions continued to prevail on the stock market here, despite occasional profit taking. But the behaviour of equities in the last few days indicated that investors were hesitant to lend fresh support to the market at the current high levels. Nor were speculators as active as in recent weeks. This hesitant trend was only to be expected after the non-stop rise in equity prices in the last few weeks. Even so, the undertone of the market remains steady.

Symptomatic of the "bullish" trend of the market is the spurt in new groups of shares on occasional days. Revival of demand for Miscellaneous shares has been noted in these columns before. Though Engineering shares of a particular group has always remained subdued, other shares in this group have gradually moved up. In the recent upswing, Paper shares have also firmed up. Only Tea shares have been rather subdued, while Coal shares continue to be neglected.

Near Favourites

In the last few days, two groups of shares have gained popularity. Spurt in Cement shares is not a new development. About two months ago, Cement shares started to move up. At that time, activity was influenced by attempts at cornering shares of a particular cement company. With the success of the cornering attempt, activity in Cement shares subsided. It has revived again. And the revived activity in Cement shares has been a sustaining influence on the whole market.

Improvement in Cement shares is fully justified. There has been a considerable increase in the output of cement in the last few years. Even so, there is a shortage in cement. Arrangements have been made to import cement. Imported prices are higher than internal prices. To adjust prices so as to encourage increased internal output, cement prices have been uniformly raised. Since then, Cement shares have been in demand. Latest reports of cement companies confirm the investors' preference for Cement shares as sound investments.

Aluminium Shares

A few days ago, shares of companies producing aluminium started moving up. Spurt in Aluminium shares is partly due to good working results of some aluminium-producing companies. To this extent, the activity in this group of shares reflects the hunt for good yields for the money invested. To some extent, the demand for Aluminium shares is a part reflection of possible dangers arising out of the Suez Canal crisis. If this is the main urge behind the recent spurt in Aluminium shares, the improvement may not be sustained.

But the market is likely to receive continued sustenance from the expected strength in Jute shares. These shares have a tendency to move up in the latter half of the year. This year has been no exception. But there is a solid basis behind the recent upswing in Jute shares. From the middle of next month, the industry would be functioning, as it was until the beginning of this year, with 12½ per cent. of loomage sealed. There is, therefore, **prima facie** reason to suppose that Jute shares should, at least, reach 1955 top levels.

Outlook Bright

In the first six months of this year, Jute shares were inactive. Despite the gradual unsealing of looms, in spite of hopes of heavy Russian purchases, Jute shares failed to move up. As mill stocks mounted, as company reports disclosed declining profits, Jute shares continued to fall. Only as reports circulated that New Delhi was in favour of fixing minimum prices for jute goods was the downward trend in Jute shares halted. These shares started to move up as the reverse process of unsealing of looms started.

In the last few days, Jute goods have moved up. This was only to be expected as a sequel to resealing of looms. Evidently, foreign buyers are entering the market on a big scale in order to purchase their requirements before jute goods firm up further. Simultaneously, raw jute has weakened in recent days. But for the temporary shortage of mill stocks of raw jute, fibre prices would have fallen further. As new crop arrivals continue, raw jute prices may fall further. In the circumstances, the outlook for Jute shares seems to be promising.

Market Factors

It is unfortunate that Tea shares have developed an irregularly downward trend. This is partly due to the poor dividend payments for the last season. In part, it is due to the behaviour of auction prices in the last three weeks. Some are, however, inclined to the view that the market is unduly pessimistic about Tea shares. Admittedly, the 1954-55 boom prices and profits are not likely to be repeated in the near future. But this season's auction prices are not so poor as to discourage investors from taking interest in the market.

At the current phase of the market, conjunctural factors will count. That being so, the immediate behaviour of clearing shares will be watched with interest. In the last few days, speculative shares have developed an irregular trend. Some scrips have consistently moved up, while others have improved occasionally only to slide back later. Profit-taking at higher levels is a healthy development. But, in the absence of any untoward development, clearing shares may remain steady.

Jute, Paper and some groups of Miscellaneous and Engineering shares continue to be firm. But if speculative scrips slide back considerably, cash scrips may be affected. A slight set-back, as a sequel to profit-taking, is widely expected. At the moment, market expectations are that, at lower levels, replacement buying will push equities up again. By next week, it will be known whether market expectations will materialise.

UNITED ASIA

International magazine of Asian affairs, 12, Rampart Row, Bombay 1, India.

Around Bombay Markets

High Pressure Share Pushing

Thursday, Morning

TRADING on the stock exchange was scrappy, due to several holidays. Practically no business was transacted on Monday, on account of Shri Morarji Desai's purificatory fast. Nevertheless, the undertone remained firm, despite occasional profit-taking at the bulges.

Dalal Street has been witnessing for some time past what may be called high pressure 'share-pushing'. A campaign appears to have been instituted for pushing certain scrips, which have yet to be officially blessed by the Stock Exchange authorities. Thus, irrespective of their intrinsic investment value, these scrips have been bought and sold, and the transactions widely publicised in order to sedulously foster the impression that there would be a scarcity of stocks in respect of these shares. In actual fact, however, these scrips have yet to make the grade and win popular support. The consequence of such deliberate share-pushing, especially on sub-brokers and marginal operators may well be serious, since some one will be left to hold the baby. Big and influential operators may not find it difficult to make hay while the sun shines and then retreat leaving, in the event, the small men in the share business holding the baby as it were. In the interest of genuine investment, these questionable high pressure selling methods should be carefully watched and if need be, duly checked.

Among the many new comers Jaypur Udyog, Orissa Cement and Ashoka Cement and lately New Central Jute have come into limelight. Some of these issues, are not listed on the Bombay Stock Exchange. Despite this obvious drawback, they have been finding buyers on the kerb, even at higher levels, thanks to the feeling successfully created in the minds of operators by interested parties that they may not be able to get them so cheap, once they have missed the bus. There are, of course, expansion plans in the offing for these companies and the anticipation of higher dividend, following higher profits. It may be suggested here that operators would do well to take such reports with a pinch of salt, investigate the facts and act accordingly.

Steel section maintained a steady level throughout the week despite some scattered profit taking. Textile shares also ruled firm on sustained buying support.

In the miscellaneous counter, Bombay Burmah, ACC and Scindia were in the limelight with hectic buying. While some reaction followed profit-realising, in National Rayon, fresh interest lifted up prices again to maintain a more or less steady trend.

Investment buying in ACC appears to have been inspired by reports circulating in the market that the Company will shortly launch a new project in collaboration with Vickers and Babcock and Wilcox. The Government has been approached for sanction and negotiations between the interests concerned and the Government are expected to be consummated before the end of this year. The new project is for the manufacture of cement and mining machinery as also of water-tube boilers of high pressure.

The company will have an authorised capital of Rs 20 crores and the working capital of Rs 11½ crores, Rs 7½ crores of which will be subscribed and the balance will be raised as a loan. Vickers and Babcock & Wilcox combined and Associated Cement will have 49½ per cent each of the share capital while the remaining one per cent will be held by four companies, namely Tatas, Killick Industries, F E Dinshaw, Limited and Khatau Limited. The company will have eleven Directors, five representing ACC, four representing Vickers, and Babcock & Wilcox, and two representing the holders of the one per cent share capital.

Bombay Burmah and Mahindra & Mahindra continue to attract attention both from speculators and investors on bright future prospects even at their new high levels.

Cotton

Cotton

Prices Reach Danger Zone

THE bullish phase noticed during the previous week continued uninterrupted on the cotton futures market despite restricted trading during the week under review, due to the intervention of holidays. The quotation has crossed the Rs 700 mark; this has been causing some concern in trade quarters, as on an earlier occasion, Government had intervened and declared the then prevailing contract closed at Rs 700. It is not unlikely, that the authorities may decide on a similar course of action if cotton futures are pushed up far beyond

MARKET LEADERS DURING THE WEEK

	Aug 22, 1956	Week's Range High	Low	Aug 14, 1956
Steel Shares :				
Tata Ordinary	213- 4	213- 4	209-12	210-12
Indian Iron	37- 8	37-11	37- 3	37- 8½
Textile Shares :				
Bombay Dyeing	701-14	701-14	688- 2	696-14
Central India	168- 0	171- 0	162- 8	163- 0
Century	604- 8	609- 0	602- 8	609- 8
Kohinoor	395- 0	395- 0	389- 8	391- 8
Simplex	213- 8	216- 0	212- 8	217- 0
Swadeshi	275- 8	276- 0	269-12	271- 0
Miscellaneous Shares :				
Associated Cement	203- 0	203-12	198- 0	197- 0
Belapur	254- 8	255- 4	253- 8	254- 0
Burma Old	771- 4	772- 8	754- 6	761- 4
Premier Const.	209- 8	212- 8	208- 8	211- 0
Scindia	19- 3½	19- 7½	19- 2	19- 4
National Rayon	270- 4	276- 4	268- 0	276- 0
New India Assc	48- 4	49- 4	48- 4	49- 4

the Rs 700 level. This is one view. There is no reason why prices should not move up beyond a particular level if the statistical position of cotton dictates such a course. That is the other view. Those who incline to the latter view further add that if the Government are convinced that a particular appreciation in price has been brought about by the natural inter-play of supply and demand, there would be no necessity for Government to intervene. They reinforce their argument by pointing out that Government specifically stated early in December last year that it had to intervene because of the speculative rise in prices. As long as there is no speculative rise in prices, the authorities would not interfere with the day-to-day working of the market. In the circumstances, it would not be correct to say that cotton has entered the danger-zone just because the contract has reached Rs 700 mark.

Now it is very difficult, if not impossible, to decide whether or not a given price is speculative or warranted by the actual statistical position. However, if the authorities want to intervene, because they consider a given price, futures or spot, to be detrimental to the interests of the cultivator, or the mills (in the interest of cloth exports), that is a different matter. Such intervention would not be in the interest of regulating forward trading. In the interest of smooth trade, however, it is to be hoped that those responsible for the day-to-day conduct of the market would see to it that operators are safeguarded against possible or prospective official intervention.

The spot market at Sewri ruled fairly firm during the week with some varieties quoting a few points above the official ceilings. This underlined the paucity of quality cottons. It has been pertinently asked whether in view of the scarcity of good quality cotton, Government has been wise in allowing an export quota of Bengal Deshi for 20,000 bales. Even lower grade cotton is getting scarce, and with increasing demand from dealers and spinners, prices have considerably hardened during the week. It may be of interest to note that, since the announcement of the export quota a fortnight ago, the prices of several specific delivery contracts have moved up by about Rs 25 per candy.

Oilseeds

Nervous Tone in Castor

MUCH of the gains recorded in the previous week, were erased as a result of a severely bearish jolt that bears in the castor contract had to suffer. To this bearish onslaught was added nervous bull liquidation. Both bulls and bears had become jittery at the reported re-entry into the market in America of Brazilian competition despite the fact that, initially at any rate, Brazil was reported to have done only a modest business in castor oil.

Another reason that adversely affected trading in castor was the anxiety of operators to get out of the September position in time to escape heavy penalty that might fall on them at the end-of-account. Switch over from September to May was effected during the week on a large scale. As a result, castor September went down while May futures remained comparatively steady.

Company Note

Indian Copper Corporation

INDIAN COPPER have been one of the most buoyant scrips among clearing shares in recent months. Even while clearing shares were slumping, Indian Copper maintained the ground at a high level. Working results of the Indian Copper Corporation, Ltd., for the year to December last explain the firm behaviour of this scrip in recent months. Dividends were raised from 25 per cent to 45 per cent, including a final dividend of 10 per cent and a bonus of 25 per cent. Provisions to the various reserves were higher. Production of refined copper was the highest in the Corporation's history at 7,281 long tons. Exports of Kyanite were higher at 19,234 tons as there were no restrictions on exports.

Satisfactory working results of the Corporation were directly due to the consistent rise in the world price of copper. Maintenance of a high production standard and satisfactory despatches helped the Corporation to attain highly satisfactory working results. World copper prices continued to be high until early 1956. There has since been a considerable decline, and present world copper prices are about 33 per cent below the peak levels. "With the rapid decline in the world price of copper", the directors sound a note of warning", the results for the current year, although so far satisfactory, are unlikely to approach those for 1955".

During the year under review, there has been considerable development in depth in the existing Mosaboni mine through the utilisation of the newly-constructed circular shaft, Development in depth on the scale envisaged at present will permit of extensive lateral development, but only to the extent as will counteract the diminution of ore reserves at the adjoining Badia mine, whose life is limited. Any expansion of output will, therefore, have to come from other areas. That is why, extensive prospecting is in progress to the north of the present working area. Estimated ore reserves now stand at 3,330,090 short tons. In the circumstances of restricted lateral development, this is considered satisfactory. Good progress is being made with development in depth. This should ultimately provide extensive lateral development, ensuring a substantial increase in ore reserves.

In the Chairman's address, enclosed with the annual report, Mr J F E d' A Willis notes with satisfaction that, under the new industrial policy of the Government, existing industries in Schedule A, which includes copper, will be allowed to function within the private sector. Mr Willis concludes that such a policy does not preclude expansion in such industries. The management's confidence in the future is reflected in the capital expansion programme. To bring the issued capital in line with capital employed in business, the issued capital of the Corporation is being increased by a bonus issue on the basis of one for two shares held.

In his address, Mr Willis outlines the Corporation's expansion plans: "In conformity with the underlying principles of the Second Five Year Plan, an extensive programme of prospecting and development has been prepared, and is already well advanced. This expansion programme is aimed at increasing considerably the present output of the mines and whilst no immediate results can be anticipated, it is hoped, provided the results of the present exploitation are satisfactory, that by the end of the present Plan your Company will have substantially contributed towards making India less dependent on imports of this important metal".

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1445.44	1451.78	1474.60	1297.98
2. Rupee Coin	113.77	112.42	108.71	108.63
3. Deposits				
a) Central Government's	53.72	54.04	52.03	90.95
b) Banks'	53.44	51.04	52.56	51.80
c) Other Governments'	5.58	9.38	6.94	25.8
d) Others'	11.92	11.88	12.19	33.43
4. Foreign Securities	606.68	616.68	626.68	637.04
5. Balances held abroad	34.39	32.02	41.63	85.30
6. Rupee Securities	708.62	708.62	728.56	543.69
7. Investments	52.12	49.41	37.31	62.38
8. Loans and advances to Governments	7.30	7.08	3.34	2.44
Scheduled Banks				
1. Demand liabilities (net)	623.64	623.26	629.40	607.65
2. Time Liabilities	459.67	458.08	454.97	409.24
3. Cash on hand	35.51	36.01	37.46	34.48
4. Borrowings from Reserve Bank	44.58	36.56	44.31	7.49
of which against Usance Bills	33.94	25.34	33.68	6.75
5. Advances and Bills discounted	692.59	692.33	710.86	557.85
of which State Bank's	127.14	126.34	134.08	104.29
6. Invst. in Govt. Sec.	361.48	361.85	346.90	371.4
of which State Bank's	106.29	106.08	100.17	94.37
Cheque Clearance	106.70	121.53	128.90	115.11

†For Reserve Bank and Cheque Clearance week ended 17-8-56. Scheduled Banks week ended 10-8-56.

Bombay Money Rates	17-8-56	10-8-56	20-7-56	19-7-55
Inter-Bank Call Rate	3 1/8	3 1/8	3 1/8	2 7/8
3 months deposits	3 3/8	3 3/8	3 3/8	2 7/8
6 months deposits	3 3/8	3 3/8	3 3/8	3

Bombay Bullion — In Rupees and Annas

	23-8-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	103-13	104-4	102-4	92-8
Forward	103-14	104-4	100-12	91-13
Silver (per 100 tolas)				
Spot	172-13	172-5	171-9	159-0
Forward	172-4	172-5	171-3	158-2

INTERNATIONAL WHEAT AGREEMENT

Guaranteed Sales and Purchases

(In thousand metric tons)

	New IWA Aug '56 to July '59	1955-56 Last year of old IWA	Difference
Guaranteed Sales by :			
Argentina	400	—	+ 400
Australia	824	1,225	— 401
Canada	2,800	4,166	— 1,366
France	450	9	+ 441
Sweden	175	—	+ 175
United States	3,595	5,349	— 1,754
TOTAL	8,244	10,749	— 2,505
Guranteed purchases by :			
Austria	100	250	— 150
Belgium-Luxembourg	450	650	— 200
Bolivia	110	110	—
Brazil	200	360	— 160
Ceylon	175	280	— 105
Colombia	70	—	+ 70
Cuba	202	202	—
Denmark	50	50	—
Ecuador	50	65	— 15
Egypt	300	400	— 100
Germany, Western	1,500	1,500	—
Greece	350	300	+ 50
Haiti	60	50	— 10
India	200	1,000	— 800
Indonesia	140	170	— 30
Ireland	150	275	— 125
Israel	225	225	—
Italy	100	100	—
Japan	1,000	1,000	—
Korea, South	60	40	+ 20
Lebanon	75	75	—
Mexico	100	400	— 300
Netherlands	700	675	+ 25
New Zealand	160	160	—
Norway	180	230	— 50
Peru	200	200	—
Philipines	165	236	— 71
Portugal	160	200	— 40
Saudi Arabia	100	120	— 20
Spain	125	250	— 125
Switzerland	190	215	— 25
South Africa	150	360	— 210
Venezuela	170	170	—
Yugoslavia	100	100	—
Other countries	281	227	— 54
TOTAL	8,244	10,749	— 2,505

Source: Food and Agriculture Organisation of the United Nations

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group	Week ending 11-8-56	Week Ago 4-8-56	Month Ago 14-7-56	Year Ago 13-8-55
I **Food Articles:**	**397.7**	**391.5**	**377.3**	**315.1**
Cereals	502	502	484	374
Pulses	391	385	372	286
Others	264	253	242	238
II **Industrial Raw Materials:**	**497.4**	**493.2**	**487.8**	**406.5**
Fibres	474	470	475	415
Oilseeds	566	549	521	386
Minerals	486	516	517	418
Others	422	421	419	420
III **Semi Manufactures:**	**405.0**	**400.4**	**393.4**	**32[illegible].0**
Leather	383	387	395	331
Mineral Oils	208	208	208	201
Vegetable Oils	576	565	539	386
Cotton Yarn	495	483	475	406
Metals	330	329	327	257
Oilcakes	467	462	423	330
Others	361	361	362	330
IV **Manufactures:**	**387.2**	**385.7**	**385.5**	**371.5**
Textiles	420	419	418	408
Jute	390	388	389	426
Cotton	430	430	430	402
Rayon & Silk	470	470	453	474
Woollen	266	266	264	278
Metal Products	388	388	388	352
Others	294	291	291	286
V **Miscellaneous:**	**567.0**	**563.7**	**557.7**	**562.8**
All Commodities:	**417.9**	**413.8**	**406.8**	**356.8**

EXPORTS OF MILL MADE COTTON PIECEGOODS

(Quantity in million yards)

Varieties	1956 July*	April-June	Jan-Mar	Year 1955
Coarse	14.14	52.95	45.82	184.05
Medium	39.65	138.70	138.14	618.24
Fine	2.46	4.87	4.14	35.96
Superfine	1.73	5.51	3.49	21.04
TOTAL	57.98	202.03	191.59	859.29

* For Bombay Port only

Source : The Cotton Textiles Export Promotion Council

EXPORTS OF RAW COTTON

(In bales of 392 lbs each)

From 1st Sept 55 to 16th Aug 56

Destination	1955-56*	1954-55	1953-54	1952-53
United Kingdom	55,659	41,664	14,566	16,250
Continent	75,561	62,857	26,533	105,304
Hongkong	29,794	20,279	—	—
China	57,484	5,603	293	318
Japan	202,479	114,743	67,665	155,597
USA	3,663	17,064	12,919	43,138
Other Countries	2,514	2,587	1,603	6,486
Coastal ports	99,894	151,202	123,579	139,829
TOTAL	527,048	415,999	289,048	466,922

* Excluding Zoda and Yellow Picking

Source : East India Cotton Association

WAGON LOADING ON BROAD AND METRE GAUGES

(From 1st April to 30th June, in terms of 4 wheelers)

	BROAD GAUGE 1956-57	1955-56	% change	METRE GAUGE 1956-57	1955-56	% change
A—Revenue Earning Traffic:						
1 Coal and Coke for public	240,424	226,861	+ 5.98	53,843	47,135	+ 14.2
2 Grains and Pulses	89,227	88,062	+ 1.32	77,778	62,807	+ 23.8
3 Oilseeds	19,415	13,398	+ 5.53	20,087	18,549	+ 8.29
4 a) Cotton, raw	11,500	11,885	— 3.24	10,044	9,419	+ 6.64
b) Cotton, Manufactured	5,917	6,203	— 4.61	3,125	4,501	— 30.6
5 a) Jute, raw	11,753	6,702	+ 75.4	9,559	5,396	+ 77.1
b) Jute, manufactured	1,696	2,622	— 35.3	1,270	809	+ 57.0
6 a) Sugar	11,087	11,542	— 3.94	16,817	14,369	+ 17.0
b) Sugar Cane	30,520	18,072	+ 68.9	47,625	19,844	+140.0
7 Cement	39,258	35,226	+ 11.4	25,596	28,172	— 9.14
8 Iron and Steel—						
a) Pig iron	2,605	4,593	— 43.3	1,729	1,107	+ 56.2
b) Others	40,254	33,737	+ 19.3	8,276	5,333	+ 55.2
9 Tea	2,754	2,155	+ 27.8	3,959	2,575	+ 53.7
10 Metallic Ores—						
a) Manganese Ore	13,647	14,335	— 4.80	5,321	4,882	+ 8.99
b) Iron Ore	43,133	40,448	+ 6.64	8,185	8,086	+ 1.22
c) Others	4,528	2,083	+117.4	3,199	1,777	+ 80.0
11 Miscellaneous full wagons:	392,905	361,205	+ 8.78	303,438	256,776	+ 14.0
12 Miscellaneous Smalls	101,317	96,616	+ 4.87	88,084	91,603	— 3.84
Non-Revenue Earning Traffic:						
13 Free hauled rly coal and materials—						
a) Coal for home line	60,577	58,174	+ 4.13	43,501	44,919	— 3.16
b) Coal for other Govt. rlys and manufacturing Units	53,594	76,340	+ 9.50	1,948	2,679	— 27.3
c) Other stores	45,365	40,280	+ 12.6	26,801	20,281	+ 32.1

Source : Ministry of Railways

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Price-Page Schedule

A GROWING democracy needs a lively press to cater to all sections of the people. This is a prime condition as much for establishing a democratic set-up as for the healthy development of the country and for the success of its Government. In what way the press can contribute more adequately than in the past in creating a healthy mental climate in which democratic values will be firmly established is a problem of great complexity. But the Press Commission which was appointed to examine the state of the press and recommend its future lines of development appears to have been much more perturbed by the economics of the Fourth Estate than by obstacles to its freedom. The latter could be removed by the repeal or amendment of laws, not so the former. How could the existing conditions be changed so that our growing democracy could have a lively Press catering to all sections of the people? The Commission found that in fact the Press in India does not meet these essential needs. The number of papers is wholly inadequate, judged by any criterion. The daily press catered mainly to the urban population and that, too, to the population of cities. Many of the towns with a population of a lakh or more did not have any daily paper.

Out of the total circulation of the daily papers, the Commission found, about 55 per cent was in the capital cities and major towns, which contained only 7 per cent of the country's total population. Out of the combined circulation of 13½ lakhs, 4.7 lakhs was the circulation of the English papers. Again, two-thirds of the circulation of the English papers, and two-fifths of the vernacular papers was confined to the larger cities and towns. Though the circulation was increasing as compared to the past, the daily paper had hardly penetrated into rural India.

The first step, therefore, is to increase the number of papers in the country and make it possible for papers to be started even in small towns, so that a substantial section of the rural population can be made to develop the habit of reading newspapers. How was this to be done? Not that the people were apathetic. The literate households, a sample survey showed, were interested in newspapers, if only they could get them. The Commission was impressed that there was an 'immediate potential' for a very large increase in readership, and this potential was much greater in the rural than in the urban areas. What prevented the rural population—that is such of them as are literate—was primarily the cost of papers and the lack of distribution facilities. To meet these difficulties the Commission did not suggest research in printing techniques in order to bring down the cost of printing, though it devoted some attention to the question of news print. It is the country's dependence on foreign supply in this regard that troubled the Commission more; it was strongly in favour of reducing this dependence by developing news print production in Madhya Pradesh and the solution it suggested for selling higher cost India made news print was State trading and a pool arrangement, to enable Indian news print to be sold with imported news print at equated prices.

For increasing the number of newspapers and the circulation of those which did not have much sale, the Commission looked closely into the means of augmenting the revenue of such papers. How to enable small papers to be started in towns which had none and how are these to pay

their way? The commission did not suggest a Financial Corporation to finance such new ventures perhaps for the good reason that the industry had not yet attained a degree of development where capital could be attracted to it purely as a commercial proposition. The press, taken as a whole did not make money. The estimated profit of investment, from the data that the Commission was able to collect, did not work out even to one per cent per annum. It did not mean, however, that profit earning capacity of newspapers was uniformly poor. Among the concerns making profit, a good proportion earned over 10 per cent on the capital investment.

This led the Commission to what it thought to be the hard core of the problem—the factors leading to and weighing heavily in favour of the large established units, the higher advertising rates still commanded by the English papers, the poor earnings of vernacular papers markedly disproportionate to their circulation. Because the established papers in the metropolitan cities cater to readers who have large purchasing power, they take away the cream of the advertising revenue. And because they have all the money, they can push their circulation by offering much more to the readers as also by very questionable means e.g. undue inducements to their selling agents and restrictive practices, particularly when they run or control a chain of papers, as they often do.

In this race between the big and the small, adequate handicaps have to be fixed for the strong, so that competition may be fair, this was the conclusion derived by the Commission from its study of newspaper economics. Not all units in any industry operate with the same advantages, but such differences cannot be allowed in the Fourth Estate which has special obligations to serve. Hence the recommendation for fixing a price-page schedule, which the Government is now empowered to do under the Bill that was passed by Parliament.

The price-page schedule, the Commission recommended, should prescribe not only the maximum number of pages that could be sold at a fixed price but also the minimum. The schedule remains to be determined. Dr Keskar, however rejected the suggestion that when ready, it should be placed before the Lok Sabha for discussion, and that smaller papers, selling at as 1½ or less per copy, should be regulated only in relation to their maximum and not their minimum number of pages. The powers taken by the Government are wide, but this is only the first round. In the second there is going to be a battle royal, though not necessarily a straight fight, between the haves and the have-nots.

There is little doubt that restriction on the number of pages must impose a severe cut on the advertisement revenue of newspapers. Before the war, the London dailes derived 53 per cent of the total revenue from advertisements; the percentage was even higher for provincial papers. Even after the war, as long as page restriction remained, this percentage did not rise above 25, in the case of London papers, though provincial papers continued to get 45 per cent of their revenue from this source. These figures may be compared to the situation found by the Press Commission in 1951—for the daily papers for which financial data was available—Rs 6 crores net revenue from circulation, and about Rs 5 crores from advertisement.

The unsavoury features of the high pressure competition for circulation in recent years have been the simultaneous publication of the same paper from different centres, largely to support their inflated claim for an all India circulation and the addition of frequent supplements. The Commission hoped that a price-page schedule would make the newspaper less dependent on advertisements and therefore more free. The section of the press which the Commission wanted to help devoutly hopes that it will increase its dependence on advertisements, by inducing some overflow from the bigger dailies to the smaller fry!

Scope for Diplomacy

PRESIDENT NASSER has been wise in his response to the invitation of the Five-Nation Suez Canal Committee. In agreeing to meet this committee, set up by the London Conference, President Nasser has shown his willingness to reach a negotiated settlement of the dispute. If the London Conference has had a restraining influence on Britain and France, credit is due to President Nasser for his diplomatic gestures despite occasional provocation. He has been firm on the basic issue of Egypt's sovereign rights to nationalise the Canal Company. He has repeatedly affirmed Egypt's supreme authority over the Canal. But he has been no less emphatic about his desire to reach a mediated solution of the problem in dispute. In pursuance of this policy, he has announced his willingness to meet the Menzies Committee. There need be no undue hitch over the time and place of the proposed meeting. Though the Committee has expressed its preference for Geneva or Rome, it is willing to go to Cairo to meet the Egyptian President. It should, therefore, not be difficult to fix the place for the meeting which should be acceptable to both sides.

President Nasser has agreed to discuss the Canal issue with the Menzies Committee. His statement makes it clear that he is not unwilling to discuss the plan formulated by the seventeen governments for the Suez Canal. But it would be optimistic to hope that his willingness to meet the Menzies Committee implies his acceptance of the proposals evolved by the majority of the London Conference. In certain essentials, the majority plan, based on the Dulles proposal, differs from that of the Menon formula. There is not any fundamental difference between the majority and the minority plans on the basis of compensation to the foreign owners of the nationalised Suez Canal Company. Nor is there any basic conflict between the two plans on the future profits that will accrue to Egypt from the Suez Canal. Both sides will have to modify their attitudes, but these issues will not prove obstacles to an agreed settlement.

Freedom of navigation through the Canal is an issue on which there is no disagreement in principle. Users of the Canal have the right to demand unrestricted freedom of navigation through the Canal. Egypt accepts this basic international character of the Suez Canal. But the majority of the nations participating in the London Conference demand an international authority for "the control of operation, maintenance and development" of the Canal. Maintenance and future development of the Canal are issues

in which Egypt is as much interested as the users. Unless the Canal is properly maintained and developed the traffic will suffer. This will cause inconvenience to the users, and will be equally harmful to Egypt's interests. Maintenance and development of the Canal raise problems of both men and money. Here, the majority plan's reservations on the future dues for the service of the Canal enter the picture. But the monetary aspect of these issues will not prove an obstacle. There will have to be international aid to enable Egypt to maintain and develop the Canal properly. Money is not the only consideration. Trained men are equally important. There is already a developing crisis over the pilots. Egyptianisation of the personnel of the Canal Company in gradual stages is not an unreasonable demand. Cairo has reasons to be wiser by the Abadan experience. On this issue, Egypt has the sympathy of all under-developed nations.

In the main, the problem is to reconcile Egypt's sovereign rights over the Canal and the Canal Company with the demand of the seventeen nations for an international authority for "control of operation, maintenance and development" of the Canal. It is on this point that the Menon formula differs from the Dulles plan in substance. While the majority plan insists on international control over the Canal, the Menon plan proposes "consideration . . . . . of the association of international user interests with 'the Egyptian Corporation for the Suez Canal'." There are provisions in the Menon plan to ensure freedom of navigation through the Canal without any discrimination against any nation by Egypt. These provisions are, in the ultimate analysis, no less effective than those envisaged in the majority plan. This is one of the main flaws of the majority plan. If Egypt fails to discharge her international obligations, the users will always have the right to appeal to the Hague Court or to the United Nations. Why, then, do the seventeen nations insist on international management of the Canal? Is not this demand a negation of Egypt's sovereign rights? Twelve years hence, the users of the Canal would have had to negotiate with Egypt an arrangement which would have to concede Egypt's sovereign rights while ensuring freedom of navigation, operating efficiency and economic rates for service. Egypt is not unwilling to ensure the future operation, maintenance and development of the Canal with the co-operation of an international advisory body to be formed under the auspices of the United Nations. There is no valid reason why the Canal's users cannot reach an agreed arrangement now on a plan which they will have to accept some years hence.

In demanding international "control" over operation, maintenance and development of the Canal, the seventeen maritime nations are trying to impose a solution which violates Egypt's sovereign rights and interests. This is the crux of the problem. By consenting to meet the Menzies Committee, President Nasser has indicated that he is in a mood to negotiate the major issues in dispute. This is one of the positive results of the London Conference for which America, Russia and India deserve credit. President Nasser's conciliatory behaviour should evoke response from the seventeen nations who have endorsed the majority plan. In the wider interests of peace, there will be hope that the Menzies Committee will not meet President Nasser for issuing an ultimatum, but will have authority to discuss alternative plans for the Suez Canal. There is bound to be stalemate unless the seventeen nations agree to some major modifications in their plan. America and India have a grave responsibility to pursuade both sides to be accommodative so that a compromise plan can be evolved during the forthcoming discussions between President Nasser and the Menzies Committee. Britain and France can remove the threat to world peace by accepting the realities of the situation in West Asia.



Weekly Notes

What Load for Roads?

NOT that some statistics, however phoney and questionable, are always better than none. But how could the Planning Commission think of co-ordinating transport without forming any conception of the magnitudes involved, except for railways? The Railway Board, of course, has always been ready with its figures. The Planning Commission, confronted with the colossal magnitude of the task imposed in the railways, skirted round it adroitly by confining itself strictly to the financial allocations. In the case of road transport or transport by sea—shipping, ports and harbours, not to speak of inland navigation—the physical magnitudes have been religiously excluded. And one can go through the chapter on transport in the Second Five-Year Plan without getting to know either what is the probable size of the total transport needed for the next five years or how this total is proposed to be distributed over the different means of transport. No one will deny the difficulty of making such an assessment, even a hypothetical assessment. But how else can one proceed to judge the country's transport needs and plan development, without some such idea in mind? And yet, the Planning Commission had the benefit of the investigation of the problems of road transport by a special study group.

The Commission has no doubt made some sensible recommendations e.g. that nationalisation of road transport should be suitably phased and that when the State Governments do not themselves propose to operate road transport services, they should not sit on the fence and keep others, who want to operate them, guessing all the time. It proposed that nationalisation of goods transport services, at least, should not be taken up during the Second Plan and that private operators should be assisted in forming 'viable units'. This is already having some effect, as can be seen from the sales and demand for trucks, which have shot up all of a sudden in the last few months.

There are some other useful recommendations also, long overdue, such as that restriction on inter-State services should be removed, that inter-State services should not be doubly taxed and so on. But the obstacles which retard the development of inter-State road transport viz. lack of uniformity in the weights of trucks allowed on roads and bridges, differences in the strength of bridges and culverts —these have not even been mentioned.

The result is some relaxation on carriage of goods by roads, a sudden release of the pent-up demand for trucks, all of which, it is to be presumed, have been reflected in the higher target set for manufacture of automobiles in the Second Plan. The production of trucks, for example, is to be stepped up to 40,000 at the end of the Second Plan from a mere 12,000 at the end of the First. Besides there is also a manufacturing programme for 5,000 jeeps.

Leaving aside some important questions of details, such as what would be the average size of trucks, whether they should run on diesel or petrol, and whether existing production capacity can be or will be adjusted according to needs, in order that the targets may be realised, if 40,000 trucks can be put on the roads at the end of the Second Plan, how much of the estimated traffic would they be able to carry? And to what extent, would the load on railways be taken up by them? To these questions, there is no answer. Planning is not just doing good, removing petty tyrannies on private operators or giving them tax relief, nor is it a matter of constructing new roads for the convenience of the people and general improvement of the country. It is supposed to set up specific tasks and suggest the means for attaining these tasks. Transport other than railways is obviously not being planned that way.

Natural Gas in East Pakistan

IF the natural gas in Sylhet turns out to be as lucky a find as Sui gas in Baluchistan, it should help to transform East Pakistan, which suffers from an acute shortage of power resources. The eastern wing of the State has no coal and its hydro-electric power potential is extremely limited. The Karnaphuli Project has been much publicised, but nothing much has been heard about any other. In the first Five Year Plan, power supply in East Pakistan is to be raised from 67,000 KW in 1955 to 215,500 KW in 1960. The latter may be compared to the present capacity of Bokaro alone of 150,000 KW. This projected increase is the combined total of the Karnaphuli hydro-electric project and of the two steam plants to be set up at Dacca and Khulna.

Welcoming the find of natural gas in East Pakistan as "a gift of God," Mr Zahid Hussain, Chairman, Pakistan Planning Board, said "this opens up the prospects of establishing a fertilizers industry in East Pakistan . . . Steps must be taken during the Plan period to exploit the newly discovered gas reserves . . . . financial considerations will not be permitted to hold up progress in this regard."

General Insurance Pool

WILL the 'pool' continue to distribute general insurance business fairly and impartially among all the Indian insurance companies? The question must be agitating the Indian insurance companies quite a lot, since the Vulcan Chairman thought of raising it pointedly in his speech at the Annual General Meeting of the company last week.

The pool distributes a considerable volume of business. All Government departments as well as semi-Government bodies have been passing on their general insurance business to the pool in the establishment of which the Vulcan played a signal part, the then Chairman of the company, the late J C Setalvad having been principally responsible for bringing it into existence.

There should be no room for doubt, but doubt has arisen, because after the nationalization of life insurance, the Government now owns through the newly set up Indian Life Insurance Corporation those general insurance companies which were subsidiary to the life companies that have been taken over. Is the doubt warranted that through these Government owned companies, the State may widen its hold on general insurance business? It can certainly do so. But if it does, it would virtually amount to nationalizing general insurance business also. The apprehension that it may, must be unwarranted, but since those vitally concerned entertain such apprehension, a clarification and reassurance are both overdue.

Handling Capacity of Ports

ABOUT the only component of transport, besides railways, for which capacities have been broadly sized up is the handling capacity of the ports. Strangely enough, though, no estimate has yet appeared anywhere of the probable volume of cargoes, our ports may be called upon to handle during the period of the Second Plan. There have been reports, of course, of so much cargo waiting to be moved, machinery, equipment and materials like steel and cement awaiting shipment from UK or ports in Western Europe which are not being moved, because shipping is not available. We have also had several cases of bad hold-ups, like the one in Bombay port some time ago of structural steel.

In a conference in Delhi with the Secretary of the Ministry of Transport in the Chair, Shri Ramaswami Mudaliar made the suggestion that the different Ministries should do something about it and phase their import programme in such a manner that imports may move in smoothly according to the shipping available and the capacity of the receiving ports. The difficulty here is not so much for the import of high freight rate cargo, for which shipping is easier to get but for low rated cargoes. This does not directly bother the Government so much as it hits the exporter, particularly the exporter of ores, for example. Now that Government is moving actively into the exports of ores, it should be making its own programme. The exports which move under prior agreement e g with communist countries would, of course, call for special shipping, which has been arranged but what about the rest?

Handling capacity of ports depends as much on the physical capacity as on the ability to utilise this capacity which largely depends on the organisation of dock labour and the efficiency with which loading and unloading is done. In regard to the latter, some improvement has been effected but the bulk of the expansion of the ports provided in the First Plan remains to be effected in the Second Plan period. The Calcutta port, it was officially reported some time ago, had not been able to carry out more than a third of the development projected in the First Plan.

The peak capacity of the major ports is rated at 24 million tons of imports cargo, based on their actual performance in their best years in the recent past, against actual traffic handled during 1954-55 of only 20 million tons. So without any additions or improvements, the ports should be able to handle another 4 million tons, which is the estimate of the average annual imports on Government account in the next five years. The only missing link in this argument is the actual cargo handled last year which is presumably the base year for estimating the additions to import requirements.

The plans of expansion of major ports including Kandla, is for handling 6.75 million tons of additional cargo. The expansion projected is the largest for Visakhapatnam and Kandla being 1.75 million tons each. next come Calcutta with a programme for 1.5 million tons, Cochin 1.25 million tons and Madras only half a million tons. When these expansions are carried out—they are hoped to be completed by 1958, which will be the peak year for traffic during the Second Plan period—the total capacity of the major ports would have increased to 30.75 million tons. If the piece-rate system works the same miracle in other ports as it is reported to be doing in Bombay, a substantial increase in efficiency may be reasonably expected and on this assumption, the Ministry of Transport estimates a total handling capacity for the Indian ports of something like 35 million tons. If this is really achieved, it should be an important contribution, for delay in handling of ships in the Indian ports and the slower turn round of ships which it entails have severely reduced in the past the volume of shipping actually made available to us.

Discordant Note

PRODUCTION on a mass scale being the pre-condition for successful manufacture of automobiles, the types of cars and trucks undertaken for manufacture had to be standardised and their numbers reduced to a minimum. This is what the Government is supposed to have done.

That's why production programmes submitted by so many manufacturers were rejected and licences were refused to those who could not or would not submit a production programme because they found the demand for cars in the country inadequate. The result of restricting production to only three manufacturers for passenger cars has been higher cost and poor quality. The prospective buyer has not much choice for the very good reason, entirely defensible in the larger interest of the country, that a variety of makes and types would not enable us to develop manufacturing in the country at all. Both the manufacturers and the Government have made the claim and given wide publicity to it that so much of the cars that are now being turned out, stated in terms of percentage of the full value, was being actually fabricated in India. This claim, it is not always so clearly explained, is valid only in respect of some and not all the cars and trucks which are supposed to be manufactured in the country. With casual abandon the Planning Commission has put "80 per cent Indian content" against automobiles in the 'Programme of Industrial Development' published as an annexure to the chapter under this caption in the Second Five-Year Plan.

How come then that full page advertisements appear in the daily papers of a 'prestige car', with full air conditioning and the latest and the most luxurious gadgets, which is the product of the recent Studebaker-Packard combine? It does help to assure the long suffering motoring public that we are making much progress in rationalising the production of automobiles, for which it is being called upon to pay, not only exorbitant prices, but is left with Hobson's choice. There is no reason to suppose that the Ministry of Commerce and Industry or its Development Wing would be wanting in casuistry any more than in knowledge of planning technique and if some MP is persistent, he will probably get a double dose of the best of both worlds. The ultimate benefits to the country in terms of foreign exchange, and of precious dollars, of such a minor sacrifice, he will be told—after all imports of latest prestige cars can account only for a microscopic fraction of the total as does the expenditure on amenities in railways or in air conditioning third class coaches—are immense. But if it is also a part of democratic planning that its rationale should be widely understood, so that people may put up with the hardship that planning entails, surely publicity to luxury cars must strike a discordant note?

U S Presidency

THAT Mr Eisenhower would be chosen as the Republican candidate for the presidential election, was never in doubt. Nomination of Mr Nixon as Mr Eisenhower's running mate was more in doubt. There was some opposition to Mr Nixon But he was finally chosen for two reasons. There was no better rival. His association with the Right-wing of the Republican Party may have helped his nomination. Mr Adlai Stevenson's decisive first ballot victory at the Democratic nominating convention is a greater personal triumph. He was not the only possible choice of the Democrats, as Mr Eisenhower is of the Republicans. Despite Mr Truman's opposition, Mr Stevenson has been chosen because the Democrats think that he alone has some chance against Mr Eisenhower. Senator Estes Kefauver is a dynamic personality. As Mr. Harriman refused to stand as a candidate for vice-presidentia nomination, the Senator was chosen as Mr Stevenson's running mate. In their choice, the Democrats have indicated that they are determined to give Mr Eisenhower a tough fight.

Gallup polls reflect Mr Eisenhower's continued popularity. Those who will vote for Mr Eisenhower will not necessarily vote for the Republican Party. It is this personal factor which is against Mr Stevenson. Unless Mr Eisenhower's health deteriorates in the meanwhile, his chances are not much in doubt. Neither Mr Stevenson nor the Democratic Party is unaware of Mr Eisenhower's magnetic personality. There is a possibility that the American voters are less hopeful about Mr Eisenhower's physical condition than his "political" doctors. This may, at the time of the election, tip the scale against Mr Eisenhower. His personal popularity remains. But this time he will be fighting under certain disadvantages. In 1952, his promise that he would bring the "boys" back home from Korea won him many votes. He can make no such promise this time. But his campaigners will surely exploit Washington's policy of restraint on the Suez Canal issue. Mr Dulles's foreign policy may not be popular. But there is wide appreciation of Mr Eisenhower's restraining influence on Mr Dulles.

No doubt the negro problem and the growing farm surpluses will be live election issues. But these issues will not have any decisive influence. There is nothing much to choose between the programmes of the two rival parties. That does not mean that the Democrats will not exploit the mistakes made by Mr Dulles. Also, the present Administration's foreign aid policy is likely to be under fire. But the Republicans will retort that the Eisenhower Administration's home and foreign policies have the general support of the Democrats, as both houses of the Congress have been dominated by the latter. This raises a major issue which may tilt the balance in favour of the Democrats. Achievements of the 84th Congress have been poor mainly because the Administration has been Republican while the Congress has been dominated by the Democrats. Even if Mr Eisenhower is chosen as the next President, the Republicans are not likely to capture the Congress. More intelligent voters may not remain unimpressed by the implications of such a state of affairs.



Ahmedabad

AHMEDABAD has lessons for the people, the Government and Parliament. No thinking person will blame Gujeratis for their demand for a separate, linguistic State. Advocates of Mahagujerat have the sympathy of all those who believe that linguistic States are necessary for the rapid social, cultural, political and economic development of the whole country. But the citizens of Ahmedabad must realise that endorsement of linguistic States does not mean encouragement of violence. It was most unfortunate that some hooligans were permitted to indulge in acts of violence during the meeting at which Shri Morarji Desai broke his fast. Neither Shri Morarji nor the Bombay Government seems to blame those who demand Mahagujerat for the violent demonstrations during the Ahmedabad meeting. But if the ugly happenings during that meeting hasten the realisation that violence can only harm the cause of linguistic States, Shri Morarji's fast will have achieved its moral purpose.

There will be hope that the lessons of Ahmedabad will be learnt so that the movement for linguistic States can be carried on peacefully and without violence. Despite the consent of both Houses of Parliament, Ahmedabad has proved conclusively that the people of Gujerat want a separate linguistic State. Both Houses of Parliament are dominated by Congress. It was, therefore, a foregone conclusion that both Houses would endorse a plan sponsored by Congress leaders and accepted by the Union Cabinet. Pandit Pant has been eloquent about the "fruit of collective wisdom of the two Houses of Parliament". He has hailed the consent of both Houses to the plan for a bigger, bilingual Bombay as a milestone reached in the country's progress towards the goal of an ideal State. But the people and the country hold different views.

Few endorse the Government's solution of the problem of linguistic States. If Ahmedabad is a warning to the people against violence, it has no less a lesson to the Government. There is nothing anti-social or anti-national in the demand for linguistic States. And the people have the right to expect that their legitimate aspirations are fulfilled by a popular, national Government.

Letters to the Editor

Ahmedabad Incidents

I COMPLETELY endorse your views about the Ahmedabad incidents expressed in your editorial 'No mandate from the people' in your last issue. While in Bombay, I was prejudiced against the Ahmedabad protest and from the information I got from the Bombay papers. I was led to believe, like Pandit Nehru, that the Ahmedabad protest was engineered by leftist parties and by those who were losers in land speculation.

However, when I went to Ahmedabad last week, I came in contact with some of the people who were responsible for this protest. And to my surprise, I found that most of them were pro-congress, pro-Nehru and pro-Morarji and that they came from all sections of the Ahmedabad population. They had to protest because they felt insulted and ignored, regarding what they considered to be a vital matter. Some of them therefore tried to give expression to this feeling by going to the Congress House on August 8, and showing their resentment to the local congress leaders. When a big angry crowd gathers at a place, some violent demonstration is to be expected. At the Congress House, too, there was some stone throwing but so far there has been no evidence of anybody having been seriously hurt by this stone-throwing. The Congress leaders, instead of coming out of the Congress House and listening to the people, probably got frightened and it is in the presence of these Congress leaders, if not at their instance, as is widely believed, that the police fired 27 rounds, without any previous attempt at dispersing the crowd by means of lathi-charge or tear gas or such other measure. The Collector and the district superintendent of Police, who were then on the spot, it is said, do not take any responsibility for this firing. The firing resulted in the deaths of about eight persons—all students between the ages of 14 and 22. These police excesses goaded the Ahmedabad people into some violent activity in the following days but on the whole, the entire movement was peaceful, restrained and non-violent. The Janata curfew of August 19 was in fact a very effective and ingenious non-violent device for protesting against the Government acts and decisions. Even Morarji Desai alleges that violence was used on that day in preventing people from going to his meeting. This is far from the truth. Of course, some moral coercion is inevitable in such public movements but there has been no evidence of violence on the part of the volunteers. In fact that the abstention from the meeting was voluntary is proved by the fact that on the very next day about a lakh of people went to the public meeting organised by the student-leaders in support of Maha-Gujarat.

There are two conclusions which emerge from the Ahmedabad incidents. Firstly, the local Congress leaders have no contact with the people and do not represent their views. Secondly, Government violence was absolutely unjustified and was worse than in the days of the British Raj. If both these conclusions be true, one wonders how far we have been successful in establishing a democratic regime in India.

'Believer in bi-lingual Bombay'

Bombay
August 28, 1956

Disguised Unemployment and Economic Development

—A Protest

PROF DASGUPTA in his article in the last issue of your weekly correctly states the thesis maintained by Vakil and Brahmananda in their book 'Planning for an Expanding Economy'. However, later on he goes on to say that the consumption goods multiplier is a myth. This conclusion is arrived at by taking a situation in which the authors' multiplier process is not applicable. Just as Keynesian multiplier does not operate in the absence of 'investment' expenditure, neither does this multiplier. The multiplier process would be non-existent in the absence of a similar increase in the surplus of wage goods. Prof Dasgupta does not prove by his example that the consumption goods multiplier is a myth.

The criticism that even if the unproductive consumers are employed, the wage goods may not be released, if the persons on whom they were dependent increase their consumption, is irrelevant as this case has already been considered by the authors. The consumption goods multiplier then would be zero. The authors' analytical framework is more general than that of Nurkse and with its help it is possible to analyse a situation when the consumption of the worker and that of the unemployed is equal (Nurkse's case) as well as a situation when they are not equal. The authors go a step further and point out what the savings potential would be in a situation when the consumption of a worker is higher than that of the unemployed,

I am surprised at the criticism of the concept of an employable unit by Prof. Dasgupta. A careful reader would have easily noticed that the authors do not add a worker and his consumption. An employable unit is not a sum of a worker and his consumption; a worker together with his necessary consumption forms one employable unit. The use of the word 'plus' is probably wrong; but that in no way justifies Prof Dasgupta's criticism that it is not understandable.

B C Desai

Bombay
August 28, 1956

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Our Delhi Letter

Diamonds in Cold Storage

MILADY would be more horrified than intrigued, if she were told that the shining diamonds resting so proudly on her bosom had been procured through the good offices of the smuggler! Her husband's money and moods are probably all that she knows of the complicated supply line. The chances, however, are 10 to 1 that illicit traffic has put the precious gems into her possession. This is roughly the proportion of all the diamonds that have come to India during the last seven years. The Bombay Diamond Merchants' Association in its memorandum to the Pichamuthu Committee last year testified to the startling magnitude of diamond smuggling. There is little evidence that the pattern of diamond trade has changed materially as a result of official policies announced since. Till 1947-48, India used to import between Rs 2 to 3 crores worth of industrial and ornamental diamonds every year. That year a blanket ban on the import of this "luxury" was imposed. But diamonds continued to flow through subterranean channels. In 1954, Government allowed import of about Rs 75 lakhs worth of uncut or raw diamonds. The import ceiling for polished stones was insignificant and would not exceed Rs 5 lakhs. Actual imports, according to the trade returns, amounted to only Rs 20 lakhs. The annual average has not been higher in subsequent years. Obviously it is more profitable to bring in diamonds without paying any duty at all.

The only known diamond mines in the country—at Panna—are in a state of neglect. "Diamond mining" has been included within the public sector in the new Industrial Policy Resolution and the Government of India has announced its acceptance of the principle of nationalising diamond mines. But nothing has been done to implement this policy.

This disregard of the country's potential wealth is particularly regrettable in view of the effort that the Government has already expended on the assessment of the Panna diamond reserves. The Pichamuthu Committee went thoroughly and ably into the question of the modernisation of the mines, their extension, the system of raising and security. Two Russian experts, again at Government's instance, made elaborate estimates of the reserves and suggested techniques of working them. True, the Panna diamond mines have nothing like the potential of Kemberley or other major diamond producing areas of the world; the proved reserves, however, amount to about 8 million carats in the conglomerate area and much more is expected in the alluvial and the piped zones. A Rs 3-crore scheme, with full scale mechanisation and all-out production, would pay for itself within three years. A more modest plan, costing about Rs 50 lakhs, would set up a number of cooperatives, absorb the 2,000 traditional workers, provide employment to another 4,000 labourers and increase output manifold. At present the production in Panna is worth no more than Rs 5 lakhs annually.

The two schemes are lying in cold storage while the smuggler has a field day.

India may have ceased to produce any diamonds for centuries but her diamond cutting industry had not languished for lack of domestic raw materials. The skill of diamond cutters, the low wages for which they work and the economy with which they carry out their operations constitute a comparative advantage of no mean order in international trade. But this potential source of earnings has been completely neglected, with disastrous consequences for the diamond trade and for a fairly large scale occupation of diamond setters and diamond cutters. Diamond cutters get no work at home—they are not allowed to go abroad. Some of them had migrated to US attracted by the high wages to be earned there. But visas are no longer issued.

This is well-nigh a tragedy. Many years ago, trading estates had been talked of where diamond or synthetic stones could be imported, polished and cut at a low cost for re-export, the entire operation confined to a free trade zone. But nothing came of it.

The difference in quality between an American cut and Indian cut diamond has to be set against the difference in price fetched by these two kinds of stones. And why should Indian cut diamonds always lack the lusture of the American cut stones? Why should native skill, patiently cultivated for generations, lack the aid of modern equipment, with which it can any day give as good an account of itself as that of any other country? But who cares?

* * *

A committee of secretaries of the various Ministries dealing with economic affairs is engaged in a revision of the resources, foreign exchange budget and the allocations made in the Second Plan. It has tentatively come to the conclusion that the foreign exchange requirements will be of the order of Rs 1,500 crores rather than Rs 1,100 crores envisaged in the Second Plan and that, after tapping all possible sources, a hard, unbridgeable "gap" of Rs 500 crores will remain. On the debit side, the cost of capital equipment and machinery to be purchased abroad is rising, the foreign exchange component of the outlay for various projects is expanding, and there is no sign of net private investment of the order of Rs 100 crores during the next five years for which the Plan took credit. On the other hand, India is to receive about Rs 170 crores from the agreement for the disposal of surplus agricultural commodities from US; another Rs 170 crores of American aid under the TCA and similar institutions, if such aid continues at the present rate; about Rs 50 crores from the Colombo Plan; Rs 200 crores from the World Bank and other international agencies; and Rs 100 crores as export credits. Even if, in addition, another Rs 100 crores can be obtained in the form of net private foreign investment, a foreign exchange gap of Rs 500 crores would still remain.

It has been suggested in this connection that India should make better use of the International Monetary Fund for short-term loans. India can apparently borrow upto 75 per cent of her quota in the Fund which amounts to 400 million dollars. She will be obliged to repurchase her drawing of dollars from the Fund when her foreign exchange assets permit; so far India's record has been very clean; we have wiped out all our liabilities to the Fund during the last few years.

A Calcutta Diary

Back Under the Banyan Tree?

THERE is much to be said against, and a little for, the way the Indian society is ordered today, after two hundred years of alien rule. Changes, fewer than we are asked to believe, have been effected since independence; more have been promised. Resistance to change has been feeble, for the assumption holds sway, understandably, that the fewer we have of the foreign importations of the bad old days the better. A less understandable assumption is that all the institutions of the good older days can also be revived, for this is based on an unnoticed contradiction. The imported institutions were able to take root because the older ones had either decayed of their own inanition or, if we must not miss an opportunity of blaming the British, because the foreign rulers had uprooted them. Whatever the cause, the fact is that the British introduced certain institutions in replacement of the old order. Those who want these changed—and this is the place to say that not everyone of them may be equally undesirable—are unlikely to hit upon the right changes without adequate recognition of the facts (a) that things like High Courts, Universities and a centralised administration are there, and (b) that some of the indigenous institutions believed to have preceded these supplanters are dead.

Not as though these phrases are always precise in their meaning, but a great debate has been going on for long whether Indian democracy should begin at the top and seep down to the botton or vice versa. Our knowledge of primitive societies is too little and too speculative for us to assert with any degree of academic honesty exactly how they were ordered; it should not be presumed too easily that power proceeded from the bottom and was not imposed from above. There is incontestable evidence, however, that in more recent times liberal ideas have usually issued initially from the top.

West Bengal, which passed the Panchayat Bill last week, is not the first State to have responded to a demand which had not been heard very distinctly before it was conceded by the legislature. To that extent the Bill conforms to what I have tentatively suggested is the way liberalism progresses; it is a gift from the power elite. The next question to ask must be whether the gift was made in answer to an inner conviction or to what was believed to be the unstated wish of the people. The difference is material, because one is the result of intellectual assertion whilst the other is a submission to what may, or may not, be the popular will. It is no longer necessary to hide the writer's belief that most attempts at democratisation or decentralisation in India have started at the wrong point, the point at which a surrender was considered necessary to an unknown public feeling.

All the deficiencies of the present system are well known. It encourages needless litigation; it delays justice, and justice delayed, we have heard, is justice denied. There is a fruitful field of enquiry as to the extent to which delays and expenses involved in the present judicial system may be eliminated. What the Panchayat Bill, in intent, seeks to do is to set up a system of judiciary which will be expeditious and inexpensive. It is in fact quite easy to ensure both, if not too fine a point is put on what justice is. The functions so far conceded to village panchayats are lacking in definition; we must be prepared for a series of test cases in the next few years; but the basic issue has not yet been faced, let alone answered. Even if it is true that in primitive societies justice was quicker and less expensive, it does not seem to have been established that what was meted out so briefly and inexpensively was in fact justice as we know it today. It can do us no harm to nourish some doubt on this score until there is more conclusive evidence at hand.

In case the basic assumption of this article is not at fault, in case it is true that good ideas usually come from the top, there may be some point in reconsidering our present progress to democracy from the bottom. That the right to do a few things for themselves is given to villagers by the legislature is proof that very many things do come down from the top, but let that pass. The fact is that certain functions hitherto discharged by other agencies are now going into the hands of panchayats. The composition of these bodies will be democratic. There is the very real possiblity that there actions will often be autocratic. There are, let us admit it, factors in Indian life which are not always in conformity with what remains of the concept of democracy. A caste-ridden society where authority tilts heavily on the side of landholders—the correlation between caste and landholding has been a favourite theme of all social anthropologists—has ideas, very sincerely accepted, which are the very negation of democracy. It is under the banyan tree that a village used to meet every evening to hear complaints from aggrieved parties. A sort of justice was done, we may be sure. But can that be the kind of justice we want today, even at the village level? Maybe we do, in which case we should say so and dissolve the High Courts and the Supreme Court. What we cannot afford, no country can, is the luxury of having both the superstructure imposed by the British and the indigenous system.

Although as ignorant as anyone else as to how the panchayats may work out, I have a few generalisations to put forward. I have come to believe that it is only at the higher levels of intellectual consciousness that an Indian feels as an Indian; lower down he is (I am) a Bengali, a Brahmin, an East Bengali and so forth. The same is true of any other man, a Caledonian or a Texan. But what, I hope, India has set out to do is the evolution of homo-Indian—the man who is not a Bengali or a Bihari or a Madrasi, but an Indian.

Have we started the search at the wrong end? Is it possible that, to put it very bluntly, we are good Indians only to the extent that we are not Indians at all? It was not always so; there are men in the Indian civil and police services still who are incapable of thinking in provincial terms. But they are the products of those bad old days of British imperialism. How to produce the free Indian, as distinct from the free Bengali or the free Uttar Pradeshian? Again, the search may have to begin at the top to be fruitful. The panchayats may well give new life, not to dead institutions but, to dormant divisive (let's coin a word) tendencies.

—*Flibbertigibbet*

4 Per Cent State Governments Loans

(1)	Government of Andhra ..	Rs. 600 lakhs	Issue price Rs.	99- 8 per cent
(2)	Government of Bihar ..	Rs. 200 lakhs	Issue price Rs.	99- 4 per cent
(3)	Government of Bombay ..	Rs. 750 lakhs	Issue price Rs.	100- 0 per cent
(4)	Government of Hyderabad ..	Rs. 200 lakhs	Issue price Rs.	99- 8 per cent
(5)	Government of Madhya Bharat ..	Rs. 100 lakhs	Issue price Rs.	99- 4 per cent
(6)	Government of Madhya Pradesh ..	Rs. 150 lakhs	Issue price Rs.	99- 4 per cent
(7)	Government of Madras ..	Rs. 1250 lakhs	Issue price Rs.	99-12 per cent
(8)	Government of Mysore ..	Rs. 400 lakhs	Issue price Rs.	99- 8 per cent
(9)	Government of Orissa ..	Rs. 300 lakhs	Issue price Rs.	99- 4 per cent
(10)	Government of Punjab ..	Rs. 200 lakhs	Issue price Rs.	99- 4 per cent
(11)	Government of Rajasthan ..	Rs. 300 lakhs	Issue price Rs.	99- 8 per cent
(12)	Government of Saurashtra ..	Rs. 250 lakhs	Issue price Rs.	99- 8 per cent
(13)	Government of Travancore-Cochin ..	Rs. 200 lakhs	Issue price Rs.	99- 4 per cent
(14)	Government of Uttar Pradesh ..	Rs. 800 lakhs	Issue price Rs.	99- 8 per cent
(15)	Government of West Bengal ..	Rs. 700 lakhs	Issue price Rs.	100- 0 per cent

All the State Governments reserve the right to retain subscriptions upto ten per cent in excess of the notified amount.

All the above loans will be repaid at PAR on 3rd September 1968 except that of the Government of Bombay which will be repaid at PAR on 3rd September 1970.

The loans will open for subscription on 3rd September 1956 and close on 10th September 1956 or earlier without notice as soon as subscriptions approximate to the amount of each issue.

All the loans will bear interest from 3rd September 1956.

Subscriptions may be in the form of CASH/CHEQUE in respect of all the loans.

3% BOMBAY GOVERNMENT LOAN 1956, 3% MADHYA PRADESH LOAN 1956, and 3% MADRAS GOVERNMENT LOAN 1956 will be accepted at PAR for conversion into the new loan of the Government concerned; interest on the securities of the respective loans tendered for conversion will be paid upto and including 2nd September 1956.

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Applications for all the loans will be received at the Offices of the Reserve Bank of India at Bombay, Calcutta, Delhi, Madras and Bangalore.

APPLICATIONS will also be received at PLACES WITHIN THE RESPECTIVE STATES as follows:—

(i) At the branches of the State Bank of India and at Treasuries and Sub-treasuries in the case of Andhra, Bihar, Bombay, Madhya Pradesh, Madras, Orissa, Punjab, Rajasthan, Saurashtra and Uttar Pradesh loans.

(ii) At the branches of the State Bank of India in the case of West Bengal loan.

(iii) At the branches of the State Bank of India and at District Treasuries only in the case of Madhya Bharat loan.

(iv) At the branches and treasury pay offices of the Hyderabad State Bank and at Treasuries and Sub-treasuries in the Hyderabad State in the case of Hyderabad loan.

(v) At the branches of the Bank of Mysore Ltd., in the Mysore State except at Bangalore and at Taluk Treasuries in the Mysore State at places where there is no branch of the Bank of Mysore Ltd., in the case of Mysore loan.

(vi) At Treasuries and Sub-treasuries only in the case of Travancore-Cochin loan.

Copies of Notifications and Application Forms may be obtained at any Receiving Office.

From the London End

Capital Consumption and Net Investment

THE Central Statistical Office has now for the first time estimated the value of the nation's resources which are annually absorbed to cover depreciation and obsolescence of the stock of fixed capital. In the Blue Book on *National Income and Expenditure*, 1955 the C S O have been able to estimate what is termed "capital consumption" and *consequently of the movement of net* fixed investment in the country since 1938. These official estimates, though generally lower than those made in *the independent* surveys, are sufficiently large to drive home the view that in industrial societies a significant share of the national output is required even to maintain a static position.

The difficult problem of statistical method and derivation of data of *what constitutes the annual* value of capital consumption has been solved by making certain arbitrary assumptions and by adopting some *simple accounting* conventions. The length of life of fixed assets was assumed and resort was made to the "straight line" accounting method of calculating depreciation so as to apply a constant rate over the assumed life of various classes of *fixed assets.*

The Blue Book details the levels of capital consumption in various industries and goes a step further in introducing a new *concept in national* accounting — "productive net investment". This term covers the value of net investment excluding expenditure on house construction. The main conclusions that can be drawn from all these estimates can be summarised as follows:

(i) Total net investment in the *U K had recovered* to 93 per cent of 1938 by 1950; it fell in the next two years but passed the 1938 level in 1953. *In 1955 net investment* reached the peak—37 per cent above 1938 and 87 per cent above *1948.*

(ii) *Net investment in* plant and machinery was already 37 per cent above 1938 in 1948, and by 1955 was 152 per cent higher *than in* 1948.

(iii) *Net investment* in housing has not in any year been as high as in 1938. In 1955 it was some 88 per cent of the level reached in 1938.

(iv) As the stock of capital assets has grown, so too has capital consumption: in 1955 it was 40 per cent higher than in 1938 and 29 per cent higher than in 1948.

(v) Net fixed investment as a *proportion* of national income was 6 per cent in 1938 and in 1948-55 but rose to 8½ per cent *in* 1955.

While 46 per cent of the value of fixed investment constituted real growth in 1938, the position in the period 1948-55 is less satisfactory. In the last eight years, only 41 per cent of Britain's aggregate fixed investment covered *net additions* to the nation's stock of capital assets.

The Blue Book data give a somewhat greater sense of urgency to the concern that has been expressed *that the size of the* United Kingdom's net investments in recent years has not been large enough to allow British industry to effectively compete with West Germany, the United States and other industrial countries in the world markets. And here some of the severest critics of the current credit squeeze have used *these fears as* sufficient argument favouring their view. Mr R Harrod recently declared that the *maintainance* of the squeeze may result "in a marked slackening of investment decisions and eventually of *physical investment* itself". A similar view has been expressed by Professor Kahn. And yet both these economists recognise the dilemma which such a view presents in a situation which exhibits inflationary tendencies. The problem ultimately resolves itself into one of a choice of economic policy or more *particularly*, of selecting the sector of the economy which is to be squeezed for the purpose of diverting productive *resources* to investment. Macmillan s "pipe-dream" in the nature of a "sensational cut in defence expenditure" has now certainly been made to look like a pipe-dream by the Egyptian situation. The other sector, which in some people's eyes has just been touched (through the hire purchase restrictions) is consumption. And here, the wealth of *statistics provided* by the Blue Book does show the possibilities which exist for limiting consumption further.

The Treasury has used the National Income data to derive certain *indices of labour costs in industry* and of productivity. It shows that while wages and salaries rose by 10 per cent between 1954 and 1955, productivity (wages and salaries per unit of output) increased by only 4 per cent. When this rise in labour costs is assessed in relation to the general economic situation, two points stand out. *First, there exists* either more scope in industry for raising productivity or alternatively a levelling up can be achieved by cutting down on labour costs. In both cases a substantial addition of *capital equipment per worker in in*dustry is necessary. Secondly, there appears to have been no comparable increase in labour costs in Western Germany. A recent report by the Board of Trade suggests that between 1950 and 1955 labour costs in manufacturing industries rose by more than a quarter in the U K and *only about 2 per cent in* W Germany. From 1954 to 1955, while they rose substantially in the U K, in W Germany they appear not to have risen at all. And here again the answer seems to be disparity in the levels of capital investment in the two countries. Thus while net investment in the U K has been rising in *the post-war years*, it is clear that it has not been rising sufficiently fast to enable productivity to match labour costs. This remains the *most important* single problem in the British economy.

U K CAPITAL ACCOUNT

	1938	1948	1954	1955
	(£m at 1948 prices)			
Gross Investment	1,559	1,435	2,004	2,161
Less Capital Consumption	835	904	1,119	1,169
Net Investment	724	531	885	992
	Per cent of Gross Fixed Investment			
Capital Consumption	54	63	54	59
Net Investment	46	37	46	41

Book Review

Openings for British Capital in India

India—A Survey for British Industrial Firms By S Garvin: Federation of British Industries, July 1956. Pp. 49, Price 4s. 6d.

INDIA'S five year plans have made not only her own people conscious of economic development; it has made foreigners increasingly aware of the investment opportunities in this country. There are two changes, from the pre-independence days, pulling in opposite directions, which affect foreign investments. On the one hand, investment opportunities are perceptibly larger than in pre-independence days, making India a favourable field of investment, both Indian and foreign. On the other, investment is subject to much greater control and regulation than in the pre-war days.

India's requirements of foreign investment under the Second Plan are placed at Rs 800 crores. This is also the measure of its foreign exchange gap in the next five years. This requires, on the part of the Government of India, a vast public relations job in foreign countries to make known our requirements and the conditions subject to which they can be met. This task is partly eased by reports of foreign missions on Indian conditions. The one man survey by Mr S Garvin, formerly of the ICS, sponsored by the Federation of British Industries puts India's case for foreign investment more effectively than any Indian Government-sponsored publication could have done.

Mr Garvin says that the terms offered by India to foreign investors are fair—they have the right to remit profits and rapatriate capital, subject to the availability of exchange; they would be paid fair and equitable compensation on nationalisation; they would not be discriminated against in relation to Indian enterprises; and majority control by Indians would not always be insisted upon. He thinks that under these conditions investment should depend on the relative profitability of investment in foreign countries and in India.

The rate of foreign private investment, however, has been pretty low in recent years, compared to expectations and possibilities. There are many reasons for this. Firstly, conditions in the prospective capital exporting countries have been unusually favourable. Investment prospects in India do not offer the necessary premium to induce the foreign investor to run the additional risks inherent in exporting capital. Secondly, the balance of payments position of most of these countries has not allowed sizable capital exports. Thirdly, foreign entrepreneurs have not been enterprising enough to take advantage of the opportunities that India offers and to start production in India. Finally, the investment climate in India has not been very helpful in the past few years—despite the assurances of the Government, which Mr Garvin so assiduously enumerates. The Government of India's bite has been less bad than its bark. As Mr Garvin notes, Delhi has an empirical approach.

In the case of U K, many of these factors have operated with particular severity to restrict U K private investments in India. Though Britain has been trying for the last five years to attain a sizable export surplus, in fact she has been a net borrower from her colonies. Prices in U K have been comparatively high and Britain's salesmanship unaggressive, largely because of the cushioned home market. There have been complaints against British industry of non-supply of spare parts, long delivery dates, and inadequate technical help—complaints which Mr Garvin passes over. Britain's share in foreign investment in India is likely to be smaller, partly because in the past the British were the only investors in India and partly because they were India's rulers and an official discrimination always existed in their favour. The climate in India for U K investment would still remain favourable. U K enterprises still enjoy a preference, (even Pandit Nehru's 1949 statement devotes a special paragraph to British investment), the momentum of the past is likely to be carried over to the immediate future (for example, in replacement of machinery imported from the U K), the British have experience of investment in India and India has not discarded English yet. Thus, despite a relative setback in British investment in India, there are circumstances favouring it.

Mr. Garvin makes an important distinction between the successors of the past British investors in India with their old world outlook and entrepreneurs and managers with a more modern outlook. The former, concentrated mostly in jute and plantation industries, are out of touch not only with modern India but with modern Britain—they would be as uncomfortable in post-war Britain as they are in India today. On the other hand, the new entrepreneurial and managerial class coming to India understands the need for, even if it does not approve of, the restrictions on profits and entrepreneurial freedom and tries to work within them. Unfortunately, it is the feudal section of British entrepreneurs which is in control of the representative organisations of British trading interests. Their activities are likely not only to dissuade British entrepreneurs who are thinking of investing in India; they are also likely to lose the goodwill for British interests which Mr Garvin saw in abundance.

An aspect of foreign investment which has not received sufficient attention is its impact on Indian business interests. While foreign enterprises have been initially diffident in pioneering manufacturing activity in India, they have not hesitated to offer competition once Indian enterprises have been set up. It is significant that the cycle, sewing machine and typewriter industries were started in India by Indians, and the traditional foreign suppliers, with their inmensely superior resources, have come in later. Again, where foreign collaboration has taken place the price has been set more often at an amount equal to foreign price plus import duty, while prices of Indian products manufactured by Indian enterprises have generally been lower. Moreover, foreign collaboration has not always been wisely chosen. It should not be forgotten, however, that foreign investment in India, whatever its size, is only marginal. If it scares away Indian investors, the harm it will do is likely to over-shadow its beneficial effects. Any policy to encourage foreign investment in India must take account of these factors.

Official Papers

The Plan for Industry

Programmes of Industrial Development; GOI Planning Commission. Manager of Publications, Delhi. pp xxi 439.

THIS report on industrial planning for the Second Five Year Plan is essential for anyone interested in industrial development in India—the development that has occurred in the First Plan, and the development projected for the Second Plan. As such it fleshes out the general chapter in the "Second Five Year Plan" that deals with industrial growth, by analyzing in detail the major industries of India and the specific projects for the expansion of those industries.

The bulk of this report is a detailed analysis of 51 industries in India with both discussion and statistics summarizing the growth of each during the First Plan, and the plans for further expansion of each under the Second Plan. These chapters (each devoted to an industry) present estimates of consumption for each industry, targets of production and capacity, investment requirements for the projected expansion, requirements of raw material and labour for achievement of the industry plans, as well as discussion of current problems of each industry, obstacles in the path of expansion, and government policy towards each. It would be impossible to summarize these chapters further, and it need only be said that for anyone interested in any of these industries this is a basic source of information.

Apart from this detail, however, this document is also of general value in highlighting, far more clearly than the "Second Five Year Plan", the general framework of industrial achievements, industrial planning, and government policy with respect to industry in India. The concentration of this document upon industry makes far more clearer than the much more general discussion of the Second Five Year Plan what has been achieved by, and what is planned for, industry as a whole. This review will summarize these general highlights as they strike the reviewer.

(1) By and large, with a few relatively minor exceptions, Indian industry is operating at levels close to full capacity at the start of the Second Plan, in sharp contrast to the start of the First Plan.

(2) The private sector succeeded in achieving its overall investment targets with respect to new projects. The public sector however lagged behind. In both sectors however, where there was underfulfilment, the conditions which held back the fulfilment have apparently been successfully met.

(3) The level of exports achieved was well below projected targets in the First Plan and since foreign exchange availability is a major problem in the Second Plan the necessity of expanding exports and approaching the very approximate targets is clear. In connection with this the discussion of the cotton textile machinery industry brings out sharply the necessity for further modernization if costs are to be reduced in the competitive struggle for markets. Planning for expansion of this industry includes an annual replacement of 3,000 ordinary looms by automatic looms per year. This will bring the industry up to the level of automatization of weaving that existed in the United Kingdom in 1953—a level far below that of Western Europe, Japan, and the United States. Obviously this problem of automatization is a major one, not only to the cotton textile industry, but to the machinery industry and to the whole foreign exchange position of the economy.

(4) This report makes explicit the considerations that went into the fixing of consumer goods targets for the Second Plan Period and it is worth while quoting these specifically. These targets, except for those for rayon and staple fibre, have been fixed "solely with reference to estimated demand and have not been limited by the need, real or supposed, to place restraint on consumption so as to conserve resources for other purposes." At the end of the Second Plan, "with the possible exception of the cotton textile industry, policy in regard to which is still under consideration, there is at present no reason to doubt that the existing capacity.... will be fully adequate to meet all foreseeable demands" for consumer goods.

This is of crucial importance and interest. It makes it clear that in the planning in India, unlike the planning in the U S S R or China, or the planning that occurred in the West during the war, there is at present, at least for planning purposes, no question of the necessity of a choice between capital goods and consumer goods. Rather there is the feeling that both will be available to the required degree at the end of the next Plan period.

The question can be raised as to whether, with the anticipated shortfall of capital at the end of the Second Five Year Plan, some adjustment of targets to capital resources by reducing projected investment in less essential industries might not have been desirable in the planning process?

(5) This may however be achieved indirectly. It is made clear that the targets for industries "other than those for heavy industries like iron and steel requiring very large investments" and definite contract commitments; are extremely flexible. It is stated that they are subject to increase (and it must presumably mean to decrease also) depending upon the availability of other facilities "such as power and railway transport". This permits adjustment in consumer goods targets depending upon capital availabilities and the system of priorities stated in the Second Five Year Plan.

(6) It is of major interest to both India and other industrial countries that the Planning Commission envisages India as an exporter both of steel and of certain types of industrial machinery at the end of the Second Plan period.

(7) This report, with its detailed listing of projects by industries, brings out more clearly than other reports on the Second Five Year Plan, where discussion is in generalities, the character of the 'mixed economy'. While of the projected total investment in industry of

UNITED ASIA

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about Rs 1100 crores, about 50 per cent is in the public sector and 50 per cent in the private sector, the greatest proportion of the public investment is only in a few of the 51 industries reviewed—by far the largest share in iron and steel and far smaller shares in fertilizer, lignite and several heavy machinery industries. In terms of number of industries, the consumer goods industries are left entirely to the private sector, while many of the capital goods industries will also see large expansions by the private sector.

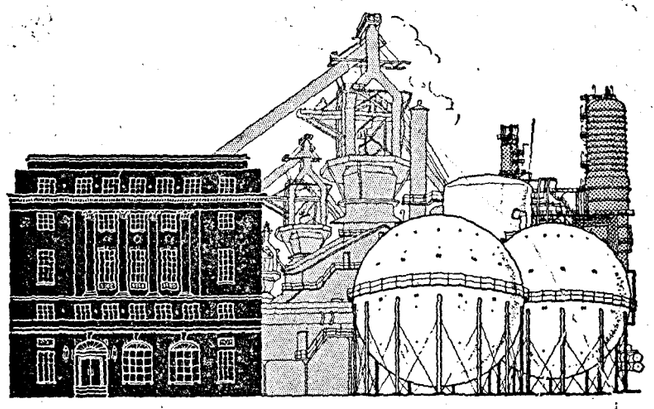
Investment by the Government appears to be limited largely to fields where private investment could probably not supply the necessary funds (as in iron and steel), or as by-products of larger government multi-purpose projects (as the fertilizer works) or in a few industries considered strategic. In fact, the Government's approach to entering industry seems to be limited by highly pragmatic considerations which set bounds to the theoretical goal of a "socialistic pattern of society."

Up to now this review has been largely summary. However, one specific question may be raised concerning the discussion of individual industries. It is clear that in the approval of specific plans for expansion, the question of the "economic size of the unit" within an industry is an important consideration. While this is not defined, it is apparently a cost concept—i.e. at a certain size cost is at a minimum; and furthermore, a lower cost is often related directly to the increasing size of the unit. Apart from difficulties in estimating cost, it is questionable whether economic size has much meaning apart from the demand conditions existing at the time. For example, with present shortage and projected demand for cement and paper over the next 5-10 years, even relatively small mills may prove highly profitable and be able to recover their investments within a 5-10 year period.

The restriction of licenses to units of 'economic size' and frequently relating economic size directly to physical size makes it extremely difficult for new and smaller entrepreneurs to enter an industry. If only businessmen capable of financing the larger units are allowed to enter an industry, this will tend to restrict expansion of an industry either to existing firms within the industry or to a small group of entrepreneurs capable of raising the capital for the larger units. With the interest of the Indian Government in decentralization of industry and economic power, the question might be raised as to the applicability of the dubious criterion of "economic size" to the granting of licenses.

As a final statement, the reviewer would repeat that this is an essential document to anyone interested in the industrial growth of India during the period from 1950-1960, and provides basic data with respect to a large group of specific industries.

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Arthur Lewis Looks at Economic Growth

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THE central fact about economic growth, defined as the growth of output per head of population, lies, according to Prof Lewis, in an increase in investment from 4 or 5 per cent of the national income to 12 or 15 per cent per annum. (The Theory of Economic Growth. W Arthur Lewis. George Allen & Unwin 1955.) It is only such a stepping up of the rate of investment that can increase the national income by 3 per cent per annum, assuming the capital income ratio to lie between 3 to 1 and 4 to 1. The growth of output per head of population, however, is also a function of the rate at which these heads are growing. In many of the countries of Asia, this rate is between 2 and 3 per cent and, thus, such an increase in investment is necessary if these countries are to maintain even their already very low standards.

The increase in the rate of investment means a corresponding increase in the rate of savings. It is usually considered difficult for a poor country to achieve such rates of saving because of its poverty. But, according to Mr Lewis, the argument is generally gratuitous as there is always a substantial minority which, in these countries, receives a large share of the national income which it could use for productive investment instead of conspicuous consumption. In Puerto Rico or Ceylon, for example, the top 10 per cent of income-receivers squander 40 per cent or so of the national income, living luxuriously on rents. The trouble, therefore is the attitude of these rent-receivers who treat it not as capital for investment but as revenue for consumption. In short, it is the lack of the capitalist attitudes whether in the case of the private entrepreneurs or the governments of these countries which hampers the process of economic growth in them.

The stepping up of the rate of productive saving depends on an increase in the share of national income of those economic groups which have the highest propensities to productive investment. The landlords, the peasants, the labourers and the salaried middle classes do not share the propensity to any very large extent. It should be noted in this connection that savings have no very direct relation to the income that a particular person enjoys. It is more a function of the economic group to which one belongs rather than to the income that one receives. It is only the entrepreneurial capitalist class or the governments undertaking the capitalist function that remain as the groups which can do the most productive saving in an economy. It is, therefore, the share of profits in the national income that has to increase if we are to have economic growth in an under-developed economy.

The problem of the state vs the private entrepreneur in the field of economic development takes on a new aspect if we analyse the proportion of capital investment between various sectors of the economy. The gross fixed investment in advanced industrial countries is typically apportioned between the various sectors as follows:—

	(per cent, approximate)
Housing	25
Public works & utilities	35
Manufacturing & Agriculture	30
Other commerce	10
	100

The importance of public investment in relation to private investment will depend, therefore, on the fact whether the state assumes responsibility for providing public works and utilities on the one hand and housing on the other. It should be remembered that the less developed countries need, in fact, a higher percentage of investment in these fields as they require both an established framework of utilities and a housing programme for the increasing urbanisation that inevitably accompanies economic development. The investment, therefore, in these fields, would have to be more than 60 per cent in at least the first decades of development in these countries.

It is generally agreed that public works and utilities such as roads, docks, transport, water, electricity, schools, hospitals, government buildings etc. should be under public ownership whether at the municipal, state or central level. The responsibility for low-cost housing for labourers and the salaried employees of the state and central governments is also more and more accepted as a public responsibility. It, therefore, seems inevitable that a large proportion of investment has to be made in the public sector, whether anyone likes it or not.

The state, then, has to be the crucial investor and saver in the economic growth of under-developed countries. It can also create new investment out of deficit financing. In such a case, however, the government has to see that the inflationary process, which is the inevitable result of deficit financing, redistributes income in favour of the classes that save. Inflation, in fact, has such a tendency. It raises profits relatively to other incomes, and stimulates investment in fixed capital formation. A little inflation, thus, increases profits and speeds up the rate of capital formation. Inflation, however, is merely a substitute for taxation and the choice between them is mostly political in character. The effectivity of inflation for economic development would, however, depend on the relevant answers to the following questions:

(1) Who will get the inflationary profits, and what will they do with them; spend them on consumption, speculate in commodities, create new fixed capital, hoard them or buy government bonds?

(2) Can the output of consumer goods be expanded rapidly, or will the first stage of inflation be too long?

(3) Is it the kind of economy where prices of essential goods can be controlled easily, without a great growth of black markets?

(4) Is there a strong trade union movement, which will turn a demand inflation into a cost inflation?

(5) Can the foreign exchange situation be safe-guarded?

(6) Is there a high marginal rate of taxation mopping up fifty per cent of money income as fast as it is generated by inflation.

These six questions posed by Mr Lewis, in the context of considering inflation as an instrument of economic growth, are of special interest to India as it is embarking on a fairly high rate of deficit financing in its Second Five Year Plan.

The answers to most of them are in the negative and, thus, it becomes imperative that a positive answer be sought for the second question which, in fact, is the key to the whole problem. As Dr B V Krishnamurthy has argued in his paper on 'The Mahalanobis Plan' in Studies on the Plan Frame published by the Indian Committee for Cultural Freedom, active steps should be taken to step up the production of those consumer goods which do not involve the use of scarce resources in the economy.

The increase in the share of profits in the national income, which is the inevitable accompaniment of economic development, engenders economic inequality, at least, in the first instance. The governments committed to economic equality quickly realise that they cannot simultaneously have both, equality and economic development. The case of the USSR is the classic one in this connection. It is difficult to combine equality with incentives and with a high level of saving. Even if the State takes over completely the saving function, "the process of economic growth demands that there shall be adequate differentials for skill, for education, for risk bearing and for willingness to take responsibility". Whether it be the super-capitalistic economy of the USA or the super-socialistic economy of the USSR, the differential rewards as incentives for work remain the key motivations of the economy.

The pioneering role of the state, particularly in backward countries where the quantity, quality and the risk-bearing propensities of the private entrepreneurs are deficient, is recognised by Mr. Lewis. But he is quick to take notice of the fact that "governments may retard economic growth by showing excessive zeal for regulating the economy". Unless a large amount of initiative is left to the private people, the economy is bound to suffer. If, for example, "more initiative had been allowed in the U S S R, the quality of the services received by consumers would have been much better, for the same resources, and agricultural output would have been much larger". The contrast with Japan which achieved the same high level of capital formation without the Soviet level of inflation is illuminating in this respect.

In fact, the Soviet method has proved the most inefficient for raising the productivity in agricultural field. In spite of collectivisation, mechanisation and state farms, the yields per acre are miserably low and have not shown any significant increase over the Czarist times. The backward countries can increase their agricultural productivity by one per cent per annum, if they choose to do so. Japan, in fact, raised its productivity per acre between 1880 and 1920 at a cumulative annual rate of 1.3 per cent per annum. But such an increase would require, at least, an expenditure of one per cent of national income (not of government expenditure) per annum on agricultural and allied research. Mr Lewis not merely highlights the necessity for the allocation of such research funds, but shows that it will be an extremely productive investment, since it is almost equivalent to a return of fifty per cent per annum, assuming that the agricultural sector accounts for fifty per cent of the national income.

Mr Lewis exhaustively surveys the psychological, institutional, technological, demographical, political and economic factors governing the process of economic growth. However, he does not develop any unified theory and has a feeling that such a theory in the present circumstances cannot, perhaps, be developed at all. In spite of this distrust in a generalised theory, he singles out three crucial factors which are relevant to economic growth. These are:

(1) the will to economise,

(2) the increase in technological knowledge, and

(3) the accumulation of capital.

Any thing that favours either of these conditions will automatically function as a factor favouring economic growth. Leaving aside the Will to economise which is the foundational factor in economic development, the problem of technological knowledge is relatively less important for underdeveloped countries as they have mostly to take and adapt it from countries that have already discovered it. As for the third factor, the crucial point is the capital-output ratio which, if we are to believe Colin Clark's recent article in the **The Eastern Economist**, Mr Lewis has put rather too high. In fact, as a very large part of investment goes into the building industries and as the relative costs in this field are rather low in underdeveloped countries, the capital-output ratio may be lower than Mr Lewis has postulated. However, the repeated warning of Mr Lewis against the bottleneck arising from a shortage of skills in the building industries does not seem to have been substantiated by India's experience in the First Five Year Plan.

The limitations of Mr Lewis' book are the limitations of his definition. He is only concerned with growth as the increase of output per head of population, even if it is accompanied by the mass of the people becoming poorer or with an actual decline in the consumption levels of the people. The tacit assumption is that no relevant differences are made to the will to economise, the problem of saving, the capital-output ratio, the types of skills and the knowledge required in the two different cases where the ends of economic activity are so radically different. He is, of course, in good company in making such an assumption. Hardly any economist thinks otherwise. But we suspect that the assumption needs to be proved rather than assumed. Sociologically, the confusion is disastrous—particularly in the case of a person like Mr Lewis who cares equally for the wider perspective of philosophy and the practical need that makes men ask precisely what to do next. Both the philosophical perspective and the practical need, about which he has written so well in his 'Preface', demanded that a distinction should have been drawn on the very first page and the investigation carried on its terms. That Mr Lewis has not done so, shows the tight hold that traditional categories can exercise on even the finest minds of our times.

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Financial Control
—No New Set-up Yet

(From A Delhi Correspondent)

WHILE the Comptroller and Auditor General's role in Government's financial and accounting set-up is likely to come in for increasing criticism in the near future, thanks to Paul Applebey's latest castigation of audit, the controversy over financial control set in motion by the Chanda Committee's report two years ago seems to have died down. The acrimony with which this subject was debated in the past is no longer there. The Finance Minister's exit from the Treasury bench, albeit on a different issue, has removed from the scene the stoutest defender of orthodoxy and precedent. The way is now clear for certain positive steps to be taken in reforming the outmoded system of financial control. It will be timely, therefore, to review broadly the steps taken by the Government in this respect and to see how the new machinery is working. In doing so one need not go into the theories of financial control and the points at issue between the old school and the new, but only examine the developments which have taken place of late.

It has now been decided that the system of financial control should be gradually made to conform to the British pattern, which, among other things, envisages a system of internal financial advice rather than advice from an external authority far removed from the needs and requirements of the Administrative Ministries. As there are not at present enough Finance Officers to bring internal Finance into existence, it has further been decided that as a first step, an officer of the Finance Ministry should be attached to every Spending Ministry, who will be provided with accommodation and other facilities by the Ministries concerned and not by the Ministry of Finance as at present. These Finance Officers have been designated as Deputy Financial Advisers instead of Deputy Secretaries in order to emphasise their new advisory role. They will, however, continue to be under the administrative control of the Finance Ministry and the only change which has taken place is in regard to their physical presence within the administrative Ministries. Expenditure schemes are submitted by spending Ministries to these Finance Officers for concurrence throughout the year. The Finance Officers in their turn have to submit important cases to higher officers in the Finance Ministry, such as, the Joint Secretary, the Secretary or the Finance Minister himself. Without the concurrence of the latter, no expenditure can be incurred by the spending Ministry except in certain matters for which powers have been delegated by the Finance Ministry. These delegated powers relate to the creation of temporary posts up to those of under Secretaries, expenditure on contingencies, expenditure on entertainment and write-off of losses on stores up to a certain limit. The delegation of financial powers, though only to a limited extent, removed the grouse of the administrative Ministry that even in petty matters like the recruitment of a peon, sanction had to be taken from Finance in the past.

The immediate consequence of attaching a Deputy Financial Adviser to each spending Ministry has been a reduction in the volume of work of that officer. Formerly, it was not uncommon for a Deputy Secretary of Finance to look after the expenditure of two or even three Ministries with the result that he was over-burdened with work. The situation is now entirely different and the Deputy Financial Advisers in some of the spending Ministries do not have enough work to keep themselves busy. This, however, may be a purely temporary phase. The idea behind attaching a Deputy Financial Adviser to each Ministry was that he should be associated with every expenditure scheme right from the inception, instead of being presented with the final scheme for financial concurrence. If this idea is put into practice and the Deputy Financial Adviser is increasingly associated with the formulation of schemes he will not have to remain idle for long. But as yet there is no manifestation of any willingness on the part of the administrative Ministries to associate the Financial Advisers with schemes at the stage of formulation, so that differences may be ironed out at the initial stage. Old habits die hard and unless the Ministries concerned show greater willingness and enthusiasm to take the Financial Advisers into confidence, merely attaching these officers to them is not going to achieve any positive results.

The Deputy Financial Advisers will, no doubt, ultimately become the internal Financial Advisers on the British model, the broad features of which are well known, thanks to the Chanda Committee's report and the controversy which followed. But how and through what stages the change over is to be effected, not much thought seems to have been given to these questions as yet. However, a Committee has been set up with the Finance Secretary on the Revenue and Expenditure side, the Cabinet Secretary and the Director of Organisation and Methods, as members and it has been entrusted with the task of finding out ways and means of establishing full-fledged internal finance. A period of two years has been fixed as the time limit within which this new set-up is to come into force.

Though the installation of Deputy Financial Advisers has not meant any substantial change yet the spending Ministries seem to have developed a superiority complex vis-a-vis Finance. They consider the Government's decision to establish internal finance as a signal victory for them and since no expenditure can be incurred by any Ministry, as of old, except with financial concurrence, they are agitating for a more thorough-going delegation of financial control than would be vouchsafed by internal finance under the British pattern. There are matters relating to establishment and services in which the spending Ministries have to deal with the Establishment Division of the Ministry of Finance directly and not via the Deputy Financial Advisers. The Ministries are now trying to bring Associated Finance into the picture even in these matters. Obviously these Ministries are ill-advised and in their eagerness to steal a march over Finance, they are now trying to go to the other extreme. They have to be reminded that in the British system there is a separate branch of the Treasury specialising in establishment work and studying questions of staff, etc. Obviously in service and establishment mat-

ters and in the interpretation of rules and regulations the Finance Ministry cannot afford to have any difference of opinion with Associated Finance. Even when a system of complete internal Finance is brought into being, the Establishment Division will remain as a separate Department within the Finance Ministry to deal with all establishment matters coming from the various Ministries. It is pointless to agitate for more powers to be given to Associated Finance in regard to these matters.

In a note appended to the Central Government Audit Report (civil) 1955 Part I, Shri A. K. Chanda has examined two inter-related issues: delay in the execution of projects and surrender of funds. While the latter problem, according to the Comptroller General, is not so serious and could be brought within control, the delay in the execution of projects is more fundamental and calls for a solution. Shri Chanda's contention is that delay in execution arises mainly in connection with new projects, for which financial requirements have to be submitted to the Finance Ministry sometime in October for the ensuing financial year. Schemes formulated are incomplete in detail for various reasons by the time the budget is prepared. Though the Finance Ministry is responsible for ensuring that the schemes for which allotments are made have no undesirable features from the financial point of view, such a complete scrutiny is not possible at that stage. Therefore, "the Administrative Ministry have, at various stages and in varying measures of detail, to approach the Finance Ministry again and again for sanctions." The scheme is badly held up for this reason and sometimes the appropriation given on the basis of the tentative scheme lapses.

This detailed examination by the Finance Ministry involving details of all kinds "generates unnecessary heat and controversy which results in avoidable delay in the execution of the projects." Shri Chanda's main proposal is for the elimination of this detailed financial examination by the Finance Ministry and its replacement by a system of dual financial control. "Overall financial control, with reference to financial policy and principles, should continue to vest in the Finance Ministry," says the Comptroller's note, "but detailed scrutiny of proposals at expert level should vest in the administrative Ministry by installing 'balancing personnel' within the Ministry." This is the genesis of the change in the financial set-up which has been outlined above.

To bring out the advantages of the new scheme, Shri Chanda gives three reasons why the present system is wasteful: (1) schemes are drawn up at present without sufficient technical advice and are therefore immature; (2) spending Ministries tend to feel that they should overpitch their demands since in any case they would be whittled down by the Finance Ministry; and (3) delay in obtaining sanctions adds to the cost of the project as overhead and standing charges have to be incurred during this period of comparative inactivity.

The other change proposed by the Comptroller and Auditor-General is to provide the Ministries with competent technical advice so that there may be a reasonable and accurate assessment of spending capacity, through possible changes in the industrial advisory set up and the Development Wing of the Ministry of Commerce and Industry. In this way, the technical soundness of the scheme can be tested before its submission to the Finance Ministry, which may be followed by a further check by technical experts of the Planning Commission. Once budgetory sanction has been accorded on this basis, a reference back to Finance should be necessary only if there is any appreciable change in the scope of the scheme or if the provision made is likely to be exceeded by more than 5 per cent. This will also mean a quicker disposal of schemes even at the initial stages. But no move has yet been initiated for closer association of technical advice.

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The Vulcan Insurance Company Ltd. Bombay

Abstracts of the Proceedings of the Thirty-sixth Annual General Meeting

THE following are abstracts of the proceedings of the Thirty-sixth Annual General Meeting of the shareholders of the Vulcan Insurance Co. Ltd., held on Friday the 24th August 1956.

The Chairman Sir Behram N. Karanjia Kt., before dealing with the Company's activities during the year referred to the great and irreparable loss suffered by the Company by the sad and untimely death of Shri Mangaldas B. Mehta in January last and paid a great tribute to the late Shri Mangaldas who was a Director of the Company for about 20 years and Chairman of the Company after the death of Shri J. C. Setalvad in 1951 and said that Shri Mangaldas was a tower of strength to all his colleagues on the board and his wise guidance was of great value and assistance in the presen growth of the Company.

Sir Behram N Karanjia thanked his colleagues on the Board for having elected him as the Chairman of the Company and hoped that the same confidence would be placed in him as had been done in the late Shri Mangaldas and Shri Setalvad in carrying out the responsible and onerous work of the Company.

Referring to the Nationalisation of Life Insurance business by Ordinance issued by the Government in January last he said it had been the most important event affecting the Insurance industry although it did not affect directly the Company's transacting General Insurance business.

Categorical Assurance Needed

While nationalising Life Insurance business Mr. C. D. Deshmukh, the then Finance Minister made it clear on behalf of Government that the Government had no intention to nationalise General Insurance industry. He however said that they were aware of the malpractices in the General Insurance business and if there was no significant improvement, the Government might have to reexamine the question. Such constant threat made it difficult for Companies to plan and organise their working ahead to meet their responsibilities of handling much larger business and cope up with the rapid industrialisation taking place under the second Five Year plan. Therefore Sir Karanjia urged the Government to make a categorical assurance that General Insurance industry will remain in private sector like many other industries so that the Companies can conserve their resources and go ahead with their future programme of expansion and development. He suggested that the Government through the Executive Committee can set standards with a view to prevent any unhealthy practice and requested all Insurers to co-operate in order to make the working clean and sound.

Reinsurance Corporation

He further referred to the Reinsurance Corporation which is shortly coming into being and said that it would be a source of strength to the national economy as it would save a lot of foreign exchange. He added that our Company would be one of its promoters having agreed to subscribe to the share capital Eighty per cent thereof would be in the hands of Indian Insurers and twenty per cent in the hands of foreign insurers. It will try to build up reinsurance relations in foreign countries.

He informed that the Head Office building under construction would be ready for occupation early next year if not by the end of the year.

While discussing the question of dissolution of the Indian Insurance Companies' Association Pool he said:

"Another question which has been seriously disturbing the Insurance trade as a whole is that Government intend to dissolve the Indian Insurance Companies' Association Pool and pass on that business to the three Companies which are subsidiaries of the newly established Life Insurance Corporation. You are aware that your late Chairman and Founder of the Company Shri J. C. Setalvad, played a very important part in the formation of the 'Pool' by which the insurance business emanating from the Government and semi-Government sources was secured for all Indian Insurance Companies through the 'Pool'. In view of the declared policy of the Government that whenever in an Industry where both the private and public sector bodies are functioning, the Government will, it is hoped, adopt a non-discriminatory attitude in its patronage because after all both are indigenous and deserve the support of Government irrespective of who owns it or manages it. The Central and States Government business which was catered for by the 'Pool' has been distributed in an equitable manner between all the Indian Companies. In fairness and equity, therefore, the Government should continue to distribute the 'Pool' business amongst those Companies as was done hithertofore instead of giving preference only to Companies which are now owned by the new Life Insurance Corporation and thus do justice to the insurers in the private sector as per their declared policy and I appeal to the Government not to exclude the Companies working under the private sector from getting the benefits of the Government business but to continue the present distribution of the said business of 'Pool' undisturbed".

Increase in Premium Income

Referring to the Accounts he said that there had been an all round increase in the premium income in all the departments; the expenses of management and commission however showed a slight increase which could not be avoided.

After providing the Reserves for unexpired risks at 50% in the Fire and Miscellaneous departments and 100% in the Marine department and additional reserves as shown in the department, the Company made a profit of Rs 4,07,448 in the fire department, Rs 17,533 in the Marine department and Rs 38,677 in the Miscellaneous department. He pointed out that a slight change was made in the presentation of the Balance Sheet as a result of eliminating some of the Reserves under various headings which had been transferred to one account as 'General Reserve' amounting to Rs 12,80,000 and departmental reserves aggregate Rs 22,85,246|-. The total profit in all departments amounted to Rs 4,63,678 which he said will be considered satisfactory.

The income from Investment showed steady increase as the market value thereof is well over book

value; however the Directors considered it prudent to write off Rs 24,733 as depreciation on investments that have actually depreciated. As already stated in the report the investments have been written down to book value or market value whichever is less and the amount standing to the credit of Investment Reserve is now transferred to General Reserve.

The total income from interest, dividends and rent after deduction of Income tax thereon amounted to Rs 2,23,775.

After making necessary provision for other expenses, loss on sale of investments etc., a sum of Rs. 6,78,470 has been transferred to Profit & Loss Appropriation Account subject to taxation. A provision of Rs 5,60,000 has been made in the Profit & Loss Appropriation account as Reserve for taxation for the assessment years 1955-56 and 1956-57.

Total net premium income from all the departments has increased to Rs 32,04,151 against Rs 30,09,583 in the previous year while the total Reserves of the Company including the departmental Reserves amounted to Rs 36,22,250 against Rs 34,14,614 in the previous year, that is about 113.04 per cent of the premium income of the company.

In response to the requests of several shareholders at the last Annual General Meeting, the Directors recommended an increase in dividend to Rs 1-4-0 per share from Re 1 in the past. The Chairman said that shareholders would find the working of the Company satisfactory showing and maintaining good results.

Bonus to Staff

In view of satisfactory results two months salary by way of Bonus was granted to the Officers and the members of the permanent administrative staff. He placed on record the appreciation of the work done by the General Manager, officials and staff both at the Head Office and Branches and by the agents and field workers.

Shri Gulabchand N. Shah a shareholder of the Company associated himself in expressing tribute paid to the late Shri Mangaldas who regarded the Company as his own. He congratulated the Company for maintaining good results and increasing dividend and said that this is one of the few Companies in India which can be regarded as a truly well established concern. He welcomed the new Chairman and hoped he would give fruitful service to the Company for years to come.

Shri Gulabchand made a request to consider issuing Bonus shares in view of the Company having built up General Reserve of Rs 12,80,000 apart from other Additional Reserves against Paid up Capital of Rs 15,99,270 and the Chairman replied that the suggestion would be considered by the Board.

In view of the hand bills handed over to some of the shareholders by some members of the Staff it was inquired of the Chairman as regards increase asked for in their emoluments. It was replied that it was already being considered and needful would be shortly done.

The report and accounts were adopted. Dividend of Rs 1-4-0 per share was sanctioned. Sir Behram N. Karanjia, Kt., and R. B. Seth Rajkumarsingh Hukamchandji were re-elected Directors. M/s N. M. Raiji & Co. were appointed Auditors and Bonus was sanctioned to the Officers and Administrative Staff.

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From the Chair

The Tata Iron and Steel Company Limited

Speech of the Chairman, Mr J R D Tata

THE following is the speech of the Chairman, Mr. J. R. D. Tata to be delivered at the forty-ninth Annual General Meeting of the shareholders of the Tata Iron & Steel Company Limited, on Thursday, 30th August, 1956.

Ladies and Gentlemen,

Much has happened, since our last Annual Meeting, to confirm the views on economic trends to which I had given expression in previous speeches. You will recall that in these speeches I had, apart from dealing with events and problems directly concerning our Company, taken a great deal of your time in sharing with you my hopes, doubts and fears about some of the economic policies of our Government. In particular, I had sounded a note of warning against some developments which seemed to me to threaten the balance of the mixed economy to which I thought we were committed: for instance, the trend towards a highly centralised form of State "capitalism"; the nationalisation of Life Insurance; the use of ordinances as a means of implementing economic policies; the frequent recourse to constitutional amendments; and some of the provisions of the new Companies Act.

While pointing to the dangers inherent in such developments, I had consistently made it clear that free enterprise in India unreservedly accepted the national objectives of increased production and equitable distribution and was anxious to cooperate with Government in the building of a practical Welfare State in which state enterprise and free enterprise joined hands in the common task.

Concentration of Economic Power

If I took such pains to elaborate my views on these matters, it was not only because I felt that they were of vital interest to you as shareholders of this Company, but also because I hoped, that what I had to say might perhaps have a hearing in quarters where policy was fashioned. While I do not wish to waste your time in any repetition of views previously expressed, I feel I must reiterate the concern with which I and many others view the ever increasing centralisation of economic power in the hands of Government.

Nearly fifty years ago Woodrow Wilson said:

> "The history of liberty is the history of the limitations of governmental power, not the increase of it. When we resist ... concentration of power, we resist the powers of death, because concentration of power is what always precedes the destruction of human liberties."

We are witnessing in India an uninterrupted growth of Governmental power in the economic field and are already well on the way to a strange and unnatural combination of political democracy and economic autocracy. The question that should agitate the minds of all of us is whether our political freedoms can long survive if our economic freedoms continue to be whittled away. Once all economic power is centred in Government, will it not be found equally necessary to curtail other freedoms in the interests of the people? Although there may be no danger that the able men in power today, motivated as they are by democratic ideals, will abuse their powers, history shows that the danger lies in the very existence of unlimited power which may one day fall into less worthy hands.

Nationalisation of Life Insurance

The extent to which Government's economic powers can be exercised was strikingly demonstrated during the year by the sudden nationalisation of Life Insurance. Although spokesmen of Government have stated in the past that ideology played no part in the formulation of their economic policies, it is noteworthy that, during the debate in Parliament on the Life Insurance Corporation Bill, the then Finance Minister said:

> "There was no need for Government to make out a case that private enterprise had failed in order to effect nationalisation. Nationalisation could be justified on grounds of ideology and philosophy."

This statement, coupled with the fact that every practical object which the Government sought to achieve could have been secured without recourse to nationalisation, must lead to the conclusion that political or ideological considerations were largely responsible for the measure and that they are likely to motivate future economic decisions. The fact that in normal times Government should have invoked emergency powers to implement this decision by ordinance, without first consulting Parliament and sounding public opinion, cannot but add to one's uneasiness.

State Trading

Another cause for apprehension lies in the recent entry of the State into the field of trading. During the brief period of its existence, the State Trading Corporation has already taken over or entered trading in a number of important commodities and through its operations Government are in a position to exercise powers of control over the whole field of industry even more sweeping than those they already possess.

Private Sector's Performance

We are told that in India capitalism has failed to deliver the goods, that it has shown no initiative and that it cannot in an economically backward country like ours produce the dynamic results obtained in the highly developed economies of the West. So, it is argued, it must be replaced by socialism which, alone, can produce results. This view seems to overlook a number of facts such as that the Private Sector has fulfilled and in some cases exceeded its production quotas under the first Five-Year Plan; that private enterprise in India has not up to now had the freedom of action and the incentives it enjoys in the countries where it has proved so strikingly successful; and that there is enough evidence available that the introduction of socialism of the kind, and by the means, contemplated in India has not proved an unqualified success in other countries. Still, even if we accept the premise that the magnitude and urgency of the task in India render its

performance beyond the capacity of free enterprise alone, the correct solution, which until not so long ago seemed to have been accepted by Government, lies in a mixed economy in which both free enterprise and State Enterprise are harnessed to the country's needs.

I feel the charge that free enterprise in India has shown no initiative in recent years is particularly hard to take. I for one am in fact surprised at the amount of initiative displayed considering the discouragement and disincentives to which it has been subjected. While saying this, it is only fair that I should acknowledge the help and advice which industry in the private sector has received in recent years from our dynamic Minister for Commerce and Industry. It is a measure of the man that his socialistic views have not prevented him or his Ministry from extending assistance to industries in need of it for purposes of agreed schemes of development. Without his encouragement and quickness of decision, our Two Million Ton Project might not have come into being or would still be at the stage of discussion and correspondence. We are grateful to him for his support.

Indian industry needs no compulsion to induce it to collaborate with Government or to make its full contribution to the economic development of the country. It is prepared to take the necessary risks and to make the necessary sacrifices, but it asks to be left in reasonable peace to do his allotted job.

Indian Companies Act, 1956

Instead, the restrictions from which it suffered in the past have been aggravated by the new Companies Act. While the many wholesome provisions enacted for the protection of the investor are to be welcomed, the strait-jacket into which the Act places Management goes beyond all reasonable requirements. Those of you who have taken the trouble to study this Act will appreciate the waste of time and energy caused by a number of its provisions as illustrated by the thirteen pages of the notice and its annexure in this year's Report as compared to the one-page notice in previous years.

The Act has gone to extraordinary lengths in its attempt to regulate the operations of joint stock companies, including such provisions as those pertaining to family relationships, of which no less than eighty-six degrees, both legitimate and illegitimate, have been covered in the relevant section. The Act is not only the cause of much waste of time and enrgy but also of much avoidable expense. In a country in which there is such a dearth of administrative personnel—in some places a total absence of it—to care for the basic needs of the people in the countryside, it is sad to see so much administrative machinery and expenditure diverted to such relatively unproductive ends.

Agreement on National Objectives

To sum up this part of my speech, let me say that we all realise that since Independence our Government have performed a tremendous task. Faced with an unprecedented array of political, economic and social problems, they have discharged with ability, devotion and success an appalling burden of responsibility. We also realise that their task in the coming years will remain a formidable one; that the success of India's plans of economic development is essential to the future prosperity and happiness of our people. We in the industrial and business field are therefore at one with Government in their objective of a prosperous, democratic and happy nation emerging from the years of toil ahead. Where we differ is in the respective roles of the State and of the individual in the economic activity of the nation. We sincerely feel that some of the Government's policies are based on economic theories on capitalism and socialism which no longer fit the facts, if ever they did. They seem to ignore the lessons of the social and economic experiments undertaken elsewhere in the world during the last few decades; for instance, the fact that, apart from the U.S., countries in Europe which have relied largely on free enterprise and given it the necessary support and encouragement, have achieved not only economic prosperity but also, through realistic fiscal and administrative measures, the socialist dream of an equalitarian Welfare State.

Financial Results

Coming to matters of more direct and immediate concern to us, you may wish me to amplify the brief reference in the Report to the profits and to tell you something about the progress of our expansion scheme and also about the important understanding we have reached with the Tata Workers' Union which was widely publicised in the Press.

The financial results of the year's operations were characterised by a decrease of Rs 34 lakhs in disposable profit largely due to lower sales of ferro-manganese and by the large accretions—exceeding Rs 4 crores—to the Plant Rehabilitation and Development Fund and the Development Reserve under Government's new retention price scheme. No ferro-manganese was produced during the year under review and as a result the tonnage despatched was some 10,000 tons less than in the previous year. We have upto now been making ferro-manganese in our blast furnace plant and primarily for our own consumption, only the surplus being sold. For operational reasons, ferro-manganese is made intermittently and sales have therefore been themselves intermittent. Last year's sales were exceptionally large. Once the electric ferro-manganese plant which we are now in the process of building at our Joda manganese mines is completed and in operation in the latter half of 1958, ferro-manganese will no longer be made in the blast furnaces, the whole capacity of which will be reserved for the manufacture of pig iron. Some of the output of the Joda plant will be for sale, but in view of our greatly increased requirements for steel making, the tonnage available will be relatively small until the plant's capacity is increased.

As shareholders will have noticed, the amounts set aside this year for Plant Rehabilitation and Development and to the Development Reserve exceed the corresponding provisions of the previous year by nearly Rs 3 crores, of which Rs 2.28 crores represents the net increase in retention prices after taxes and Rs 68 lakhs the additional tax saving on the Development Rebate. The increase of about a crore in the provision for taxes is itself mainly in respect of the additional price element.

Ever since the war we have protested both to the Tariff Commission and to the Government of India against the excessively low retention prices enforced on the steel industry, which made it impossible for the industry to set aside monies for development or to attract fresh capital. We pointed out that the difference between the retention prices and the imported prices amounted

each year to a figure which far exceeded the total value of protection received by the industry during the whole of the seventeen years in which protective duties were imposed. We are happy that at long last Government have adopted a price policy which has enabled the industry to undertake a large-scale expansion.

The Development Rebate granted from last year for tax purposes, in accordance with the recommendation of the Taxation Inquiry Commission, will provide out of tax savings a further valuable source of development finance. We are grateful to Government for their realistic policies which will result in immense benefits to the country in the years to come.

Two Million Ton Programme

Our expansion scheme, although still largely at the preparatory stage, made considerable progress since the last Annual General Meeting. I then stated that the preliminary studies made of the proposal to increase our ingot capacity from 1.3 million tons per annum, which we expected to reach on the completion of the current Modernisation and Expansion Programme, to two million tons, indicated that the project was sound, could be completed within three years and would require about Rs 60 crores to be spent on the new plant.

Our main efforts in the subsequent months were directed at the two principal objectives of entering into the necessary engineering, construction and purchase contracts and of securing the funds required to finance the project.

Appointment of Kaiser Engineers

The technical preparations were completed in record time. It was clear from the start that to complete a project of this magnitude and complexity under three years would require a high degree of co-ordination of its various parts and phases for which it was essential to place under a single organisation the responsibility for all the engineering, procurement, construction and supervision services. We therefore entered into a contract with two Divisions of the Henry J. Kaiser Corporation of Oakland, California, known for their industrial and engineering experience and their ability to get things done quickly.

Even while the agreement with Kaiser's was being negotiated, much of the preliminary work was begun and worldwide inquiries sent out for the major items of plant and machinery included in the programme. The first orders for the principal items, such as the three main rolling mills and electrical equipment, were placed as early as March 1956. A group of Tata engineers were sent to Oakland, the headquarters of Kaiser's, and a Kaiser team began to be built up at Jamshedpur from February 1956. Today some 55 members of the Kaiser Organization are already at work in Jamshedpur and their number will grow to about 100 at the peak of construction activities. The Indian work force engaged on the project will similarly grow to a maximum of 6,000 men.

The completion of the entire project in a matter of two and a half years will be an unequalled achievement in the industrial field in India. While Kaiser's may have under-estimated some of the local problems and difficulties, we have every hope they will be able to adhere to their time-table.

Rail and road transport difficulties, bottlenecks in steel fabrication and congestion in the Calcutta Docks are amongst potential sources of delay which will require constant and sustained attention. On the other hand, our chances of completing the job in time are improved by the co-operation and assistance extended to us from the start by the Ministry of Commerce and Industry and also by the Finance Ministry in general and the Exchange Control Department of the Reserve Bank in particular, in the expeditious disposal of innumerable applications, requests and references submitted to them. We are grateful to them all for their assistance.

Project Cost

With the disposal of the main technical issues of the project, the procurement of the large funds required to finance it became the main subject of attention and effort on our part. In my speech last year, I mentioned a figure of approximately Rs 60 crores as the estimated cost of the new plant. This figure was based on rough estimates which proved commendably accurate, as the final figure including contingencies now comes to Rs 62 crores. This, however, represents only the estimated cost of the new plant itself, including the cost of all the work and services entrusted to Kaiser's. In addition, a certain amount of related work has to be undertaken departmentally b Company. This includes such t as site clearing, modification existing shops and mills to tie t into the Two Million Ton P gramme, the provision of roll stock and other items. These w cost a total of approximately Rs crores, spread over a period of fo years upto and including 1959-6 In addition, approximately Rs 2.6 crores will be spent on the collieries and ore mines and quarries to meet the added requirements of the expanded programme, and about Rs 2 crores on the electric ferro-manganese plant, to which I referred earlier in my speech. The total thus comes to Rs 75 crores, which, however, does not represent the full measure of the Company's estimated capital expenditure during the five years from April 1955 to March 1960, as it does not include such items as the cost of completing the current Modernisation and Expansion Programme, annual renewals and replacements, our investments in the Indian Tube Company and a new refractories company and other ancillary schemes.

World Bank Loan

I stated in my speech last year that a good part of the moneys to be spent on the new plant would have to be raised in the form of a loan from abroad. In consultation with the Government of India, who kindly agreed to sponsor an application to the International Bank for Reconstruction and Development popularly known as the World Bank discussions were initiated with the President and other officials of the Bank in February this year. These were followed by detailed negotiations and the presentation of a formidable mass of data, and finally by the signature, on the 26th June 1956, of an agreement for a loan of 75 million dollars, equivalent to Rs 36 crores, in various currencies and on the principal terms mentioned in the body of the Report. A striking aspect of this loan from which we may well derive satisfaction, is the fact that it is the largest loan granted upto now by the World Bank to an industrial undertaking anywhere in the world and also the largest single loan granted for any purpose to any country in Asia.

While it is true that the loan is guaranteed by the Government of India, the financial strength and credit-worthiness of the Company, painstakingly built up by the conservative financial policies followed

all these years, was a major factor in the Bank's ready acceptance of our proposals.

One aspect of the negotiations with the Bank which I should like to mention is the remarkable speed at which they were conducted and concluded. We are thankful to Mr Eugene Black, the distinguished President of the Bank, and to his associates for so kindly expediting, in response to our request, the detailed and complex procedures which the Bank normally follows in disposing of loan applications. Their co-operation was, I believe, another reflection of their confidence in the Company and its Management.

This loan and the additional share capital, for the issue of which you passed the necessary resolutions earlier this year, will provide us with about Rs 50 crores out of the Rs 75 crores required for the Two Million Ton Programme. The balance of about Rs 25 crores will be secured from retained earnings accruing to the Plant Rehabilitation Fund and the Development Reserve between 1955-56 and 1959-60 and, from further borrowings. The funds required to finance the other items of capital expenditure, to which I have referred earlier in my speech, will be met largely from internal resources and borrowings.

Agreement with the Union

A brief reference has been made in the Report to the conclusion during the past year of a comprehensive agreement between the Company and the Tata Workers' Union. This Agreement, which seeks to place the relationship between the two parties on a still firmer foundation of goodwill and mutual security, sets out the rights and obligations of the Company and the Union and records agreement on a number of outstanding issues. A special feature of this Agreement was that it contained an important declaration of intention to bring about a closer association of employees with Management in the working of the industry.

Association of Employees

In furtherance of that provision, the Company and the Union subsequently held further discussions and reached complete agreement on the subject. Under a Supplemental Agreement signed on August the 4th, the considerable machinery already in existence at Jamshedpur for joint consultation will be rationalised and, with the exclusion of matters concerned with collective bargaining or grievance procedures, will be brought within a three-tier structure of Consultative Councils. These will be set up for all departments of the plant, for the Works and the Town as a whole, and finally, at the top Management level where a Consultative Council of Management will provide a meeting ground for consultation and for an exchange of views on the general working of the Company and the industry. While the functions of these Councils will all be of an advisory character and Management will remain, as before, in control of the Company's affairs, due weight will naturally be given to the views and recommendations of the Councils.

The subject of associating employees with Management is admittedly a difficult and controversial one. It has been the subject of considerable attention and discussion on the part of Government and the Planning Commission who have expressed themselves in favour of the principle, and also of the Joint Consultative Board of Industry to whom the task of formulating specific proposals has been entrusted.

The question whether the Company should not have waited until an all-India policy had been evolved on the subject was discussed by the Company's Board who ultimately decided to ratify the draft agreement. This decision, which I am convinced was right, is in consonance with the accepted view that freely negotiated agreements are much to be preferred to imposed settlements. The Agreement was negotiated in a fine spirit of mutual frankness and co-operation and represents an honest attempt to devise means of understanding each other better and working closer together. I have every hope that it will prove workable in practice, provided both parties respect the intentions recorded in the Agreement and try to read into its provisions neither more nor less than they contain. This will apply particularly to the Joint Consultative Council of Management.

So far as we are concerned, we shall not seek to fetter the discretion of this Council in discussing such matters as will enable its members, and particularly those representing labour, to acquire a better understanding of the industry and its problems. At the same time, the Company has no intention of surrendering its managerial functions and responsibilities. I for one do not believe in the concept prevalent in some labour circles that factories, whether owned by the State or by shareholders, should ultimately be handed over to workers who would provide both the labour and management of the enterprise. In my opinion, such a view is both unsound and impractical, and its pursuit can only lead to barren disagreements and ultimate disillusion.

The Management of mechanised industries is becoming more and more complex and requires increasingly high standards of technical and administrative experience and competence. Any worker, however humble his beginnings may have been in the industry employing him, should have the opportunity of rising in the organisation, his progress being determined by merit and his ability to discharge his allotted responsibilities. But this obviously implies that at a certain stage such a worker leaves the ranks of labour and becomes part of Management. This is a very different proposition from that of handing over the management of a factory to the workers collectively.

I hope therefore that time and energy will not be wasted in a fruitless pursuit of the concept of workers' management which is unworkable, except possibly in very small-scale industries run on co-operative lines.

Having said that, I should perhaps mention that somewhat different considerations may apply to functions concerned primarily with the fulfilment of individual and social life within the industrial community as distinct from functions and activities directly concerned with production, sales, finance or administration. Jamshedpur is for our employees a place in which to live as well as to work. The Jamshedpur community is now nearly half a century old. Many of its members were born, have taken up jobs and founded families there, and I believe there is ample talent, interest and civic sense to be found among them which could be harnessed to constructive and responsible work of a civic nature. For instance, many of the activities of the city could well be guided by its own citizens within clearly laid down budgets and procedures. So long as the Steel Company furnishes the funds required for running the town, it would naturally retain financial control. Real democracy works from the roots up and we, as a Company, should welcome and encourage opportunities to develop

the democratic qualities involved in collective work selflessly undertaken in the interests of the community.

To sum up, I feel that in entering upon these agreements with the Union, we have crossed the threshold of a new era of co-operation and goodwill in our relations with our employees at Jamshedpur. We have not undertaken this experiment in a vainglorious desire to be pioneers or to set ourselves up as an example to others. We have done so in a spirit of humility.

We have already come a long way in developing sound industrial relations at Jamshedpur for which I feel both the Management and the leadership of the Union deserve credit. We have not by any means solved all our problems; discipline, morale and productivity are not yet what they should be. No doubt, our standards of management themselves can be further improved; but I think it can be said that the present Management of the Company and of the Union have the will to co-operate for the good of the industry and the country as a whole. I am confident that with this background the experiment is well worth trying. If we succeed, nothing but good can come of it for all concerned, including shareholders and employees. If we fail, little harm will have been done so long as the failure will not have been due to lack of goodwill.

We shall in the next few years have many difficult problems to face as a result of the expansion of our plant and operations. I believe the burden will be the lighter for its being shared by those who work for and with us.

Ending on this note, I should like on your behalf to thank all the members of our Management, staff and labour force throughout the Organisation for the excellent work they have put in during the past year.

Note: This is not a report of the proceedings at the above Annual Meeting, of which proceedings a separate report will be published.

Company Notes

Sen-Raleigh

WORKING results of Sen-Raleigh Industries of India, Ltd., for the year to September last were so satisfactory that it was possible for the Company to declare a maiden dividend of 6 per cent. on its ordinary shares. Profits for the year were higher. Besides the maiden dividend, provisions to reserves were also higher. Allocations to general reserves and for depreciation were appreciably higher. Even so, the amount carried forward was Rs 20,690 against a debit balance of over Rs 6 lakhs brought in.

Proposed expansion plans of the Company include the manufacture of freewheels and addition to production capacities. According to the directors, the amounts available from the paid up capital and borrowed funds would not be adequate to finance these development projects. Negotiations are in progress with the Industrial Finance Corporation of India for a further loan of Rs 15 lakhs. Means are under consideration for getting the remainder of the issued share capital subscribed.

In his address before the sixth annual general meeting of the Company, Mr S K Sen, the Chairman, expressed satisfaction over the production targets for the bicycle industry during the second Plan period. The development Council for Bicycles suggested a target of of 1.25 million bicycles to be made in India by 1961. This target has been accepted by the Planning Commission. Sen-Raleigh, the Chairman was confident, will play a prominent part in the fulfilment of the second Plan as it has done in the first.

To enable Sen-Raleigh to play its proper role, the Company has applied to the Government for increases in its production capacity. It is proposed to raise production in the bicycle wing to 200,000 bicycles and in the component wing to half a million sets of components. Plans for such expansion are under active preparation of the Company.

Welcoming the acceptance by the Indian market of Indian bicycles as the mainstay of the trade, Mr Sen was somewhat critical of the "fairly liberal" import policy of the Government. Liberalisation of imports did not affect the sales of home manufactures to any great extent, although the imports brought down the profit margins to the imported bicycle range. "If, however, the experiment is continued," Mr Sen issued a note of warning, "it may endanger production by the Indian industry, and care should be taken by the Government in framing future import policies so that the expanding industry is not affected adversely."

India Paper Pulp

WORKING results of the India Paper Pulp Company, Ltd., for the half-year to March last were good. Profits increased. So it was possible to allocate enlarged amounts to the various reserves. The dividend was maintained at 7 per cent. Half-yearly accounts have been issued by the Company hitherto. According to the provisions of the Companies Act, 1956, annual accounts will be issued in future. But, circumstances permitting, half-yearly dividends will continue to be declared. Payment of interim dividends will be considered in the light of the Company's working results up to September 30 each year.

In the report, the directors express regret that all work on the extension of factory buildings is at present held up due to a general shortage of steel and cement. By the middle of the next year, the shipment of the main plant under the mill expansion scheme is expected to start. No final decision has yet been taken about the proposed new paper pulp mill. It is proposed to be erected in Assam. Negotiations with the Government of Assam have reached an advanced stage, and the directors hope to be able to give shareholders further information about this project in the near future.

Downward Trend Arrested

The downward trend in the out put of mica recorded after 1951, was arrested during 1955 and a turn for the better was witnessed. At a little over 132 thousand Cwts. output of dressed mica in 1955 was nearly 27 per cent higher than in the preceding year, but was still 32 per cent below the 1951 level. The consignments of mica during the year were valued at Rs. 2.15 crores.

4%

BOMBAY STATE DEVELOPMENT LOAN, 1970

ISSUE PRICE Rs. 100 PER CENT.
OPEN ON THE 3rd SEPT. 1956

The loan will be closed as soon as a total of approximately Rs. 750 lakhs has been subscribed, and in any case not later than the close of business on the 10th September 1956.

The applications will be received at the offices of the Reserve Bank of India, Bombay, Calcutta, Delhi, Madras and Bangalore, at the branches of the State Bank of India in the State of Bombay and at the treasuries and sub-treasuries in the State of Bombay.

Full particulars can be obtained at any of the offices of the Reserve Bank of India or branches of the State Bank of India or at any treasury or sub-treasury in the State of Bombay.

Around Calcutta Markets

Consolidation of Gains

EQUITIES have been irregularly steady in the last few days. Speculative scrips have turned hesitant. Even so, cash scrips remain steady to firm. Jute shares have consistently moved up. Cement and some other miscellaneous shares have been gaining ground. There have been selective buying enquiries in coal shares. Paper and Engineering shares have been rather inactive, but steady. There is no selling pressure. But speculators have been anxious to book profits.

Despite occasional profit-taking, the market continues to be steady because of replacement buying at all set-backs. This is a healthy development. Since the start of the Suez crisis, equities have moved up appreciably. Corrective set-backs are necessary so that the market can consolidate the gains. But the events during the last fortnight suggest that the strength in equities has some basis. Current indications are that equities may remain steady in the absence of any sudden untoward development.

Jutes In Demand

Whether the spurt in equities initiated by the Suez Canal crisis would have continued without a simultaneous upswing in Jute shares is doubtful. Strength in Jute shares has been a sustaining influence on the market. There have been large foreign orders for jute goods in recent weeks. Evidently, foreign buyers are hastening their purchases of jute goods to avoid paying higher prices later. Jute goods flared up a few days ago. Despite speculative profit-taking, the gunny market remains firm. It is reasonable to assume that steadiness in Jute goods will continue.

Almost without exception, recently published reports of jute companies contain data which show how simultaneous business has been unprofitable in the last two years. Though the rising trend in jute goods is the main inspiration behind the spurt in Jute shares, there are other factors which explain the continued firmness in these shares. Shipping instructions are more encouraging. There are hopes that Russia will enter the market on a big scale.

Recurrence of political troubles in Argentina is a disturbing development for the Indian jute industry. Argentina has not been in the Calcutta market for some months. In any case, it will take some months before growing foreign orders can lift the mounting stocks of jute goods with the mills. But, as the monthly data show gradual decreases in stocks, the speculative interest in jute shares may continue. In the absence of a landslide in equities in general, the steady trend in Jute shares should continue.

There is one unfavourable factor which needs to be emphasised. With IJMA's decision to re-seal the looms unsealed some months ago, there can be no doubt that output of jute goods will be curtailed. This should have had a softening effect on raw jute. But raw jute prices have hardened in the last three weeks. This is mainly due to continued buying of raw jute by mills for spot delivery. Whatever be the reason, as long as raw jute prices remain relatively steady, Jute shares are not likely to move up as much as these shares should otherwise have.

Burrakur

Long before Coal shares started crawling up, Burrakur Coal began to firm up; simultaneously, Standard Coal started losing ground. By the time these lines appear in print, the fate of the amalgamation proposal between these two coal companies will be known. Directors of both companies favour amalgamation. Standard Coal have enough surplus cash. Burrakur Coal Company is one of the established concerns in the coal industry. Burrakur Coal have expansion plane. These projects cannot be financed out of the Company's own resources. It is difficult to raise capital in the open market. So the amalgamation will help Burrakur Coal.

What of the interests of the shareholders of Standard Coal? Directors of Standard Coal seem convinced that amalgamation with a first-class Company like Burrakur is to the interest of shareholders. According to the plan, each shareholder of Standard will receive two shares of Burrakur as a result of amalgamation. Since the amalgamation proposal, Standard Coal have been losing ground. There are reports that some shareholders are opposed to the amalgamation proposal. But, on the assumption that amalgamation will take place, the spurt in Burrakur is justified.

Tea Commission

Neither tea plantation workers nor shareholders nor managing agents are likely to be pleased with the recommendations of the Plantation Enquiry Commission. But the industry is likely to prosper if the major suggestions of the Commission are implemented. It recommends the abolition of the tax on tea imports into Calcutta and Howrah. It is opposed to the Assam Government's transport tax on tea. It is in favour of Central administration of sales taxes on tea by the States. Similarly, it recommends uniformity in agricultural income taxes. It has suggested a more scientific system of fixing the slab for export duty.

By far the most important recommendation of the Commission, however, relates to the formation of a Tea Replanting Fund. It is wise in urging the Government to arm itself with powers to carry out investigations and issue the necessary directives for the proper maintenance of fixed assets. Replanting and replacement and renewal of machinery and equipment are the major reforms that the industry must implement if it is to maintain its position as an earner of foreign exchange. There will be endorsement of the Commission's suggestion that a Tea Replanting Fund should be created in the Tea Board to which all tea estates should contribute Rs 50 per acre each year.

There will be a controversy about the Commission's suggestion that tea companies should try to raise capital by issuing debentures. But the Commission's detailed recommendations about the need for more banking aid to the industry will be welcomed. It suggests that the State Bank should include tea-growing areas in its plans for opening new branches. It recommends increased financial aid to the industry by the Industrial Finance Corporation and the State Finance Corporations concerned. Financial requirements for the modernisation of the tea industry are so vast that the recommended financial assistance will be urgently needed.

Around Bombay Markets

Modest Replacement Buying

Thursday, Morning

DESPITE occasional setbacks, the stock market maintained a distinctly firm trend during the week under review. The easiness brought about by precautionary end-account bull liquidation and by apprehensions about an increase in the excise duty on cloth, was offset by modest replacement buying and short-covering.

In the steel section, sentiment was favourably influenced by the approach of dividend announcement for Tata Steel. Tata Ordinary which opened around Rs 211-8 moved up to the highest for the week at Rs 216-8. Indian Iron, too, were firmly held at Rs 37-4.

Textile shares were generally steady on anticipation of a rising demand for cloth in the coming months on account of Puja and Divali festivals. This was reflected in the rise of Bombay Dyeing which were taken up to as high as Rs 702-8. But operators were often in two minds about textile shares, in view of the persistent rumour of an increase in excise duty on cloth. The latter naturally called for caution with the result that most scrips encountered realizing pressure. In the case of Bombay Dyeing, in particular, which had struck a new peak the setback was sharper because of the decision of the company to maintain its interim dividend unchanged. After declining by about 25 points, however, Bombay Dyeing later regained their peak level towards the close.

In the miscellaneous section, there was sustained buying in Bombay Burmah, Premier Construction and Premier Automobiles. Bombay Burmah benefited from the entry into the market of an influential operator who sedulously bought these shares at higher levels, which helped this script to attain a new peak level at Rs 800. Premier Construction attracted enquiry on the report that the capital of the company would be shortly reconstructed and that a final decision, in the matter would be taken in a week or two. In the event, the shares were taken up from Rs 209-8 to Rs 221-8.

Professional support for the miscellaneous section was renewed at the close of the week, and trading broadened with smart rises in Tata Locomotives, ACC, Belapur and Walchandnagar.

Cotton

'Operation Regimentation' Averted

THE way-wardness in price movement noticed in the previous week in cotton futures has been promptly corrected and the authorities might give themselves a pat on the back for having successfully brought about a 'reasonable' price level. The fear of an increase in the excise duty on cloth came to the latter's aid and became a blessing in disguise; it was one of the trend of cotton prices.

It may be asked why did the apprehension of a higher excise duty on cloth manifest itself at the time when cotton had reached the so called danger level? It may be that interested parties played it up as a shock treatment, in order to avert what would have meant 'operation main factors which reversed the regimentation'!

Be that as it may, one cannot help wondering why the Government prefers to keep silent over this issue. Whether they are well founded or not, apprehensions about an increase in the excise duty on cloth have affected not only the cotton futures market but also the textile section in the share market. This uncertainty about excise duty is not going to help textile exports from this country, which incidentally, are far from satisfactory. Whether it is due to a general shrinkage in world textile trade, or the establishment of textile mills by countries which have been India's traditional export markets, or to the increased competition from Japan, Hong Kong, Pakistan and Russia, or to competition from cheaper synthetics like rayon, the pace of exports has considerably slackened, in the past few months. The Government has only to thank itself, if there is a further deterioration in exports. For, it cannot be denied that any progress or expansion in a particular sphere of activity is dependent to a very large extent on the confidence of the operators, traders and industrialists concerned. This confidence is woefully lacking at present on account of the continued suspense over the question of excise duty on cloth.

Trading in cotton futures during the week under review was distinctly easier as compared to the previous week. Thus, the Jarilla contract, which opened on a very promising note at Rs 704-8 and improved to Rs 705-8 on the same day, steadily lost ground, point by point, and declined to Rs 685 at the close of the week. Although not to the same extent, the Vijay contract also declined and closed at Rs 815-8.

In the spot market, however, conditions were cheerful throughout the week. A prominent group of local spinners as also European managed mills showed continued interest in quality cottons like Surati, Bardoli and some others, but put off by the high rates prevailing in Sewri, they diverted purchase to growing areas. Business was reported on the lines at advanced rates.

There is good news for cotton in the world markets. According to the International Cotton Advisory Committee, the outlook for cotton consumption on the whole is favourable for the 1956-57 season. With the increase in population and demand for textiles, consumption of raw cotton should go up. Since stocks of cotton outside the US are at an extremely low level, provided that there is no sharp fall in consumption, world trade in cotton should move up. In fact, according to the ICAC, stocks outside America are the lowest on record at 7.4 million bales, compared to 8.4 million bales on hand on August 1, 1951 following the Korean crisis and the short US crop of 1950-51.

World cotton consumption outside the Soviet bloc, it has been estimated by the ICAC, reached an all time record in 1955-56 of 28.2 million bales, which is about 600,000 bales higher than that in 1954-55. US and Asia were mainly responsible for the rise in consumption; consumption in UK showed a decline.

Oilseeds

All-round Liquidation

WITH the September contract approaching maturity, it was natural for the trade to confine its interest to this contract. Trading in general reflected a bearish trend, for a variety of reasons. In the first place, the proximity of the maturity date induced longs to liquidate. Again, as weak bulls started selling in a falling market, there was an acceleration of the downward trend. Up country operators further depressed the market by making a hasty retreat while the going was good. On top of all these, there was the weakness in ready seeds and oils.

Underlying all these, was the fear of State intervention in the export trade in oilseeds. If the object of State trading is to augment its resources, this is a promising field, judging from the figures trotted out by Shri Murarji J Vaidya in the course of his address at the Indian Merchants Chamber!

MARKET LEADERS DURING THE WEEK

	Aug 28, 1956	Week's Range High	Low	Aug 22, 1956
Steel Shares :				
Tata Ordinary	216- 8	216- 8	211- 4	213- 4
Indian Iron	37- 4½	37- 8½	36-14½	37- 8
Textile Shares :				
Bombay Dyeing	696-14	702- 8	675-14	701-14
Central India	164- 0	166- 0	161- 8	168- 0
Century	605- 0	607-12	596- 0	604- 8
Kohinoor	397- 0	402- 0	395- 8	395- 0
Simplex	217- 0	220- 0	213- 0	213- 8
Swadeshi	272- 8	276- 0	271- 8	275- 8
Miscellaneous Shares :				
Associated Cement	207- 8	209- 0	202-12	203- 0
Belapur	257- 8	259- 0	254- 0	254- 8
Burma Old	793-12	800- 0	766- 4	771- 4
Premier Const.	221- 8	224- 0	215- 8	209- 8
Scindia	19- 3	19- 5	18-15	19-13½
National Rayon	275- 8	275- 8	268- 8	270- 4
New India Assc.	48- 0	49- 4	48- 0	48- 4

STATE BANK OF INDIA

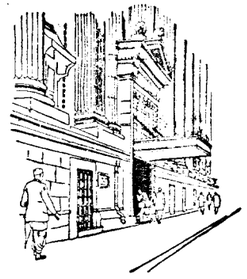
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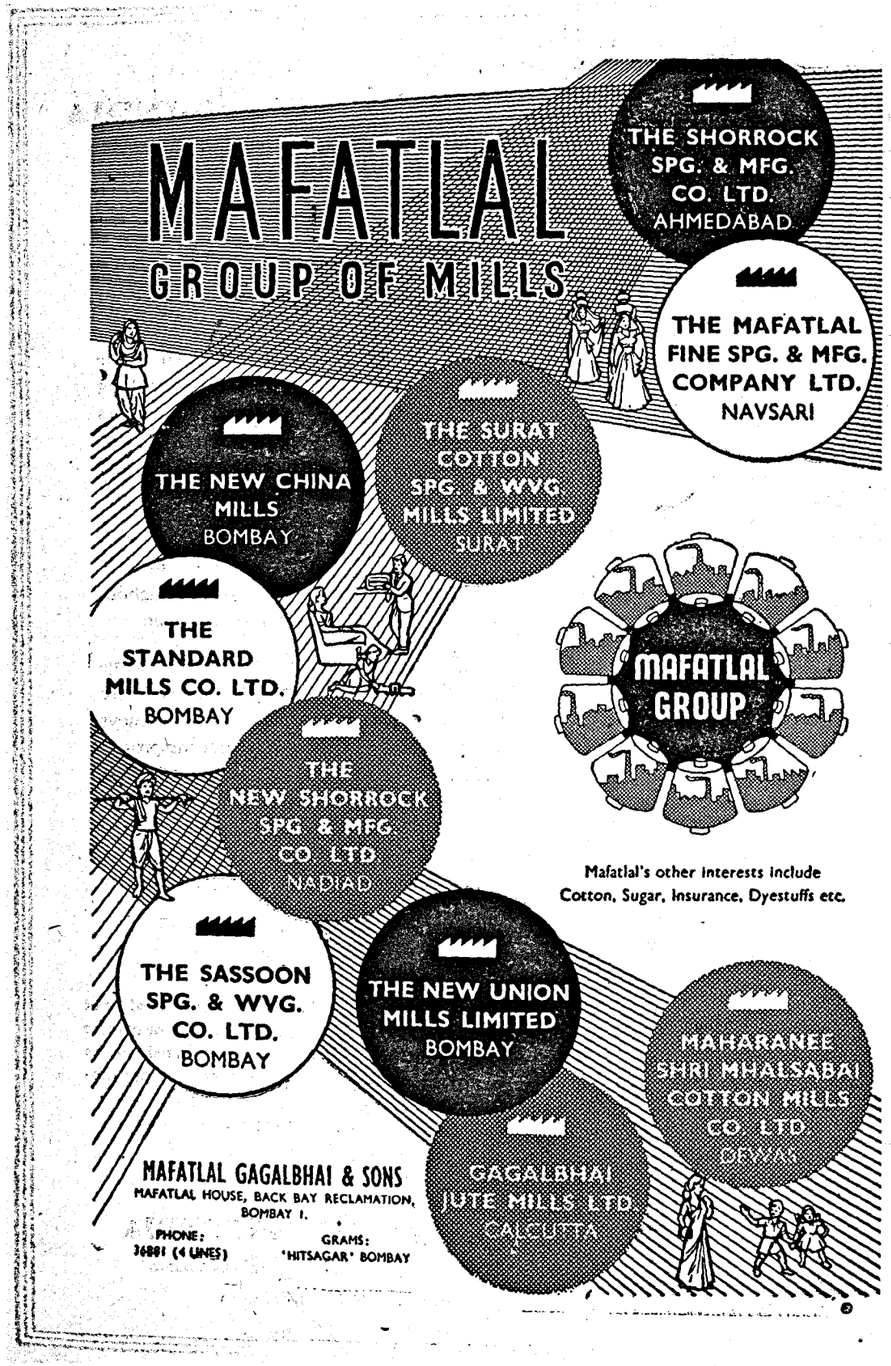
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INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group		Week ending 11-8-56	Week Ago 4-8-56	Month Ago 14-7-56	Year Ago 13-8-55
I	**Food Articles:**	**397.7**	**391.5**	**377.3**	**315.1**
	Cereals	502	502	484	374
	Pulses	391	385	372	286
	Others	264	253	242	238
II	**Industrial Raw Materials:**	**497.4**	**493.2**	**487.8**	**406.5**
	Fibres	474	470	475	415
	Oilseeds	566	549	521	386
	Minerals	486	516	517	418
	Others	422	421	419	420
III	**Semi Manufactures:**	**405.0**	**400.4**	**393.4**	**325.0**
	Leather	333	337	395	331
	Mineral Oils	208	208	208	201
	Vegetable Oils	576	565	539	386
	Cotton Yarn	495	483	475	406
	Metals	330	329	327	257
	Oilcakes	467	462	423	330
	Others	361	361	362	330
IV	**Manufactures:**	**387.2**	**385.7**	**385.5**	**371.5**
	Textiles	420	419	418	408
	Jute	390	383	389	426
	Cotton	430	430	430	402
	Rayon & Silk	470	470	463	474
	Woollen	266	266	264	278
	Metal Products	388	388	388	352
	Others	294	291	291	286
V	**Miscellaneous:**	**567.0**	**563.7**	**557.7**	**562.8**
	All Commodities:	**417.9**	**413.8**	**406.8**	**356.8**

COAL PRODUCTION AND DISTRIBUTION

(Monthly Averages or Calendar Months)
('000 tons)

		Raisings	Despatches	Stock at Pit-heads*
1948		2,485	2,155	2,262
1949		2,621	2,339	1,427
1950		2,666	2,401	2,008
1951		2,859	2,426	2,646
1952		3,019	2,566	3,020
1953		2,987	2,588	3,411
1954		3,064	2,662	3,501
1955		3,184	2,742	3,609
1955:				
	Jan.	3,153	2,672	3,482
	Feb.	3,249	2,502	3,879
	March	3,304	2,764	3,961
	April	3,233	2,694	4,066
	May	3,175	2,744	4,097
	June	3,075	2,658	4,129
	July	2,956	2,756	3,902
	Aug.	3,119	2,880	3,697
	Sept.	3,378	2,802	3,786
	Oct.	3,086	2,883	3,516
	Nov.	3,097	2,770	3,449
	Dec.	3,388	2,782	3,609
1956:				
	Jan.	3,196	2,789	3,586
	Feb.	3,346	2,691	3,813
	March	3,360	2,835	3,911
	April	3,223	2,865	3,813
	May	3,314	2,871	—

*At or about the end of each period.

Source: Ministry of Production.

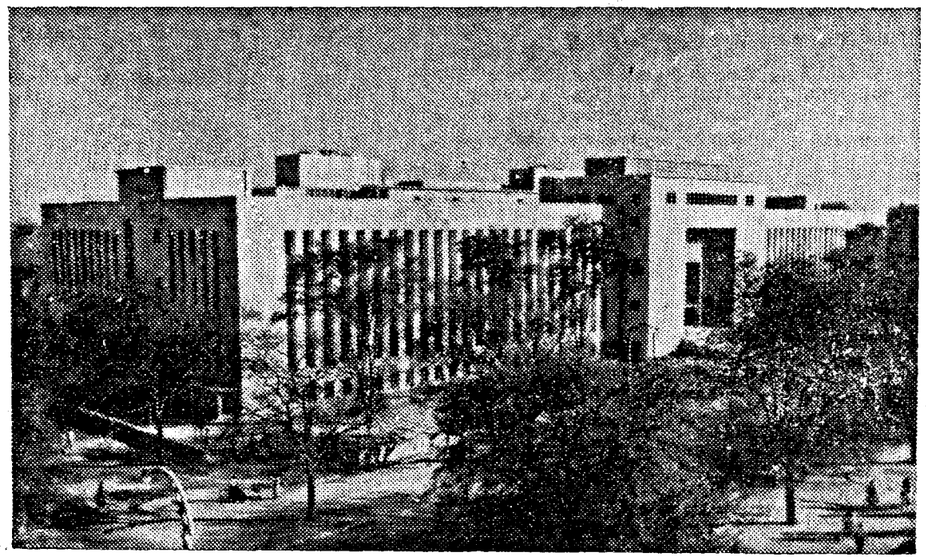
EMPLOYMENT IN COTTON MILL INDUSTRY OF INDIA IN APRIL

	1956					1955				
	No of Mills worked	Total No. of Workers on rolls	Average daily no. of workers employed per Shift 1st	2nd	3rd	No. of Mills worked	Total No. of Workers on rolls	Average daily no. of workers employed per Shift 1st	2nd	3rd
Bombay	174	5,05,374	2,28,499	1,51,489	44,444	169	4,32,028	2,30,188	1,44,869	33,503
Saurashtra	10	13,389	7,624	4,848	—	10	10,695	6,098	4,059	—
Kutch	1	106	106	—	—	1	54	54	—	—
Madhya Bharat	15	50,121	21,778	15,607	3,493	15	42,737	21,501	15,271	2,149
Bhopal	1	2,784	945	653	609	1	2,599	961	663	638
Ajmer	4	5,410	3,605	1,756	—	4	5,694	3,424	1,746	—
Rajasthan	6	7,989	3,902	2,458	695	6	6,019	3,218	2,170	409
PEPSU	1	2,538	934	527	463	1	1,921	723	525	467
Punjab	3	5,418	1,451	14,741	1,156	2	4,394	1,294	928	912
Delhi	3	19,643	5,819	6,057	4,947	3	19,169	6,146	4,399	5,816
Uttar Pradesh	18	58,354	23,945	16,972	9,778	15	50,045	21,913	15,991	8,059
Bihar	1	746	430	269	—	1	760	388	264	—
West Bengal	23	42,267	19,925	12,422	7,133	23	35,564	18,511	10,816	5,009
Orissa	2	5,154	1,601	1,260	1,148	1	5,251	1,442	1,282	1,156
Madhya Pradesh	11	37,392	16,313	9,231	1,824	11	34,322	18,140	9,980	1,045
Hyderabad	5	17,971	7,194	4,429	2,817	5	15,045	6,909	4,525	4,525
Madras	85	1,12,566	50,390	33,387	10,933	80	1,07,025	52,537	31,108	10,218
Mysore	9	21,142	11,601	5,818	831	9	19,651	11,124	5,427	380
Kerala	10	9,140	4,246	2,094	1,413	10	8,996	4,667	2,008	1,399
Andhra	7	3,057	1,566	715	285	7	2,341	1,390	472	138
Pondicherry	3	7,893	3,219	2,294	39	2	4,741	2,599	1,186	149
TOTAL	392	9,28,454	4,15,093	2,73,757	91,808	377	8,08,942	4,13,227	2,57,689	74,318

Source: 1) The Textile Commissioner
2) Labour Bureau

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Cloth Excise—To Curb Demand?

RISING prices of foodgrains and cloth have been worrying the country and the Government for many months. At no time could the Government afford to ignore such developments; in the very first year of the Second Plan, they present a challenge that has to be met. For on the ability of the Government to assure a *minimum* of food and clothing to all sections of the people will depend the success of the Plan. To ensure this minimum, it is not enough to maintain production at a certain level, or even to step up the production of foodgrains and clothing well above that in the base year. Development expenditure on the scale that has been contemplated will inevitably increase the money demand for both; this demand is expected to be substantially augmented by the demand from receivers of new incomes whose number should also be substantial, as development gathers momentum.

To prevent food prices from going up any further, if not to bring them down to a reasonable level, the proposal of raising the target of foodgrains production is being actively pursued as a long term measure. Food imports have been arranged for building up strategic stocks and sales from Government stock are being resorted to increasingly, as an immediate check. In the case of cloth, prices of which have been going up over the last 12 months, what remedial action does the Government propose? The Bill to further amend the Central Excise and Salt Act, introduced in the Lok Sabha by the Minister of Commerce and Industry, has naturally to be viewed in this wider perspective.

The Bill authorises the Government to raise the excise duty upto four annas per square yard on coarse and medium cloth and six annas per square yard on fine and superfine cloth. Not that these maximum rates are to be enforced immediately. For the present, the increases are six pice on superfine, five pice on fine and one anna on medium and 6 pies on coarse cloth (excluding dhoties and sarees). This power is being taken, according to the statement of objects and reasons of the Bill, "as market conditions (in the textile industry) vary from time to time, it is desirable to have some flexibility in the hands of the Government to deal with the situation as it arises from time to time." It was further stated that a constant watch would be kept on the movement of prices and "to the extent that excessive profits are made in relation to the fair ex-mill price as worked out on the basis of the formula of the Tariff Commission, an increasing percentage of such profits may be taken away as excise duty. Correspondingly, if prices indicate a downward trend, necessary adjustments will be made in the excise duty."

As stated here, the objective is clearly that of taxing the extra profits which the mill industry is making as judged, for instance, by the wide spread between the cost of production of cloth as measured by fair price and the actual selling price.

There are many ways of taxing profits. The choice is between an excess profits tax which has some points of superiority in that it is less onerous to the marginal units in the industry and is less likely to be passed on, and a graduated excise duty. The Saurashtra Mill Owners' Association asked for this type of tax in preference to the one proposed. The Indian Chambers of Commerce has also done so, bearing

in mind the hardship of the ill-equipped mills in eastern India. Since it is the Government's policy not to allow a general expansion of the mill sector, large profits earned by the mills in the present situation lead to no social gain. They cannot be ploughed back into development of the units. On the other hand, there are well known difficulties, experienced in the past, of administering the excess profits tax and a real danger of weakening producers' incentive to economise and keep down costs. The question is, therefore, one of the right alternative.

Since the Plan cannot be implemented without resources and the size of the deficit has to be kept down within the 'limit of safety', purely revenue consideration may justify the increase. The Minister of Commerce and Industry in his support of the Bill (in his capacity as Finance Minister?) early this week need not have been so apologetic about the revenue aspect of the measure. True, excise calls for a justification in that indirect taxes are difficult to reconcile at sight with the professed aim of the Government to reduce inequalities and to spread the burden of development equitably among different sections of the population. But he need not have been so timid. After all even the poor are called upon to participate in this 'mighty adventure of building a new India". Why should they not contribute their bit in the shape of half anna more on coarse cloth?

But there's the rub. The impost on poor man's cloth by the Finance Minister was hard to justify on grounds of equity. So while moving the Bill in Lok Sabha on Monday, the Minister changed his line and tried, very ineffectively, to sell the idea that in some way, tax on cloth would help the Plan objective by restraining demand. While doing so, he tied himself into knots. Sentences like these from the official text of his speech—"If consumption of cloth rises beyond the availability of cloth (how can it?), then only inflationary trends gather momentum," or again that "Consumption is outrunning supply" (does it mean that stocks are being eaten into?), speak for themselves, and hardly call for any comment. But ignoring his verbal acrobatics and his "economic parlance"—"Prices reach a stage when the law of diminishing returns (utility?) operates and the consumer says 'No'"—what he meant to say appears to be that high prices restrict demand and therefore to the extent that excise duty raise prices further, (they may, a little, he agrees), one of the objectives of the Plan viz restriction of consumption, will be achieved. But why bother, since he is not interested primarily in revenue? The free market will do it by pricing out the poor and the lower middle class. But that is not what the Plan promises, or does it?

In fairness to the Finance Minister, it must be said that he is not very happy about the Government textile policy and is frank about it. He would like to have something corresponding to the Food Minister's strategic stocks in the shape of additional capacity in the mill sector which could be turned on to the domestic market, if need be, or turned off to exports. The Finance Minister is on firm ground in imposing this excise for furthering another Plan objective viz stimulating the handloom sector. Other things remaining the same, the duty may also help to divert some cloth to export markets which tax on excess profits will not do. This may also further a plan objective, by bringing in some foreign exchange. But why not be straightforward? After all the Government has to carry the people with it.

The power to raise the tax further is a threat directly aimed at the mills. Should the mills raise prices further, or should demand take up cloth prices higher, the rate of excise duty will be raised pari passu, in order to mop up the increase in excess profits of the mills. Consumers are not affected one way or the other whether mills earn profits for themselves or for the Government.

Not a Smooth Beginning

A WEEK ago to-day, the Life Insurance Corporation came into existence. Under the Life Insurance Corporation Act, the Government had to stipulate an "appointed day" on which the Corporation would start work. Delay in the formation of the Corporation was partly due to the resignation of Shri Chintaman Deshmukh as Finance Minister. Since the promulgation of the Ordinance, under which life insurance was nationalised, till the formation of the Corporation, the Government was in charge of administration of life insurance companies. Though New Delhi was prompt in announcing a further reduction in premium rates, transitional uncertainties were having an adverse effect on life insurance business. Until the establishment of the Corporation, Shri M G Shah, Union Minister for Revenue and Civil Expenditure, confessed in his Lok Sabha speech, "no basic change could be effected". With the formation of the Corporation, the incidental inconveniences of the take-over should now end.

In his Lok Sabha speech, Shri Shah anticipates the criticism against the delay in forming the Corporation. Before the Corporation could come into existence, its structure had to be devised, and its personnel had to be selected. These delicate and complex issues had to be carefully considered. Shri Shah is apologetic about the delay in forming the Corporation. But he is not apologetic about the Government's decision relating to the structure and personnel of the Corporation. Both Parliament and the people are critical of the Government's selection of the Corporation's personnel. Against the wishes of the Government, the Lok Sabha Speaker has allowed a request for a one-hour discussion of the Government's employment policy. There have been many complaints about the selection of personnel. Under the rules, the Corporation has the right to screen the personnel chosen by the Government. It is to be hoped that the Lok Sabha discussion will force the Corporation to scrutinise the personnel carefully, instead of merely rubber-stamping the Government's selection.

There are two aspects to the Corporation's employment policy. Since the announcement of the Government's decision to nationalise life insurance, many contradictory pronouncements have been made. Insurance employees have been assured that nationalisation will not involve retrenchment. Some official spokesmen have, however, repeatedly hinted that some retrenchment of insurance employees is inevitable. Even those who concede that some unemployment among insurance staff and field-workers cannot be avoided, will insist that the pruning will be done first at the sinecure and top executive levels. In banking as well as in insurance, there are too many sinecure and top executive jobs. Both banking and insurance need expert management. But banking and insurance managers and top executives earn too high salaries. In the make-up of the Corporation, there is not much scope for sinecure jobs. But the emoluments of the top executive members of the Corporation and of its lower tiers need to be carefully scrutinised. Only then can the retrenchment of lower-paid employees be justified. Equally crucial is the future of the entire field-force. There is need for a thorough revision of the set-up and the basis of payment for field-workers. This will be one of the immediate tasks of the Corporation. Whether salary or commission should be the main basis of remuneration, is a vexed problem. No doubt the Corporation will take some time before it can formulate its policy on such a basic issue. But the policy should be announced without any undue delay so that insurance business does not suffer.

There have been loud complaints about the Corporation's employment policy. It is also no secret that Calcutta resents the progressive concentration of monetary and financial authority in Bombay. But there are wider aspects of federal finance and economy which do not seem to be widely appreciated. Head offices of the Reserve Bank, the State Bank and the Life Insurance Corporation will be located in Bombay. All these are nationalised institutions. Each and all of these are separate wings of the Union Finance Ministry. New Delhi is the capital. Therefore, the head offices of all these nationalised institutions should be in New Delhi. The transfer of the head offices of all these nationalised institutions will not only end the unseemly quarrel between Bombay and Calcutta, it is also necessary in the interests of federal finance and administration. Independent India has a unitary but federal character of government and administration. It is a logical corollary that the financial make-up should follow the administrative set-up. This principle is reflected, to some extent, in the structure of the Life Insurance Corporation. The Corporation will have strong, representative zonal offices which, in turn, would be serviced by divisional and branch offices. There will be hope that the zonal offices will have freedom to conduct the day-to-day business as well as to invest life funds within the limitations of the overall national policy. But there is equal need for some such semi-autonomous regional institutions under the Reserve Bank and the State Bank.

If the creation of strong, semi-autonomous regional financial institutions is dictated by the principle of decentralisation, a closer integration of the activities of the Reserve Bank, the State Bank and the Life Insurance Corporation is no less necessary for the achievement of the major aims. Whatever be the reason or reasons for nationalisation of life insurance, the Government's experiment will be judged ultimately by results. Two years ago, the tax exemption limit for life insurance premium was raised. Since nationalisation, life insurance has been cheapened further. These factors will help insurance business. The Government is also committed to carrying the message of life insurance to the rural people. Its dual commitment is to make the rural community more banking-minded as well as insurance-minded so as to mobilise rural savings. Two organisations—the State Bank and the Life Insurance Corporation—have been created to fulfil its obligations. But there is nothing in the structure of the Corporation to suggest that it can function effectively in the rural areas. One of the major recommendations of the Gorwala Committee was that a policy of rural economic uplift should be pursued simultaneously with efforts to extend credit facilities in rural areas. There is urgent need for closer collaboration between the State Bank, the Corporation, the proposed warehousing and marketing organisations and the National Small Industries Corporation. These are institutions which have a common aim. That aim cannot be attained unless the related institutions are properly integrated. And the sooner New Delhi realises the need for integrated working of these institutions, the better for the people as well for the nationalised undertakings.

Shipping in the Public Sector

THERE is little doubt now that the Government is going to participate directly and in a big way, in the development of shipping. The programme which Shri Lal Bahadur Shastri, the Minister for Transport and Railways, outlined at the annual meeting of the Indian National Steamship Owners' Association in Bombay made it very clear.

The programme for shipping in the public sector is determined as much by administrative convenience and political considerations as by Government's trade policies, mainly in relation to trading with the Soviet bloc. The present organisation of shipping, the alignment of routes and services, continues to be oriented, as in the past, and is centred on Britain. India has fairly close relations with her neighbouring countries and it is her aspiration to develop and expand these contacts. The shipping services however are not oriented that way. When our Ministers go to Iraq, Iran or Saudi Arabia and appeal for closer economic ties, they have to face the complaint that shipping services with India stand in the way of deepening these ties. This explains some items in the shipping programme, particularly the decision to start passenger services based on India, even if the services may not pay.

The Calcutta|Madras|Andaman service clearly comes under the category of administrative convenience, so does the service between India|Laccadive|Maldive islands which is also under active consideration; the Madras|Rangoon service under that of closer political relations with our neighbouring country Burma while the India|Persian Gulf service and the India|Red Sea passenger and pilgrim traffic are obviously for developing ties with West Asia.

Do these impinge on the domain of the shipowners? We are told that Scindia's propose to discontinue their Indo-Burma Passenger service, which will now be taken over in the public sector and that Bharat Line similarly propose to withdraw from the Persian Gulf.

The provision of shipping in pursuance of our trade agreement with the Soviet bloc began in a big way, with the inauguration of the Indo-Soviet service. For this service, the Indian companies co-operated by supplying the required number of ships. They have not, however, come forward (or they have not been invited to, it is not quite clear from Shri Shastri's speech) to run the India—Poland service, which has been assigned to the Western Shipping Corporation. There were "difficulties for the private shipping companies being associated with this enterprise," so there could be no reproach of encroaching on their field, if the State stepped in. But what about picking up cargo from intermediate ports?

Weekly Notes

Cabinet Reshuffle

SHRI T T KRISHNAMACHARI, like his predecessor, fought and won a seat in Parliament on a Congress ticket. Both are, in this sense, Congress members of Parliament. But both are out of Congress. In his address to Parliament on the issue of his resignation, Shri Chintaman Deshmukh recalled his experience as Finance Minister in support of his cryptic comment that it would be safer for the Congress Government to have one of their party members as Finance Minister. In a party system of government, a key portfolio as the Finance Ministry should be held by a trusted member of the party in power. This is not only natural but desirable. Those who appreciated the former Finance Minister's oblique criticism will be amused at TTK's reply to the Lok Sabha debate on the Bill to enhance the excise duty on cloth. TTK made it clear that he did not, and does not, endorse the Congress policy to the organised sector of the cotton textile industry.

Congress has not yet learnt the lesson that Shri Deshmukh hopes it will learn. TTK's ability to be the Finance Minister is beyond question. It is possible that, after the next elections, Congress will have a pucca party member as the Union Finance Minister. There are many reasons to believe that the recent Cabinet reshuffle is a stop-gap arrangement. In the circumstances, the delay in announcing the Cabinet changes will cause surprise. It was known for a long time that Shri Deshmukh would resign. As the reshuffle does not involve the entry of any new member in the Cabinet, the rearrangement could be made the moment Shri Deshmukh's resignation was accepted. Selection of TTK as Finance Minister has been wise. But why did the Prime Minister take such a long time to unburden himself of his numerous responsibilities? Could it be that TTK was finally chosen because no veteran party member was deemed fit to be the Finance Minister. If nobody could be discovered now, the probability is that Congress would not find any party member suitable to become Finance Minister even if it were returned to power at the next elections.

Besides the Finance Ministry, TTK would be in charge of the Ministry of Iron and Steel. This would be an odd combination of portfolios but for the fact that TTK had been in charge of the latter Ministry for some time. It would be futile now to recall the circumstances in which the Ministry of Iron and Steel was carried out of the Ministry of Production as a separate Ministry. As Minister for Iron and Steel, TTK has been, from the beginning, associated with the Government's policy of developing the iron and steel industry within the public sector. He is familiar with the origin and nature of the complicated negotiations with foreign countries and groups for developing iron and steel industries within the public sector. His sympathetic treatment of the problems of expansion of the major private iron and steel industries has been duly appreciated by the Chairman of one of these concerns. It is as well that he remains in charge of the Ministry of Iron and Steel to ensure continuity in the Government's steel policy.

Commerce Ministry Split Up

BIFURCATION of the Commerce Ministry is not, perhaps, as strange as the bewildering rearrangement of this bifurcated Ministry. Some will argue that the division of the Commerce Ministry into two separate Ministries of Heavy Industry and Consumer Industries reflects the second Plan's overall industrial policy. Development of heavy industries is one of the major aims of the second Plan. A separate Ministry for Heavy Industry is, therefore, understandable. In due course, the Ministry of Iron and Steel may be fused with this Ministry. But it is difficult to appreciate the logic behind amalgamating the Ministry of Heavy Industry with the Home Ministry. There may be some sense in integrating the former with the Defence Ministry. Nor is the present arrangement justified on the ground that the Home Ministry is the main Ministry concerned with location of industries. No less surprising is the dovetailing of the Ministry of Commerce and Consumer Industries with the Works, Housing and Supply Ministry.

Neither the principle of mixed economy nor the second Plan's emphasis on heavy industries nor its concern over adequate supplies of consumer goods to combat inflation explains the queer rearrangement of the bisected Ministry of Commerce and Industry. But the regrouping of portfolios indicates a hidden pattern which deserves emphasis. Despite the formation of new portfolios and their regrouping, there is greater concentration of power and responsibility in the hands of a few Cabinet Ministers. Sardar Swaran Singh and Pandit Pant will be assisted by able lieutenants. But the economic policy of the Cabinet will be formulated by two Cabinet Ministers under the guidance of the Prime Minister. These three Ministers will function as the Economic Committee of the Cabinet. In all democratic countries, the Cabinet has such an inner Cabinet. Shri Chintaman Deshmukh's resentment at the existence of such an inner circle within the Union Cabinet has been widely commented upon. Some parliamentarians like Pandit Kunzru are opposed to this trend in the Cabinet system of government. This raises a major issue. But democracy has not yet discovered any solution to the problem that is posed by the issue under discussion.

Another International Lender

THE WORLD BANK has to work under a serious handicap; its loans made to the private sector must have a Government guarantee. This, according to the Bank, "has discouraged private borrowers who often fear that a Government guarantee might lead to State interference in their business" (IBRD Report for 1954-55). The Bank has tried to overcome this difficulty by sponsoring such institutions as the Industrial Credit and Investment Corporation of India (ICICI) in India and Industrial Development Bank in Turkey. Funds are originally made available to these institutions on the guarantee of the Governments, but their subsequent financial operations are free from Government control. This method has, however, been found to be inadequate to meet the needs of the private sector. Hence the International Finance Corporation which formally came into being in July last.

The Corporation has now published an outline of its functions and activities for the guidance of those who want to apply for assistance. It will extend financial assistance directly to private parties, without the guarantee of the Government

of the countries concerned. It will invest in productive private enterprise in association with private investors; it will serve as a clearing house to bring together investment opportunities, capital and managerial experience; and it will help to stimulate investment of both domestic and foreign capital.

The Corporation, however, is not completely dissociated from the Governments. For, in the first place, the membership of the IFC, which is an affiliate of the IBRD, is open only to member-countries of the IBRD and the initial capital has been subscribed for by the Governments of member countries who have joined the IFC. Not all members of the IBRD have joined the Corporation yet, but most of them will. The President of the World Bank is "ex-officio" the Chairman of the Corporation and the Offices of the Treasurer, Secretary and Directors of Administration and Information are held by the corresponding officers of the World Bank. Secondly, the IFC will not make an investment in a member country, if the Government of that country has any objection to it. This is in order to assure the Governments concerned that whatever planned development they may be contemplating, will not be interfered with, by expansions which they may not desire.

Another feature of the IFC's assistance is that it will not be restricted to payment for any specific goods and services and therefore to the foreign exchange requirements alone of the enterprise. The IFC funds can be freely used by the enterprise for its business purposes. This latitude in the matter of convertibility of currencies indicates considerable alleviation of the shortage of particular currencies.

The IFC, however, will make investments in any form except in capital stock or shares. Normally, its assistance will not be in the conventional form of loans carrying fixed interest; it will provide venture capital, with rights to be negotiated in the light of circumstances, which may include the right to participate in profits of successful projects. Security will not be always insisted upon. The IFC will, on the one hand, augment its funds by selling its bonds and on the other hand, revolve its funds by selling its investments when such sales are profitable. The lower limit of its investments will be of US $100,000 in a project of at least US $500,000. This is actually lower than the limits which the Indian Finance Corporation and the Industrial Credit and Investment Corporation of India have set for themselves. There is no upper limit, however, to its loans though the IFC would prefer a large number of moderate investments to a small number of big ones.

How do these functions compare with those of India's IFC and ICICI? The former makes only loans with fixed interest rates; the latter is meant mainly to under-write new issues and subscribe to shares of existing companies, thanks to the interest free loan given to it by the Government. The International Finance Corporation's form of assistance seems to lie somewhere between these two forms. Since it will neither give conventional loans nor invest in capital stock, it is not clear, from published literature, what exact form the Corporation's assistance will take.

The headquarters of the Corporation will be in the World Bank Offices. Robert, L Garner, Vice-President of the World Bank, and J G Beevor, former Managing Director of Commonwealth Development Corporation, are its President and Vice-President. The IFC Charter provided that a minimum of 30 members with $75 million subscription would be necessary before the Corporation came into existence; it has now 32 members together subscribing $78.4 million. The authorised capital is $100 million to be subscribed by members in proportions detailed in the Agreement. India's subscription amounts to $4.43 million.

Tea fare

WE are not amused, writes a Calcutta correspondent, commenting on the press release on the Report of the Plantation Enquiry Commission on Tea alone, which runs to 21 odd pages. The Commission was appointed early in 1954 to report on the main plantation industries—tea, coffee, rubber and cinchona, within six months! This was later extended from time to time, and now the Commission has submitted its report on tea only, after more than two years. The rest of the report covering the other plantation industries will presumably follow in due course. The questionnaire circulated by the Commission was very comprehensive, and it is understood that the response was encouraging. Many are eagerly waiting for the full report where the information collected from different sources—producers, brokers, shippers and agency houses—would prhaps figure for the first time.

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The press release on tea swarms with dozens of recommendations, and there is little to guide the reader in the way of presenting the broad picture to which they are to contribute. The responsibility rests to some extent on the wide terms of reference of the Commission. These were: to make a comprehensive enquiry into the economic conditions and problems of the tea, coffee and rubber plantation industries, and to make recommendations on the measures to secure a fair price both for the producer and the consumer, for the provision, if necessary, of finance for these industries, for suitable marketing arrangements and for the development and expansion of the plantation industry. The Government expects informed criticism, yet the press and the public have to comment on what has been handed out to them.

As far as can be ascertained, the main recommendations of the Commission are directed towards reducing the cost of tea to the ultimate consumer, as the future of the industry depends on this. At the garden level, two of the largest items of cost are "general charges" and "payments to labour". Regarding the former, the Commission has recommended a reduction in the remuneration paid to managing agents and secretaries, abolition of the commission paid to managers and others) it has suggested, instead, payment of a consolidated salary), and increasing Indianisation of the managerial cadre. Perhaps the new Companies' Act has taken care of some of these items of cost already.

Some cost data relating to Indian estates on the one hand and non-Indian—sterling as well as rupee—estates on the other are given, showing that the latter produce at a higher cost. Quite apart from the fact that the respective categories may have had exactly opposite motives to deflate and inflate their cost data submitted to the Commission, that they often have quite different practices regarding wages and labour amenities, and the maintenance of the garden and machinery, it would perhaps be accepted that the non-Indian estates produce, by and large, tea which fetches a better price than the tea from Indian gardens. But this will tend to be ignored in discussions in the Press and Parliament.

Estates are also to try to bring down costs by increasing labour productivity, and reducing absenteeism. The press summary does not say how this could be done, but the task bristles with difficulties, not a few of which arise from the labour laws and the Plantation Labour Act.

Next to production costs at the garden, marketing costs comprises a big slice of the cost of tea to the consumer. This latter has many components—transportation, auction, blending, packing etc., for some of which the Commission has made detailed recommendations. With regard to packing, it has recommended that the Tea Board should make a special study of the difficulties from which the smaller packing firms are suffering, so that positive steps could be taken to increase their competitive capacity. It has suggested that the production of existing concerns as well as of the units which may be set up hereafter should be freezed at the average of the last 3 years production or 6 million lbs, whichever is higher—a la mills vs handlooms. But more is to come. Since hygienic considerations demand that the consumption of loose tea should be reduced, if not altogether abolished, the Tea Board is to come into the field of marketing dust tea, with a distinguishing label. These are commendable ideas, if only they can be worked out. But how far do they square with the objective of reducing costs?

Package and Loose Tea

THE Commission has recommended the abolition of the differential excise on package and loose tea at four annas and one anna per lb respectively, and a reversal to the rates ruling before April 1953, when all teas paid 3 as a lb. Apart from the consideration that this will rob the gardens of the benefit they were enjoying at the lower rate of excise, this measure is certain to raise the price to the largest body of consumers. About one-half of the internal consumption is in the form of loose tea which will bear two annas more duty, if this recommendation is accepted. Government may explore the possibility of levying differential excise on low priced dust teas and higher priced leaf teas, instead of the specific duty of 3 annas a lb. irrespective of quality. There may be a partial relief, if Assam and West Bengal can be persuaded to accept the Commission's recommendation to remove the transport and entry taxes respectively of one-anna per lb. in each case. But persuation is going to be difficult as both taxes bring in quite a few crores.

What about Fair Price?

THE Commission has commented on the concentration of control of production and trading in the hands of a few large agency houses. But what exactly it proposes to do or how it views this concentration is not clear from the summary. Only with regard to blending and packing it has recommended a freezing of the level of the two large houses at the figure of last 3 years' output. Some references are also made to the relative position of the Indian and non-Indian groups with regard to assets and reserves. Without knowing how these were arrived at, it is not possible to understand the significance of these references. Perhaps, the report will throw light on this.

An important recommendation relates to the setting up of a Tea Replanting Fund, for the maintenance and replanting of tea bushes. Replanting has so far been tardy, and each garden, it is recommended, should be required to lay aside every year a sum provisionally estimated at Rs 50 an acre, assuming that it costs Rs 3000 in all to replant an acre, including cost of tending it for 5 years before plucking, and that the economic life of a tea bush is 60 years. This is put forward more as a notional figure, and the Tea Board is to work out the appropriate figure. The obligation to contribute to this fund would presumably take into account the contributions already made by gardens towards depreciation reserves, and areas already replanted by them since the last war. Actually replanting and replacement since the war have been in no small measure responsible for the increase in production witnessed in recent years. At an average yield of 1000 lbs an acre, the contribution to this fund will work out to very nearly an anna a lb of tea produced on the garden.

There are plenty more recommendations, e.g. for financial help to the industry, particularly bank finance, and regarding measures to improve the transportation system. But one searches in vain for the Commission's definition of what constitutes "fair" prices in relation to its findings on measures to secure a "fair" price for consumers and producers. This is not fair.

A Calcutta Diary

Bengal for Bengalis

ONE knew it was coming, and one said so in this diary. The West Bengal Government has now asked mercantile firms, almost all non-Bengali in ownership and management, that they should give preferential treatment to young Bengalis in the matter of employment. The Chambers of Commerce have been addressed in the politest terms, terms not wholly in tune with the temper of the State. The communication has issued from the Department of Labour, which suggests that the employment wanted is in lower rungs of commerce and industry where economic considerations usually dictate local recruitment. Again, it may be no more than good manners, but the Government says, "The State Government cannot counter it (the general feeling on the part of a large section of the people that Bengali claims to employment are not considered by all employers with the sympathy which they might expect as the children of the soil) effectively without an assurance from employers that this impression has been created more by a sense of frustration than by the general prejudice of any employer." It is not unfair to deduce from this a governmental disinclination to accept the grousers' case in toto. A more uncharitable, though not necessarily less correct, interpretation is that all the Government wants is some sort of an answer to the Bengali complaint. It is not difficult to see where the mercantile firms will put this letter: the waste paper basket.

A word, first, on the method. To be fair to Writers' Buildings, it is the Government of India which first went into this question of the employment of nationals in a strangely insincere manner. One remembers the first time Mr Nehru addressed the Associated Chambers of Commerce; to conceal his nervousness, he was smoking from a Marlene Dietrich holder all the time and some of the "No Smoking" notices could hardly be read for the smoke he emitted. The nervousness of the British business community was greater, and soon was launched a campaign to recruit Indians. (It may be no more than a coincidence that a number of boys with Ministerial or Secretarial connections got in.) In the years which followed the Government of India seemed steadily less tough, and in some of the secret circulars the managing agency houses started speaking of the need to maintain "the British character of British business". There were angry questions in Parliament, chiefly from the Communists, but it was by then clear to British business that the Commerce and Industry Ministry's questionnaire was meant more to "counter" (the Government of West Bengal's term) Opposition criticism than to enforce a change in the ways of British business.

The West Bengal Government's is a more difficult case; it wants the employment not of nationals but of Bengalis, of children not of the soil but of a particular State. Easily understandable is the note of diffidence. Hence the almost apologetic reference to the "impression" that there may be a prejudice against Bengali applicants. Hence the defensive reference to what certain other States have done in this matter. Hence the mention of the influx of refugees, of the State's own inability to provide more jobs. Hence, too, the rather mean reference that there may be "undesirable consequences and complications" if employers do not take steps to remedy "the growing resentment."

The resentment is real, based on the wholly inadequate share the Bengalis enjoy in the economic life of the State, in part the reciprocal of resentment elsewhere—and entirely useless. Left to itself, commercial employment flows into the lowest planes, drawn by the laws of economics. If local labour seems to us the natural thing, it is because it is cheap. If even manual labour is sometimes imported, as in the plantations in Assam and the factories in West Bengal, it is because the employers found local labour unavailable or uneconomic. Bengali labour was once the former; now it seems the latter, in terms of output, if only because existing labour has the advantage of having started early. Replacement cannot be a painless process, but the Bengali will be on strong ground only when he is able to apply the economic argument in his favour. Government compulsion will be resented, resisted, and finally revenged by Governments in affected States —thus starting over again the vicious process of which West Bengal's latest measure is an effect. Let the Bengalis offer themselves in larger numbers for factory work, and the employers will before long see the Bengali is not averse to mechanised work; while there is not a single Bengali rickshaw-puller in Calcutta, in the suburbs, where cycle-rickshaws are permitted, they are run mostly by Bengalis about whom the only thing non-Bengali is that they sing Hindi film songs.

It is perhaps true that of late there have been incursions into jobs hitherto held by Bengalis. Non-Bengali ownership of business was bound to place the higher levels of employment beyond the reach of the Bengali; the only answer to this is for Bengalis to get into independent business, which the Government can do much to asist by the provision of capital. There are scores of small trades now monopolised by non-Bengalis; pan shops are Bihari, sanitary plumbing is Oriya. It is not very dignified of a State Government to prostrate itself before business; worse, it can never be effective. If the Government were serious about the problem—and not merely about criticism—it would have directed its attention to the expansion of business possibilities for Bengalis. It is by competition the non-Bengalis came; it is by competition they can be sent back.

Forget this, bring irrelevances in, and you will neatly fall into one of the two common errors, both respectable and arguable up to a point. Immediately on the publication of the Government's circular to firms one lot of correspondents wrote to say it had "come none too soon," and another to say how "unfortunate" it all was. The former quoted the shocking figure, official, that mill workers alone were sending Rs 5.51 crores out of the State. The others' citing of the high principle that "employers recruit only those they consider best" disguises a deal of hypocrisy; both Bihar and Assam are bad discriminators. Pity, the Congress sanctioned this in 1938 through a committee presided over by Babu Rajendra Prasad, now Dr Prasad, President of the Republic of India.

Nobody, bar none, has a right to have half a brick at West Bengal for going the way of Bihar and

Assam and perhaps some other States—which is not to say that the Bengali's belated answer to some others' delayed response to the once natural Bengali predominance in the services is either morally right or economically adequate. The Centre, so vocally concerned about the unity of India as to see a threat to it behind every bush, seems strangely indifferent to the inter-State rancour this question of employment is creating. It is the Centre which can easily render it unnecessary for West Bengal to be restrictive, simply by making it clear to all its units that nobody can be discriminated against in any part of the country. And by seeing to it that no State in fact discriminates. All this, however, is a far cry from average Congress thinking; an interesting and typical instance of this is that the Kosi Project will not employ D V C's surplus staff, nor any old Bihari, but only North Biharis.

—Flibbertigibbet

Letter to the Editor

DEMAND FOR FOODGRAINS

I WAS expecting Sri A Rudra to reply my letter (in your issue of August 11) by giving some factual data in support of his contention "that the elasticity of the foodgrains cannot exceed 0.3 or 0.4 for the whole of India". Instead, he has chosen (in your issue of August 25) to doubt the quality of the admittedly imperfect data that I could supply. The data given was only intended to give an idea of the magnitudes involved and not as an exact estimate of them.

However, I am giving below another table from the Agricultural Labour Enquiry (Vol 1—All India p 231).

Economic level of living	Expenditure per consumption unit	Quantity of cereals & pulses consumed per consumption unit
(in Rs.)	(in Rs.)	(in oz.)
0- 50	44.7	8.8
51-100	79.8	14.2
101-150	122.2	18.9
151-200	170.3	23.4
201-250	216.3	26.7
251-300	261.7	29.6
301-350	306.6	34.1
351 and above	411.8	47.9

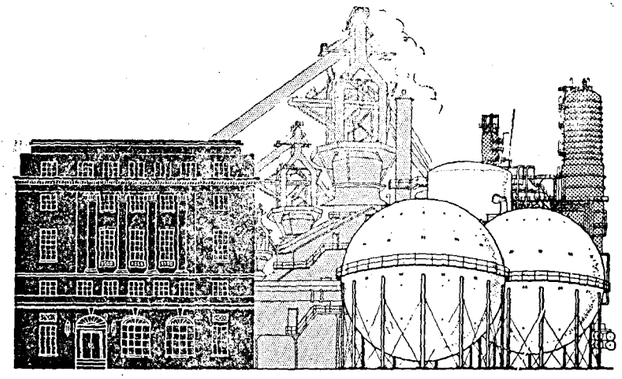
Elasticity = 0.7

It gives the quantity in ounces of cereals and pulses consumed per consumption unit per day according to 'economic levels of living'. It excludes however the perquisites given to the Agricultural Labourers. As the quantity of the perquisites may be proportional to the total number of days worked and thus to the total wages earned in the year, the estimate of elasticity calculated below is expected to be an underestimate.

Would Sri A Rudra kindly let us know the data on which his statement regarding the demand elasticity of the food grains was based? It will be a matter of great satisfaction if his statement is more in tune with facts of the Indian situation than my pointers or the estimates of the Planning Commission, as that would make the task of planning so much the easier.

A Statistician

Poona
August 31, 1956



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Off the Record

Assam Stakes its Claim

A COUPLE of incidents—this time unconnected with the Naga revolt and NEFA—have brought Assam again into the limelight. The one that got headlines in the press was about the disturbances in Gauhati when the Minister of Natural Resources visited it. The occasion of the Hon'ble Minister's visit was considered so important that the meeting of the Legislative Assembly at Shillong was postponed. Rarely, if ever, has such deference been shown to a Minister, and a minister without Cabinet rank at that. Shri K D Malaviya would have been happier had less attention been given to him. But who would leave him in peace? The location of the refinery for the newly found oil remained to be decided and Assam wanted him to know that it had made the decision. This was the culmination of an agitation which has hardly ever been reported in the papers outside the State. Assamese are naturally proud of their oil and for many months, meetings have been held all over Assam, in towns, big or small, and even in villages, protesting against the proposal of setting up the refinery in Calcutta for refining Assam oil. If a pipeline were to be laid for taking out oil from Assam to some other State, then the people would take the matter into their own hands and obstruct it by every possible means. It would be an unwarranted interference with the exploitation of the natural resources of the State meant for the benefit of the people of Assam. The threat has been held out that the pipeline would be torn up and destroyed.

About the refinery and the new finds of oil generally, the main controversy has been about the share of the Government in their working and exploitation, whether this share was going to be only a third or whether the Government was going to insist on holding 51 per cent of the capital in view of the revised Industrial policy which reserves refineries to the public sector. The only technical problem that has been discussed so far—it is really a question of the most advantageous form of organization—is that of separating production, transport by pipeline and refining and forming three different companies for the purpose, in the capital of which Government holding may differ. But the relative advantages of refining in Assam, or locating the refinery in Calcutta has never been seriously debated. This is for the very good reason that modern practice all the world over is to establish refineries in the consuming areas, instead of at the source of oil production. This tendency is sharply opposed to the general one of locating processing where the raw material is to be found, which is usual in the case of most industries. There is another consideration. A refinery involves heavy capital investment and it will be taking too big a risk to make it depend on the supply of oil from a single source. The reason is technical—oil wells sometimes dry up without giving advance notice. For, subterranean oil-flows are irregular and may change their course in an unexpected manner. This alone weighs the decision in favour of locating refineries in port towns which can draw their supply of crude from many sources, if need be, even if economic considerations, which also favour this decision, are ignored. But economic and technical considerations are in a world apart. They can hardly touch local feelings or sway popular movements. Malaviyaji promised the refinery provided there are no insurmountable technical difficulties. A technical committee has subsequently been announced to examine whether there are any!

The people of Assam, in this context, means, of course, primarily the people of the Brahmaputra valley. Surma Valley or Cachhar may also like to have the refinery located in Assam; so would perhaps the people of Khasi and Jayanti Hills and many other tribals who constitute not an inconsiderable proportion of the population of the State. They may also have a similar pride in their natural resources and may not be wanting in local patriotism but they have not come forward, so far, to challenge the proposal to establish the refinery elsewhere; neither have they threatened to tear up the pipeline, if such a decision is eventually taken.

The other incident that has come to light, though not in the limelight, has to be studied against this background. From the scanty attention given to it in the press, the incident reported a fortnight ago, from Cherrapunji colliery where the local Khasis objected to the stationing of a police force, would appear to be a very minor one. After all, a brush with the police, particularly in a mining area, is not an unusual occurrence in these days when people are naturally less hesitant than before in asserting their rights and are no longer, rightly again, overawed by authority. No police action is reported, no firing or no loss of life. Nevertheless, the circumstances which led to this incident are worth studying.

Coal occurs in many parts of Assam. In the Geological Survey map of Assam which, by the way, is many years out of date, as many as 14 coal fields are marked. Deposits have been located in the Garo hills as well as Khasi and Jayanti hills; besides, there are several fields in upper Assam. But the total output of coal in the State has not yet come up to a sizeable figure to merit its inclusion in the All-India returns of coal production published by the Chief Inspector of Coal Mines. This does not, of course, dispose of the problem of coal in Assam.

According to **India's Mineral Wealth**, coal has been known at Cherrapunji since 1815 and small scale mining has been carried on since 1834. Khasis, however, fondly believe that they have been using this 'stone charcoal' ever since they have been Khasis. There are several occurrences of coal in the Khasi hills. The area leased to Cherra Chattak Ropeway Company Limited at Cherrapunji covers only some 1600 acres. This company which has been mining this coal since 1935 used to transport its coal by ropeway to Bholagunj and thence by boat to Sylhet. The quality of coal is reported to be good, it is 'strongly caking' and has a low ash content. Gillanders resigned their managing agency of this company early this year. The company renewed its lease for 20 years in March 1953.

A dispute has been going on among the local tribals and this company over the ownership of the colliery and the High Court had passed an order before the police in-

cident, restraining both the company and the tribal villagers from working the colliery, pending adjudication of the dispute.

The mines are situated a few miles beyond Cherrapunji whose sole title to fame to the world outside rests on its record rainfall which is the highest in any part of the world. From Shillong there is a beautiful motorable road which runs alongside a deep ravine over a distance of some 20 miles to Cherrapunji from which one can get a magnificient view of the Sylhet plains, and of the Miasmi fall. There is a sheer drop of some 2,000 feet or more, a little beyond Cherrapunji. The road to Shillong runs along the plateau winding to the hills. By road and river, as also by railway, Cherrapunji had an outlet to Sylhet. But after partition this has been no longer of any use for the transport of lime stone and oranges in both of which this track abounds. A new road is now being constructed through the hills to connect this area with Shillong and from there to Gauhati. The old road from Shillong, however, goes upto the mine and connects it with the consuming centres for coal—Shillong, Gauhati and to the rest of Assam served by the Assam railway.

Now the people of Khasi and Jayanti Hills, that is to say, the highly civilised tribals, and not the population of the plains who now crowd to Shillong for its salubrious climate, for business and because Shillong happens to be the capital, have definite ideas about their place under the sun. And they are pretty firm in their own minds about it, though they may have not expressed it in the manner in which Nagas are doing, which would make the rest of India sit up and take notice. Among the Khasis, missionaries have done much successful work, large numbers of them have embraced Christianity, mission schools have given them education and Khasis have taken to it as much as anybody else in India. They have still got a Raja though not a very prosperous one, nor with the usual insignia of royalty. The tribal customs are not perhaps as binding on the higher educated and well placed members as they are on the rank and file of the population but by no means have they ceased to exert their influence on them. The Khasis do not accept that they had been conquered by the British. Shillong was given on lease to the British Government, and now that the British have withdrawn, the town should revert to the Khasis. This is the common belief of the tribe. It does not matter much, for there is no agitation for reclaiming this lost legacy but tribal customs have come in the way of the exploitation of the colliery, right from the beginning.

According to it, the local people are free to take as much coal for their own use as they want to. But if coal is to be mined for sale, then the matter requires sanction of the tribe. A licence may be issued to some party to work the mine. Road operators may also be licenced to carry coal from the mines to the consuming areas. All this makes no difference to the question, as the tribals understand it; their coal cannot be taken away without their consent. Not that Khasis, with all their education, do not understand that the coal is a thing the use of which can be confined to their own domestic fuel requirements, without detriment to the interests of their own people. This they realise and they are willing enough to meet the demand on them in a manner which should be welcome, if the framers of the Avadi resolution really believe in what they preach. The people of Khasi Hills would not object to the colliery being worked by their own co-operatives. May be they would not mind assistance in the matter of organising such co-operatives. May be they would also need finance. But the difficulties of organisation and finance will never convince them that their contention is untenable or that they have necessarily to change their conception of property to suit the modern times. There lies the danger. Khasis have not concealed their dislike of others coming to quarry their mines and carry away their coal. That's why an armed police battalion had to be stationed there, which led to the incident. Would they respond to the appeal of larger social interest and welcome State operation of the mine to the private exploitation of which they have protested in such an unmistakable manner?

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From the London End

How To Be Great?

THE suddenness of President Nasser's Suez coup has precipitated in Britain a controversy which is certainly proving to be of the gravest significance to every Englishman and indeed for the whole world "How to be great?"... or more pertinently, how to stem the country's waning "greatness", is the vital question agitating every thinking Englishman today. The fact that the Government itself is not a silent participant and that the two giants of British opinion, **The Times** and the **Manchester Guardian** have adopted irreconcilable positions on how greatness is to be achieved, suggest the considerable possibilities that exist for this matter to be argued in the light of cold reason and calm. And yet the volume of emotion and sentimentality which the question has provoked in all these and other quarters has so clouded the vital issues involved that a new and more desperate crisis has now come to exist—a crisis of nerves and prestige. When the **Guardian** in a recent sharp comment asks whether the country is going to war, it is neither being irresponsible nor naive; the situation has deteriorated with a violent swing of official and influential opinion. And in the emotional build-up to this dangerous posture, bitterness and recrimination is being flung around with abandon: the **Times** went so far as to describe its opponents in terms just short of insult. It quipped at all those who hesitate and question the official line in the words of Disraeli as "cosmopolitan critics, men who are the friends of every country save their own".

The controversy goes much beyond Suez. Britain's whole approach to international and colonial questions is being scrutinised with a view to implementing what is termed a new "vigorous defence of our interests". But it was Suez which had started it all and it is around the question of Suez that the "vigorous defence" concept portends dangerous possibilities. The British Government has moved a large slice of its armed forces into the Mediterranean and has taken the unprecedented peace-time step of putting a blanket on all military information. As the **Guardian** puts it, "the Government seems to be preparing for war immediately if the Menzies' mission fails". And this course of action has been and is being subjected to a considerable degree of questioning among liberal and left-minded people. It has been this questioning that has called forth from the **Times** and the Government (through the Chancellor's recent speech on ostensibly economic problems) the blast that these opponents are guilty of decadent irresponsibility and of being the inmates of what is called the "escapers club". The "escapers" if they had their way, commented the **Times**, would reduce Britain to a "living corpse" as was the fate of Venice. By way of contrast, "greatness" comes when "nations live by the vigorous defence of their interests".

There is the assumption in all this that Britain possesses a preordained destiny to everlasting "greatness" and that any assault on this destiny by the currents of our time is merely extraneous and can therefore be rebuffed by resort to extra-political weapons. Basically it reflects an arrogance and the mentality of the herrenvolk. If this attitude spreads in British ruling circles it can make the British lion take a mad leap into the abyss in a desperate bid to defend what it conceives to be "its interests". Herein lies the tragedy and the danger in all what is being said and done in Britain. **The New Statesman** was quick to remind its readers that the historical lesson of Venice was irrelevant—what was relevant was the attempt of Athens to recover Syracuse resulting in the complete demolition of Athenian military power.

Moments like the present are not conducive to common-sense and reason. The irresponsible mouthing by Ministers and others of terms like "aggression", "fascist", "dictator", etc., had given a ready and immediate acceptance to a not so new jingoist spirit among the British people. The pressures of the Suez group under the leadership of the indefatiguable Captain Waterhouse and Mr. Amery (whose father was of India fame) drove the Eden regime to words and acts from which now emerge the greatest fears: that Britain is in so inflexible a position that she can only make a retreat by some considerable loss of prestige and as one journal put it, "Britain's only asset today is her prestige". There were signs of a return to reason in the second week of the Suez crisis but these signs have now been belied by a raging controversy in which the ruling opinion has come to favour the pursuit of jingoism—of letting loose the Colonel Blimps.

Now when there is some need (in view of the signs of opposition to jingoism) to give intellectual validity to the war preparations, a most searching effort is being made to find reasons which may convince. And the easiest so far has been to dub the opposition as "escapers"—as symbols of a "spirit of degeneracy". The **Times** finds the "escapers" betraying three "strands of irresponsibility". The first "quibbles" about the legalities of the Egyptian action. The next asks whether it would not have been better to raise the matter in the UN. The third strand of irresponsibility enquires whether "we will suffer, any way" by what has happened. To all these strands, Disraeli's quip is the ready answer. And so in what is nothing more than a negative line of reasoning, the call for greatness is made to be dependent on the employment of the ultimate of instruments—war and the threat of war.

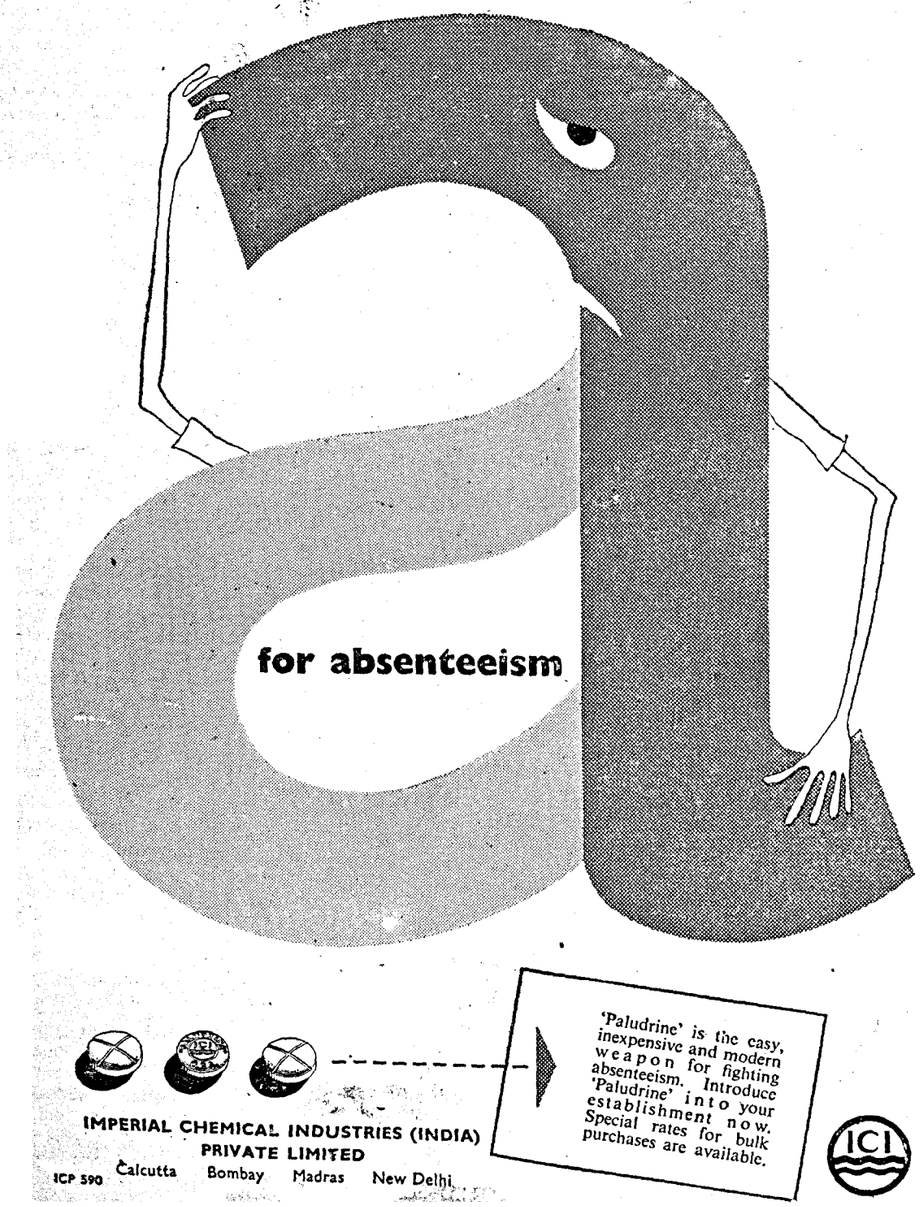
The opposition to this brisk course of action is not so much based on a justification for the Egyptian coup but it takes the character of a questioning whether "greatness" is at all possible when the action canvassed so patently lacks the accepted canons of international morality and further whether the reality of the Middle East situation will not lead to Britain's ultimate demise should a military solution be sought. The arguments favouring these positions are familiar. What is not so familiar is the recognition that Britain's aim to be great is being made to depend on what has been called, "sand". A thoughtful writer in the letter columns in the **Times** recently put this cogently thus:

> "We are told that this is a matter of life and death, that European civilisation cannot continue without access to Middle Eastern oil. If this is true, our house is built on sand. Is it true? Does the character, the moral fibre, the genius of the British depend on a

strip of water....? Or is it the wealth, the ease and convenience that we have taken for granted and assumed to be our right?"

Indeed if history is to provide any lesson at all, it surely is that greatness cannot for long be the achievement of those who are overbearing and who do not serve, of nations who live by the power they exercise over others instead of confining themselves to their own resources.

The gravity of the choice being put to the British people is unfortunately not so widely understood as this. A gallup poll conducted by the **News Chronicle** showed that the majority of the people favoured the actions taken so far by the British Government. It reflects the extent to which the crucial issues have been clouded by the emotional bursts of the Beaverbrook press and the other organs of jingoist opinion. The leadership of the Labour opposition by contrast, present a spectacle of appalling apathy and pitiful dither. After days of warning from the truly great editorials of the **Manchester Guardian** Mr Gaitskell has only now demanded the early recall of Parliament. The apologists of Anglo-American union stand shocked and dismayed at the lack of concern for American opinion and the determination in official quarters to even "go it alone". The Suez question is certainly proving to be the pinnacle on which Britain's greatness is being made to depend.



Means *are* Ends

M L Dantwala

Vinoba and His Mission—Progress of a Pilgrimage—Suresh Ramabhai, Akhil Bharat Sarva Seva Sangh. **V for Vinoba**—B R Mishra, Orient Longman. Pp 78. Price Rs 3.

VOLUNTARY land gifts of more than four million acres and the gift of entire cultivated land of 1,200 villages is, by any token, an achievement which has few parallels not only in the history of land reforms but also in the annals of peaceful social change. Behind this achievement is a story of a Mission and a Pilgrimage whose meaning is much more epochal than is indicated by statistics of land collection and distribution. Shri Suresh Ramabhai has the right and the privilege of narrating the story, because he is not a mere distant observer but an active participant. Shri Ramabhai gives a faithful account of Vinobaji's almost solitary trek from the day the first donation was received in Telangana. The two books are replete with numerous extracts from the speeches and writings of Vinobaji, the philosopher and guide of the movement. No effort, however, has been made to arrange the narration in any logical sequence or pattern. The notings from the author's travel diary appear to have been conglomerated together without much discrimination; the sublime and the trivial have been intermingled. The grandeur of the theme and the sheer chastity of Vinobaji's thoughts, however, save the narration from these incongruities. However, when the author strays from the path of pilgrimage into the highways of politics and economics, he loses the sure touch and mouths only the most pedestrian prejudices. Interpreting the "Gloom" which encircles India, he writes: "In sober fact, the Government of India remains the executive instrument of the class and society which owns the means as well as the resources of production of wealth. The new Republic of India secured political freedom for India as a whole but not for the masses. It continues to be the exclusive preserve of a bureaucracy controlling the production resources .....". Such darkness under the lamp is, however, not unknown.

But, to revert to the Mission and the Pilgrimage, it would be wrong to equate it with a movement merely for redistribution of land. It is a movement for a revolutionary social change; revolutionary because it aims at a psychological revolution in the minds and hearts of the people, in their value system and in their attitudes. It aims at the establishment of a new society—a society based on the rule of love rather than that of law. It will be sustained not by a set of erudite doctrines or by some historical necessity, or by a rigid institutional pattern controlled and operated by a chosen few, whether they be politicians, administrators or technicians. A movement like this has no D-day, for, it is a continuous process: the means are ends, and there is no divorce between the immediate and the ultimate. How is it sought to be achieved? Through post-prayer discourses rather than flag-studded mass meetings; by treks through villages on foot and not by any high-powered propaganda machine. Persons qualify for its membership not by wearing a political uniform or by a ritualistic constructive work, but by an act of participation which in this case is an act of giving, silent and unadvertised. Its task is to end the acquisitive society.

The collection and redistribution of land are only an outward manifestation of a change within. Perhaps, statistics of donations even exaggerate the real change. They may reflect only a momentary onrush of charitable feelings. Vinobaji is conscious of this. He has, therefore, said: "I do not worry how much land I get. My only concern is that the right thought strikes deep root in the hearts of the people". Again, he writes: "The Bhoodan movement hopes to change not merely the outward form of society, but the very outlook of man—a radical change in human psychology". "I want to create an atmosphere of giving in this age of taking, so that non-possession and co-operation in place of ownership and competition may be the basis of life". Yet a philosophy, however good, has to be lived through certain institutional arrangements, the framing of which is the job of a technician acting within terms of reference set by the philosophy. When the philosopher takes up this job, it is likely—as History has amply shown—he may go wrong; and what is worse, the incidental may tend to become as absolute as the essential. Bhoodan is not free from this danger.

Both the books give some valuable facts and information in the Appendices. They give the resolutions passed at the Sevapuri, Chandil and Bodh Gaya sessions of the Sarva Seva Sangh, rules and regulations of land distribution, extracts from State legislations concerning Bhoodan Yajna, figures of land gifts obtained from various States. There are three interesting maps showing Vinobaji's Pada Yatra in Bihar.

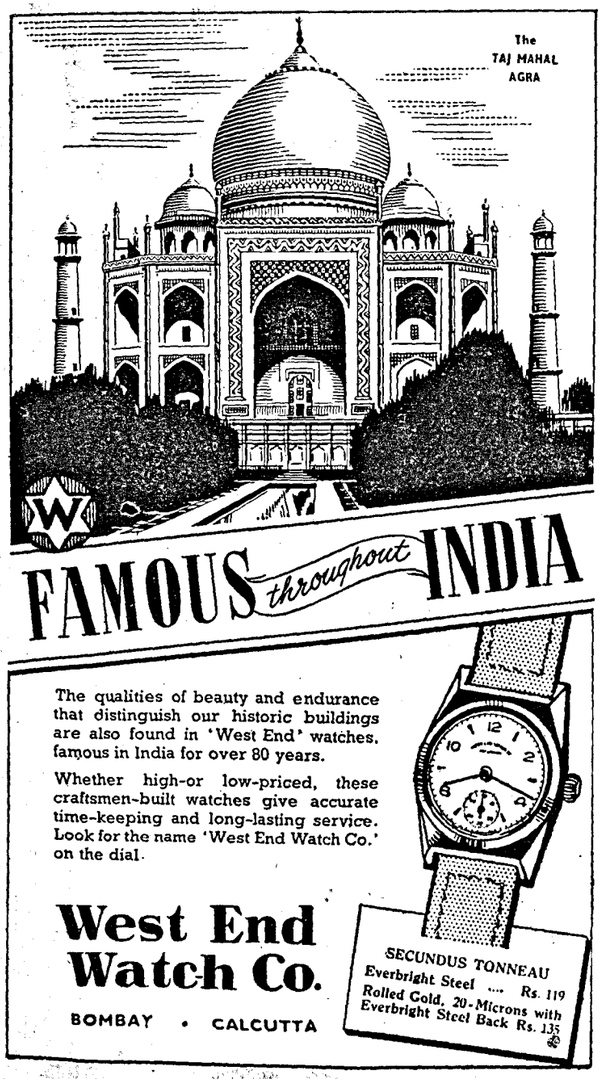
Unlike Suresh Ramabhai who writes as a devotee, Dr Mishra claims to have viewed the Bhoodan Movement as a professional economist. A substantial portion of the book is devoted to the discussion or rather enumeration of land statistics, population and food supply and the livelihood pattern of India's population. The idea appears to be to assess the contribution of the Bhoodan Movement in the context of India's land problem. Apart from the assessment of Bhoodan's contribution, the diagnosis of the economic problem by the author is somewhat elementary and at places of doubtful quality. The author believes that "through voluntary land gifts .... an underveloped country can rapidly transform its economy with an unprecedented tempo, a transformation unaided by capital which is usually needed for payment of compensation". According to him, "the most arresting fact about India is that her soil is rich and her people poor. India possesses vast, potentially rich natural resources, but the masses are extremely poor". Having shown that "we cannot expect to get per capita more than a square plot of land, measuring a little more than 100 yards from north to south and from east to west", he comes to the rather strange conclusion that "the Bhoodan Movement offers a solution for the future agrarian revolution in India through an equitable land distribution".

One whole chapter is devoted to the "Livelihood Picture" in India.

Its relevance to Bhoodan is brought out in the last sentence of the Chapter which states: "This shows that quite a large number of people do not possess any land at all. The Bhoodan Movement aims to provide land to the landless labourers". Similarly, concluding the Chapter on Population and Food Supply, the author observes, "Self-sufficiency in food can only be attained through mechanised collective farming, the introduction of which depends upon an agrarian revolution through the Bhoodan Movement". The economic analysis given above and the contribution which the Bhoodan Movement is assumed to make to the solution of some of the problems mentioned therein appear to be somewhat dubious and may not be shared either by economists or Bhoodan workers.

The author appears to favour some sort of collective farming as practised in Russia, with the difference that it should be accomplished on a voluntary basis. He is convinced that "the agrarian revolution in Russia which remarkably increased the productivity of land is due to collective farming". Once again it is difficult to be sure whether the objective of the Bhoodan Movement is the establishment of mechanised collective farms of the Soviet variety, minus its violence.

The book is very well brought out and contains some very good photographs.



Unemployment in Urban Areas

Wilfred Malenbaum

TODAY there are about 2.5 million persons in Indian cities who are unemployed and are seeking work—almost 10 per cent of the employable population in urban areas. (**Second Five Year Plan, Draft Outline**). These estimate are based primarily upon the results of two National Sample Surveys made in 1953. The 'urban areas survey' dealt with Indian towns of 50,000 population or above, exbluding the four big cities of Bombay, Calcutta, Delhi and Madras. The *other* focused on Calcutta. The results of the first survey are generalized for the 59 million persons or so who are urban, but not living in these four large cities. The results of the Calcutta survey have been applied to the approximately 12 million persons now in these four cities. Finally, the estimates for 1953 have been brought up to date (beginning 1956) by the use of the 1953 relationship between the sample results and the number on the live registers of the Employment Exchanges.

Table I
Urban Unemployment, FEB., 1956

	Urban areas	Four large cities	Total
Total population (millions)	59	12	71
In labour force ..	20.55	4.75	25.3
Gainfully occupied	19.0	3.90	22.9
Unemployed	1.55	.85	2.4
Ratio of unemployed to labour force	7.5%	17.9%	9.5%

Survey ratios of gainfully occupied persons, of labour force and of total population have been brought together, on the current population basis, in Table I. The incidence of *unemployment is much greater in* the large cities of India. This is true, despite the fact that differences in the definition of unemployment in the two surveys make the two specific ratios non-coterminous. In the Calcutta survey, a somewhat less rigorous concept was applied than is advocated by the ILO. (1)

In the urban area survey, information was also obtained on the degree of employment. Thus the number of persons only partially employed was more than 3 times as great as the number actually unemployed. If persons who worked for not more than ¼ of the amount of time they were willing to work are added to the unemployed, the figures are more than doubled. It is probable that at least some of this group of underemployed would have been counted as unemployed in the Calcutta survey. In the discussion that follows, the "unemployed" will refer to the persons and ratios shown in Table I. More correct, however, would be the generalization that at least one out of five members of the urban labour force is today either fully unemployed or underemployed in the sense of having work for "a quarter or less" of the time he would be willing to work. For the larger cities taken alone—the urban areas with the highest rates of population growth—this ratio may be one in three or four.

Urban Labour Force

The bulk of the labour force is male, and in the 16-61 age bracket (Table II) there seems to be a somewhat large participation of young people (under 16 years of age) in the labour force in the smaller urban areas than in the four large cities —about 6 per cent as against less than 2 per cent. This may be a reflection of better, or at least stricter school arrangements in the large urban centers.

There is some evidence in both groups that somewhat larger percentages of the unemployed are below 16 years of age than is the case for the employed. This in part reflects the fact that about half of those seeking work in both areas are seeking work for the first time.

The industrial composition of the gainfully occupied labour force shows significant differences in the two urban areas (Table III). About 40 per cent of the gainfully occupied in urban areas find employment in distributive and other services, while in the four large cities this ratio is above 55 per cent. The large cities have not only much smaller percentages in agricultural and extractive industries (1.2 per cent as against 13.1 per cent), but also a smaller ratio of employment in manufactur-

Table II
Age and Sex Distribution of Labour Force

Age	Urban Areas		Four Large Cities	
	Employed	Unemployed	Employed	Unemployed
0-15 ..	5.7	7.2	1.6	2.8
16-61 ..	91.2	92.0	96.8	95.8
Above 61 ..	3.1	0.8	1.6	1.4
Total ..	100.0	100.0	100.0	100.0
Male ..			93.5	95.9
Female ..			6.5	4.1

Table III
***Industrial Composition* of Gainfully Occupied Labour Force**

	Urban Areas	Four large cities
Agriculture, etc.	11.3	9
Mining, etc.	1.8	.3
Manufactures	31.9	26.1
Construction	3.0	2.6
Transportation, Communication and other public facilities	11.4	15.0
Distributive services	17.8	25.4
Other services	22.8	29.7
	100.0	100.0

(1) A person was unemployed in the urban area survey if he was without work throughout the 30 day period preceding the date of enquiry. In the Calcutta survey he had simply to be unemployed on the date of enquiry. While the two definitions will give different results, and in a known direction, the degree of difference is probably small. (The NSS ninth round (Aug-Oct. 1955) has sample material which will provide some basis for measuring the difference. The results are not yet available.)

ing (26.1 per cent as compared to 31.9 per cent). The data do not permit a separation into factory and small manufacturing establishments —which might explain some of the latter difference. In the large cities, unemployment seems to be spread among all the industrial sectors. In any case, a classification of the unemployed (seeking work **not** for the first time) by their last type of employment gives essentially the same distribution as in Table III. For the rest of the urban areas, comparable unemployment data are not available. However, the under-employed component of the employed suggests the same type of distribution as for the employed alone; there is a somewhat higher incidence of under-employment in manufacturing industries and construction, a lower incidence in the various distributive services.

A large part of the labour force in urban India originates outside of their present place of residence. About 40 per cent of the labour force in the urban areas excluding the large cities came from outside with the intention of remaining for at least one year. In the large cities, this ratio is almost 70 per cent.(1) (Table IV) The figures bear out the strong pressures for migration to the larger cities. There is the same general pattern for the unemployed as for those gainfully occupied, the notable disparity being with respect to refugees from Pakistan. Thus 9 per cent of the employed in urban areas constitutes displaced persons from Pakistan, while 19 per cent of the unemployed are in this category. For the large cities (or at least for Calcutta), 22 per cent of the employed come from Pakistan, whereas 38 per cent of all unemployed are displaced persons. In general, for both urban groups, rural areas provide most of the migrants (apart from those from Pakistan). In general, too, a lower percentage of the unemployed are from rural areas than of the employed.

Worker incomes tend to be higher in the large cities. Thus about 61 per cent of the families in urban areas (Table V) have household expenditure which does not exceed Rs. 100 per month. The comparable ratio for the four large cities is 30 per cent. Only 14 per cent of the families in the smaller cities have total household expenditure in excess of Rs 200 monthly, while the comparable ratio for the four large cities (as shown by the Calcutta survey), places more than 43 per cent of the families in this expenditure groups. The situation is also borne out by the income distribution of gainfully occupied persons in the two groups of urban areas (Table VI). 86.5 per cent of all the gainfully employed in urban areas has a monthly average income not in excess of Rs 100/-. For the four large cities only 69 per cent of the gainfully occupied has a monthly income not in excess of Rs. 100/-. Tables V and VI also suggest that there is a larger number of workers per family in the large cities as compared with the rest of the urban area.

(1) It is not certain how typical are the Calcutta results on migration for the other three large cities. Calcutta has always attracted large migrations from neighbouring states. Also, the partition of Bengal may have resulted in an abnormally large influx from the East.

Table IV

Migration Status: Urban Labour Force

	Urban Areas		Four Large Cities	
	Employed	Unemployed	Employed	Unemployed
Non-migrants	59	57	31.5	38.6
Migrants	41	43	68.5	61.4
Rural area same state	19	14	11.6	7.2
Urban area same state	6	4	3.2	2.3
Rural area other states	5	3	25.2	10.0
Urban area other states	1	2	4.9	3.2
Pakistan	9	19	21.9	38.4
Elsewhere	1	1	1.7	.3

TABLE V

Expenditure Class—All Families

H'hold exp. Rs per Month	Urban areas	Four large cities
0- 50	24.5	7.4
51-100	36.4	22.4
101-200	25.4	27.3
201-300	7.9	18.8
301-500	4.2	16.0
501-	1.6	8.1
	100.0	100.0

TABLE VI

Income Group Gainfully Occupied

Rs. per month	Urban Areas	Four large Cities
0- 50	61.1	32.0
51-100	25.4	36.9
101-200	10.2	19.3
201-300	2.1	6.4
301-500	.7	3.0
501-	.5	2.4
	100.0	100.0

Urban Unemployed

The unemployed seem to have a higher educational status than do the employed. (Table VII). There is some evidence too that the technical qualifications (on paper) of the unemployed is somewhat superior to that of the employed (Table VIII). A few figures will illustrate this: 48 per cent of the employed in urban areas is illiterate; 43.1 per cent is literate but below the matric level. Over 91 per cent is thus below matric. Only 21.6 per cent of the unemployed is illiterate and 60 per cent more (a total of 82 per cent) is below matric. Almost twice the percentage of the unemployed in the 'urban areas' has matriculated or has higher education than is the case for the employed.

Essentially the same is true for the large cities, although the general educational level seems somewhat higher. Thus, only 25 per cent of the employed is illiterate and 53.5 per cent more is literate below matric. Of the unemployed in these four large cities, some 10 per cent only is illiterate and 63 per cent more is literate below matric. In Calcutta, there seems also to be some evidence that the more educated have been longer unemployed. Thus, of the illiterate unemployed, some 57 per cent has been out of work for a year or more. The ratio is higher for the higher educational groups. In particular, among matriculates and people of intermediate level who are unemployed, more than 75 per cent have been unemployed



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TABLE VII

Educational Status: Employed and Unemployed

	Urban Areas		Four large cities	
	Employed	Unemployed	Employed	Unemployed
1. Illiterate ..	48.2	21.6	25.0	9.9
2 Literate below Matric	43.1	60.2	53.5	63.4
3. Matric ..	5.7	13.1	11.1	18.3
4. Intermediate ..	1.4	3.0	4.6	5.6
5. Graduate and above	1.5	1.9	5.8	2.8
6. (Not reported) ..	.1	.2	—	—
	100.0..	100.0	100.0	100.0

TABLE VIII

Technical Qualifications: Employed and Unemployed

	Urban Areas		Four large cities	
	Employed	Unemployed	Employed	Unemployed
1. Nil ..		61.3	71.4	67.4
2. Practical, no training		34.4	20.1	22.4
3. Certificate or diploma (in typing, midwifery, pharmacy, etc.) ..		2.9	2.3	4.4
4. Degree or equivalent in Engineering, etc ..		1.4	6.2	5.8
		100.0	100.0	100.0

TABLE X

Industrial States Labour Force

	Urban Areas	Four large cities
Employed:		
Employers ..	1.3	1.8
Employees ..	50.5	52.5
Own-account worker ..	32.8	24.5
Unpaid household labour	7.9	3.3
All gainfully employed	92.5	82.1
Unemployed:		
Seeking work for first time ..	3.4	9.6
Seeking work not for first time ..	4.1	8.3
Total unemployed ..	7.5	17.9
TOTAL	100.0	100.0

TABLE IX

Types of positions sought

	Urban Areas	Four large cities
Own business	25.4	14.5
1. Agriculture, etc	1.7	2.2
2. Manufacturing and handicrafts	7.5	2.8
3. Trans. service	2.4	2.9
4. Trade	8.9	5.6
5. Profess. financial	4.9	1.0
As Employee—		
Manual	39.6	43.4
1. Unskilled ..	25.0	29.4
2. Skilled ..	14.6	14.0
As Employee—		
Non-manual	35.0	42.1
1. Admn., Executive, Clerical ..	16.6	26.5
2. Technical ..	4.5	9.0
3. Medical ..	1.4	.6
4. Teaching, Law, *etc* ..	4.2	3.0
5. Others ..	8.3	3.0
	100.0	100.0

TABLE XI

Unemployed and Registration

	Urban Areas		Four large cities	
	Total	Matric & Above	Total	Matric & Above
Registered ..	27.0	43	23.0	34.4
Non-registered due to ..	73.0	57	77.0	65.6
Ignorance ..	37.9	8.3	27.3	3.8
Lack of faith ..	11.4	19.0	36.0	47.3
Indifference ..	4.6	7.2	4.2	5.3
Ineligiblity ..	2.5	—	2.6	1.1
	1.0	3.6	3.1	3.3
Other reasons ..	15.6	18.9	3.8	4.8

for at least a year. The ratio declines for graduates and above.

The unemployed seek jobs, rather than business opportunities of their own. This is particularly true in the four large cities. Here 85 per cent of the unemployed labour force seek employment, roughly half as manual workers, mostly unskilled, and half as non-manual workers, mostly in administrative, executive and clerical posts (Table IX). For the other urban areas 75 per cent of the unemployed seek employment—again, roughly the same kind as in the large cities. With respect to those seeking their own business opportunities, roughly a third in both cases wanted to establish their own trading business. As compared to the 42 per cent of all unemployed in the four large cities who sought white collar employment, 90 per cent of the educated unemployed (matriculates and above) sought work in this category. And 2/3rds of these are interested in administrative, executive or clerical positions.

To some extent, the difference in types of position sought as between the two urban groups is explainable by the difference in the employment status of all workers in the two areas. In general, 'own account' workers are a more important part of the working force in the smaller urban areas (Table X).

Finally, the two areas show roughly the same picture with respect to the registration of the unemployed on the employment registers. About ¼th of all the unemployed registered, while 50 per cent more of the educated unemployed registered. Ignorance of the registration procedure is by far the most important reason for non-registration in the urban areas. In the large cities it is lack of faith in the efficiency of this procedure, closely followed by ignorance. For the educated unemployed, the major reason for non-registration is lack of faith; this is particularly true in the four large cities (Table XI).

The Indian and Chinese Plans

Gyan Chand

IN pointing out the differences and similarities between the two plans, Dr K N Raj has some statements about the Chinese plan which need to be carefully examined in order to guard against erroneous conclusions ("The Indian and Chinese Plans', Economic Weekly, Second Five Year Plan Number, June 23, 1956). In order to understand the substance of the two plans it is necessary to take into account not only the statistics of investment, production and income but also their social content, the motive forces and the momentum which they have developed and are developing. Statistics of both the Chinese and Indian plans are in varying degrees based upon somewhat insecure foundations and the Chinese statistics are known to be even less satisfactory than the Indian statistics and it is not possible on the basis of the available data to evaluate their authenticity, validity or comparability. We have, however, to take them at their face value; and if we want to compare the targets or achievements of the two plans inspite of the wide margin of errors in their statistical framework, we have to use available statistics for whatever they are worth, without imputing to them a significance which is not inherent in the facts of the case.

China's Handicap Much Greater

In comparing the two plans we have to take the relative standpoint and realise the serious handicaps under which rehabilitation and development of the Chinese economy had to be undertaken. A complete derelict economy, grieveously damaged by twenty-two years of war and civil war and in a state of utter prostration owing to the after-effects of hyper-inflation, breakdown of the administrative apparatus and sheer material and moral exhaustion, has not only been rehabilitated, but has acquired capacity for rapid growth from within, has provided for almost entirely from its own resources large accumulations of capital and an impressive scale of investment and, what is far more important, has given its people self-confidence, resourcefulness and faith in their stability and future. This result has been achieved in spite of the Korean war, the necesssity for enormous defence expenditure owing to the serious dangers to which China is known to be still exposed and internal stresses due to the legacies of a completely corrupt regime.

We, too, have had our severe post-Independence strains and it is a matter of real satisfaction that we have been able to face and in a large measure overcome them with success. But it is undeniably true that China's ordeals have been much greater, and when we are looking for differences and similarities between the plans of the two countries, we should bear in mind the whole background of the programmes of the planned development of the two countries and take into account not merely its statistical plan-frame but its real meaning in relation to the nature and magnitude of efforts which have gone into its introduction and implementation and to their realized results.

Proportion of Investment

Dr Raj takes the first year expenditure to be Rs 1600 crores in Indian currency and outlay on capital construction Rs 960 crores; and on the assumption that the total national income of China in 1952 was Rs 15,000 crores (according to him calculated on 'somewhat heroic assumptions'), has concluded that the rate of investment of the Chinese economy was about 11 to 12 per cent, after making allowance for increase in investment in later years. Even the total estimate of prospective investments in India are based upon assumptions, which, though less heroic than those of the above estimate of the Chinese national income, are nevertheless speculative in a significant degree. We have no really authentic estimates of Chinese national income which can be taken as fairly valid, and it is not possible to work out independently the proportion of investment to national income.

However, according to Mr Li Fu-chin, Vice President of the State Council and Chairman of the State Planning Commission, proportion of investment in the first Five Year Plan to national income would amount to 22 per cent and not 11 or 12 which is, it is admitted, lower than the proportion in the Soviet Union (25 per cent) but can bear comparison with the latter and also with similar ratios in the Eastern European countries. The basis for this calculation are not given in the report of Mr Li Fu-chin, and it is therefore not possible to check how correct it is; but assuming that this calculation is not far out (and we have no reason to make a contrary assumption), it gives a more dependable basis for comparison than the one which Dr Raj has taken in the statement referred to above. As stated later historical and the existing conditions in the two countries are so very different that any comparison of this sort cannot but have inherent in it serious reservations. It is but fair that the magnitude and scale of China's effort in carrying out her development programme should receive its due appreciation and the reasons why she has been able to rise to the needs of her national economy understood, with insight into the process at work in that country.

In Absolute Terms

In absolute terms the volume of investment in China is even more impressive than the rate of its value to her national income. China has invested (in terms of Indian currency) in construction i e acquisition of production material assets from 1950 to 1955 Rs 10,452 crores and including the estimated expenditure for 1956, Rs 13,534 crores. If it is assumed that the expenditure on construction in 1957 would be of the same order as in 1956—in fact it is likely to be higher—the total expenditure for 8 years (1950 to 1958) may be taken to be Rs 17,000 crores, and in the first five year plan period, about Rs 14,000 crores. The value of Soviet aid during this period (and that is the only foreign assistance which China has received) was less than one-seventh of the total expenditure, which in fact is largely counterbalanced by the aid China has given to Viet Nam and North Korea. Therefore it may be assumed that her total expenditure on capital assets under the First Five Year Plan would amount to Rs 12,000 crores.

This is not, however, her total expenditure on development. Of the estimated expenditure under the plan, construction accounted for 55 per cent of the total development expenditure, and if this proportion is taken to hold good for the actual expenditure, the total planned development expenditure for 1953-1957 may be taken to be nearly Rs 22,000

crores. If the Chinese Planning Commission calculation of the rate of development expenditure to national income is taken to be correct, China's total national income for the plan period may be taken to be Rs 100,000 crores and average annual income Rs 20,000 crores. China, during this period can be taken to have spent Rs 4400 crores every year on development which is only Rs 400 crores less than the development expenditure in the public sector proposed under our plan; and if the investment in private sector is added, development expenditure in China's first five year plan is three times the proposed development expenditure in the second five year plan in India.

Expenditure Matched by Revenue

This expenditure is being almost entirely met from the revenue receipts of the Chinese Government, and more than two-thirds of these receipts are accounted for by the profits and tax-payments of public or semi-public enterprises. There has been no deficit financing in China. All the budgets have been surplus budgets since 1952 and the surpluses have been largely used to build up revolving fund and reduction of bank loan incurred during 1949-50. These are rough estimates, but as no better estimates are available or can be framed, broadly speaking they do give a measure of the accumulation of capital and investment of resources in the Chinese economy.

The Chinese view is that the key to the understanding of the reasons which have made this scale of investment in the national economy possible in China lies in the revolutionary changes which have occurred in the social structure of the country; and that, investment on this scale has involved a large measure of abstinence on the part of the Chinese people, but it has not involved any serious deprivation; and that, in spite of this scale of investment, there has taken place very material improvement in the standard of living and well-being of the chinese people. This view is entitled to serious consideration, and unbiased approach to the development programme of China requires that the factual basis of this view should not be treated with undue skepticism.

Defence expenditure of China has greatly added to the strain of this large-scale investment. The ratio of defence expenditure to total expenditure has fallen from 26 per cent in 1952 to 19.5 in 1956, but in aggregate, the expenditure has increased by nearly seventy per cent during this period and in 1956 it amounted to nearly Rs 1,200 crores or nearly six times the size of defence expenditure in India. Assuming that this heavy defence expenditure is an incident in the risks to which China has been and is exposed owing to the international situation being what it is, its burden is a measure of the surplus for development which could be made available if there is a real and lasting relaxation of international tensions. At present it is an index of the serious limitations under which China is carrying out her development programme, and also a measure of the capacity of her people to contribute to the promotion of their social well-being.

Compare the Targets

The other points made by Dr Raj in regard to the comparison of the two plans also call for examination, but have to be dealt with even more briefly owing to the limits of space. The targets for specific commodities are of importance, but it is desirable to take the quantities and not the rates in appraising the comparative position.

Taking food grain for example, the contrast between the position in India and China is very significant. Even the pre-war output of foodgrains in China was estimated to be 150 million tons. It fell to 113 million tons in 1949, rose to 163 million in 1952 and to 184 million tons in 1956 and the target for 1957 is 192 million tons, an increase of 17.6 per cent above the 1952 level and, what is more significant, by 29 million tons. Our target of production of food grains including pulses for 1961 is 75 millions, which means an increase of 15 per cent or 10 million tons. Even if the target is revised and an increase of 25 per cent is in fact attained, the additional production would be only 16 million tons. India's population is nearly three-fifths of the population of China, but target of production of foodgrains in India four years after the completion of the 1st Chinese plan would be only two-fifths of the output in China in 1957. Targets for the production of cotton, jute, tobacco, sugar cane and beet and oil seeds in China are lower than the Indian targets, but a very rapid rate of increase has been and is being maintained.

Rural Economy Transformed

In assessing the agricultural position, the fact of effective public control over distribution and prices of agricultural commodities in China has also to be taken into account. There are no problems of large-scale hoarding in China, speculation has all but disappeared, prices of agricultural and non-agricultural commodities have since 1951 been stable and regulated with a view to changing the terms of exchange in favour of the agriculturist and what is most significant, 90 per cent of the agricultural households have already joined the co-operatives, of whom over 60 per cent are in the collectives i e socialist transformation is complete in their case and property rights have been practically extinguished.

The content of the agricultural plan for all these reasons in China and India are very different even though percentage increase of production may, in some cases, be nearly the same. The whole rural economy of China has been re-organized, the old relations have been re-placed by now and far healthier relations and new patterns of re-actions, responses and behaviour is being developed. Time will show whether the rapidity with which this change has been brought about means to any extent forcing the pace and use of coercive methods. Voluntary basis of this change is being affirmed and re-affirmed though, it is admitted, lapses in this respect have occurred and are occurring. Assuming, however, that by and large, the transformation is based on consent, its significance from the point of view of conception and execution of the the Plan obviously is profound and it makes all the difference even if the ratios of planned increase in agricultural production are about the same. This change has meant in practice extension of irrigation on local initiative and with local enterprise,large investment not included in national figures of investment and, release of energy and more efficient use of manpower for various projects of local importance and for health, education and other social drives. The new spirit which is at work in the villages of China is, it need not be said, of fundamental importance for economic development but cannot be measured in financial terms. All this is in the Plan, but most of it is in the region of the

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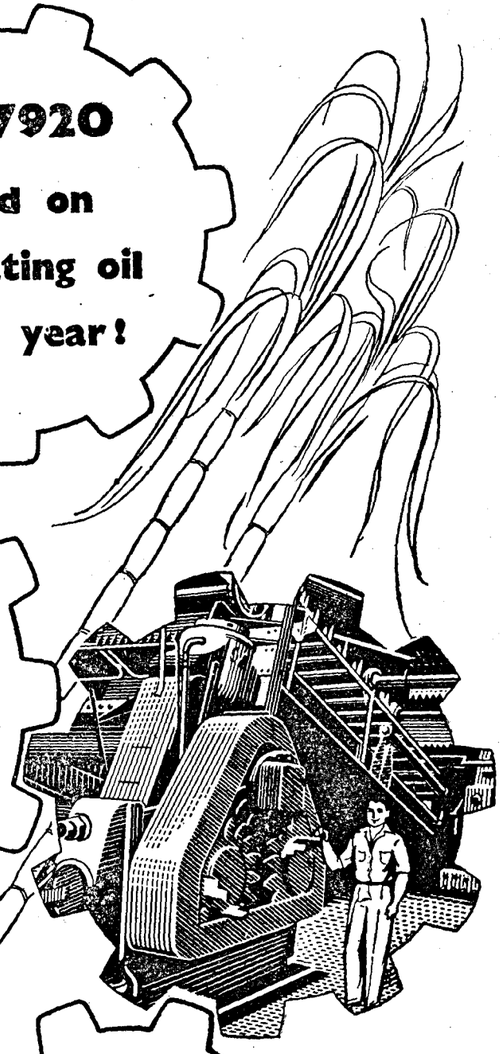
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Pattern of Industrial Development

In comparing the targets of industrial production again, the element of socialist transformation is also of basic importance. The private sector accounted for only 16 per cent of total industrial production in 1955, the rest being accounted for by state (63 per cent), co-operatives (5 per cent) and joint enterprises with effective public control (16 per cent). Private enterprise in March 1956 was further reduced to 8 per cent and by the end of the year it will practically cease to exist in China in her industrial economy and large-scale organized industries would be completely integrated in the socialist economy in the making. The priority scale in India also places heavy industries on top but heavy industries like automobiles, cement, heavy chemicals, sugar, textile and paper machinery are mostly in the private sector and for a long time private enterprise would retain a dominant position in regard to them. Targets of industrial production in the more important industries in China for 1957, as compared with those of India (in brackets) for 1961 are for steel 4.12 million tons (4.3 million tons), coal 113 millions (60 millions), cement 6 millions (13 millions) and mill sugar 0.69 millions (2.3 millions) and mill made cloth 6,520 million yards (5,500 mn. yds.)

There is provision in the Chinese Plan for producing, as Dr Raj has pointed out, tractors, power generating equipment, various types of mining and metallurgical machinery and equipment for setting up integrated iron and steel works. This gives to the Chinese plan an advantage which is sure to give cumulative results of great importance, and the fact that these industries are all in the public sector would, of course, strengthen the regulatory power of the state over the entire national economy. The targets of industrial production for 1957 are, as a matter of fact, expected to be revised in 1956 and the development in China in the next four years would have to be taken into account in order that our level of industrial production in 1961 and her achievements may be really comparable. If the present rate of industrial development is maintained (the rate for the first four years is estimated to be 18.7 per cent) China could very well catch up with India in regard to the industries in which it has to make up the leeway and in major industries like steel, coal, chemicals and machine making, it would be very much ahead of us.

Apart from the fact that public enterprise would be comprehensive in industries, active participation of labour in industrial development, rapid promotion of work to managerial positions in industries, which carry salaries less than one-tenth of the scales common in this country, and geographical decentralisation of industries are other features of the planned industrial development of China which give it a deeper significance from the stand-point of the development of socialist economy. Productivity of labour is rising rapidly and this is due, besides material improvement in technical equipment and planned provision for raising the technical attainments of workers, to the role which has been assigned to labour in the development and operation of industries. Labour not only carries out the programme of development but supervises its implementation and plays an important part in developing technique and reduction and avoidance of waste.

China Co-ordinates Transport

A legacy of the past, communications have been particularly backward in China, but thier importance is duly appreciated. Though in China transport and communications would in the first five year plan account for 19.2 per cent of the total outlay as compared with 28.9 per cent in India's second plan, the total expenditure on this head would amount to Rs 1,640 crores compared with Rs 1,385 crores in India. China is not only going to spend large amounts on communications, but it will utilize them to the fullest advantage and realise a very large measure of co-ordination in the process between different means of transportation. Freight traffic is receiving greater attention than passenger traffic. Even so, the increase in passenger traffic in 1957 as compared with 1952 will be 59 per cent on railways, 78 per cent on inland waterways, 140 per cent on coastal shipping and 300 per cent on motor lorries. Increase in freight on railways would be 100 per cent by 1957, on inland waterways 300 per cent, on coastal shipping 190 per cent, and on motor transport 300 per cent. In India Rs 900 crores out of Rs 1,385 crores are to be spent on railways, Rs 246 crores on roads, Rs 17 crores on road transport, Rs 48 crores on shipping and only Rs 3 crores on inland water transport.

We have not as yet realised the importance of co-ordination in the development of transport and have only come to the stage, according to our Planning Commission, of having the problem examined by an expert committee. In India 842 miles of new lines are to be laid under the second five year plan and 900 miles of national highways are to be constructed. In China 4,625 kilometres of rail line would be completed by 1956 and 13,664 kilometres of national highways. This programme includes the important railway from Lanchow to Sinkiang and the two highways from China to Tibet. Even after the implementation of this programme, China will be more backward than India in respect of communications. Being keenly aware of this, China is carrying out the programme of transport development with vigour and determination and using the available resources with great skill and understanding.

(To be Continued)

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Around Calcutta Markets

Hesitant Trend

Wednesday Evening

PRICE fluctuations in equities in recent days indicated lack of fresh buyers. There has been some sizable set-back in clearing shares. Demand for Jute shares has subsided. Tea shares have, again become inactive. Engineering shares remain quiet but steady. Only Paper shares and some groups of Miscellaneous scrips like Aluminium shares continue to be firm. Easiness in speculative shares is partly due to settlement considerations. As clearing shares climbed down, equities in general turned hesitant.

Apart from settlement considerations, it is somewhat surprising that share values have declined in the last few days For one thing, the Suez Canal crisis persists. The Cyprus build-up is ominous. Though talks are going on between President Nasser and Mr Menzies, the former has made it clear that international control of the Canal is out of the question. At the same time, Mr Menzies has taken pains to emphasize that he has no mandate to discuss any alternative plan for the solution of the Suez Canal crisis.

Canal Crisis

Political commentators do not seem pessimistic about the Canal issue. They have doubts about Egypt's acceptance of the 17-nation plan for international control. But they do not anticipate any armed clash on this issue. For one thing, this is the election year in America. That is why, Washington is so anxious to evolve a peaceful solution of the Canal crisis. Nor does Russia seem interested in fanning war flames in west Asia. But Britain and France seem determined to have international control even at the risk of a war.

May be, Britain and France are hoping that a limited war would achieve the end. It is, futile to speculate whether the Canal crisis would lead to war. But if war starts, it is highly unlikely to remain limited. Arab States are solidly behind Suez. There have been threats of stoppage of oil supplies if Egypt is attacked. Be that as it may, the effects of any war on the Canal issue on the Indian economy are likely to be adverse. That does not mean that stock markets would also be adversely affected. Unlike the national economy, stock markets thrive on scarcity and adversity.

There is, of course, one obvious reason for the current weakness in equities. Increases in excise duties on cloth have had an adverse effect on equities on the Bombay Stock Exchange. Dalal Street's weakness has had a sympathetic effect on Lyons Range. Strange as it may seem, Dalal Street has recovered the lost ground partially. But Lyons Range seems subdued. Higher excise duties on cloth need not necessarily affect cotton mill shares. Cloth prices have risen consequently. So, the profits of the textile industry are likely to be maintained.

Calcutta has reacted unfavourably because it is a big consuming centre for cloth. There have been many public demonstrations here against the rise in prices of food and of essential necessities of life. Dearness allowance of Government employees have been raised. There is demand for a further increase in dearness allowance. Industry apprehends that the rise in cloth prices will further raise living costs; that, this may enhance payments for dearness allowance. Reaction of Lyons Range to higher cloth excise duties is understandable.

Tax Burdens

One of TTK's remarks during the debate on the Bill to raise excise duties on cloth has created some disturbance in stock markets. TTK has hinted that he may have occasion to request Parliament in the future to vote further revenue-raising proposals. That the Second Plan will involve further taxation, is not unknown to markets. But TTK was not referring to this aspect of taxation. His observations indicated that tax proposals in the current budget might have to be supplemented to ensure the estimated revenues.

Strange as it may seem, Lyons Range is behaving true to type. In the last two years, the Calcutta Stock Exchange has repeatedly turned quiet at about the Puja time, and remained subdued for the rest of the year. This year this trend has appeared rather early. It should have made its appearance only after the reopening of the market after the Puja holidays. There is still time for the market to reverse the current trend. There may be a revived spurt in Jute shares. This may lead to a resumption of the upward trend in equities.

Jute Shares

Jute shares have developed an irregularly lower trend in recent days. But jute goods remain firm, while raw jute has softened. This should have had a "bullish" effect on Jute shares. It may still have a sustaining influence on Jute shares, if the trend persists. So far as raw jute is concerned, the immediate outlook depends on developments in Pakistan. Soon, new crop arrivals will start in full swing. Sellers have been less reserved in the last few days. That is why, despite continued mill buying, raw jute prices continue to decline.

After a sudden spurt at the time of the settlement at the beginning of the week, jute goods remain irregularly firm. By the time these lines appear in print, the changes in mill stocks of jute goods during August will be known. Expectations are that mill stocks will show decreases. Data for September are likely to be more encouraging. In the absence of any untoward event, jute goods are likely to continue to be firm. This should have a healthy effect on Jute shares, the more so as raw jute prices may soften further.

Market Outlook

The hunt for small-priced Miscellaneous shares continues. In the latter group, Aluminium shares continue to be firm. Cement shares also remain steady to firm. In the current week, Aluminium and Cement shares have constantly remained steady even on the days when equities in general have eased on occasional "bull" liquidation. These shares are likely to remain steady.

Immediately, market outlook depends on the behaviour of clearing shares. Easiness in these shares has started the set-back in equities. Speculators seem reluctant to lend support to clearing shares. Nor is there much of "bear" selling in these shares.

Around Bombay Markets

Sharp Reaction to Excise Duty

Thursday, Morning

TRADING on the stock exchange during the short week reflected the sharp reaction of the market to the announcement by Shri Krishnamachari, on the eve of becoming the Finance Minister, namely, the heavy increase in the excise duty on all varieties of cloth. Textile shares, particularly shares of the mills producing fine and superfine cloth, were heavily hit by the announcement. Other sections, like steel and miscellaneous, were also bearishly affected. Shares that lost heavily were Finlay, Swan, Century, Kohinoor, Khatau, Bombay Dyeing, Standard and Swadeshi: Finlay slumped from Rs 385 to Rs 355, Swan from Rs 481-8 to Rs 450, Century from Rs 600 to Rs 565, Kohinoor from Rs 595 to Rs 565, Khatau from Rs 286-4 to Rs 255, Dyeing from Rs 695 to Rs 653-12, Standard from Rs 490 to Rs 465, and Swadeshi from Rs 272 to Rs 250. Other Textile scrips too dropped substantially. The weakness in Khatau was accentuated by the announcement of a dividend of Rs 10 per share—the same as last year, as against expectations of Rs 15.

The increase in the excise duty, so argue the authorities, is needed to meet the possible contingency of a shortage of supply in relation to a growing demand, and the consequent rise in prices. The Finance Minister's intentions are, doubtless, noble and praiseworthy; an increase in excise duty, while promising adequate supplies for home consumption, would also help Government to get some much-needed resources for the implementation of the Second Five-Year Plan. This is at least what is expected to follow from Government's action. What actually will happen, however, if past experience is any guide, is that while the duty will fill the Government's coffers (though Government does not claim this as of right!), it is doubtful if it would succeed in bridging the gap between supply and demand which the Government seeks. And as long as there is not enough cloth to go round, the price-trend must perforce continue to be much the same as it has been for the greater part of the period since last Diwali. In fact, a predominant characteristic of this period in the piecegoods markets of Bombay and Ahmedabad was the hardening of the price trend. Naturally enough, the authorities smelt money in this trend. They promptly saw that some mopping up of profits was called for, and, quickly came out with the enhanced excise levy.

What they did not foresee, however, was the fusillade of criticism, particularly that the increased levy would be imperceptibily but surely passed on to the consumer. This goes ill with the socialistic pattern of society. In an economy where demand tends to outrun supply, there are two possible remedies. The more obvious of the two courses would be to increase supply to catch up with demand. The other alternative, though of doubtful efficacy, is to restrict consumption. Raising the standard of living and forced restriction of consumption of an essential necessity like cloth is, to say the least, a sad commentary on the Plan. But, then Shri Krishnamachari thinks that consumption must needs be restricted, and, he is not prepared to step up mill production due to ideological commitments on the handloom front. To effect a harmony between ideology and hard facts, it is good to remember, is as difficult as that of trying to strike a balance between the demand for, and supply of, textiles by higher excise duties.

While addressing the shareholders at the annual meeting of the Bradbury Mills Ltd. during the week, the Chairman, Shri Ramnivas Ruia referred to the increase in the excise duty, and refuted the charge that mills were making excessive profits. In fact, he pointed out that several mills turning out coarse and medium counts were getting a smaller margin of profits than in 1955. Arguing that the trend towards higher prices was due to the supply being unable to meet demand, Shri Ruia pertinently declared that if there was no substantial rise in production the prices were bound to remain at a high level. He suggested that for the guidance of the industry the Government would do well to indicate what constituted a reasonable margin of profit, and what rates it would consider fair in respect of the popular varieties of textiles.

Market News

The Stock Exchange has officially enlisted the shares of the Azamjahi Mills Ltd. and Oosmanshahi Mills Ltd. in the forward list of the Exchange.

The directors of the Industrial & Prudential Assurance Co. Ltd. have recommended a higher dividend of Rs 3-4-0 per ordinary shares for 1955 as compared to Rs 2-4-0 last year.

Estrella Batteries Ltd has declared a dividend of Rs 3 on ordinary shares, and Rs 2-8-0 on the preference shares, for the year ended March 1956.

Hind Cycles Ltd. has applied to the Stock Exchange for permission to enlist its shares for official trading.

New Central Jute Mills have declared an interim dividend of Re 0-12-0 per share.

Shares of Gnanoday Sugar Ltd. have been enlisted on Exchange, and business would be done in cash in lots of 100 shares each.

Empire of Life Assurance Company Ltd. has declared a dividend of Rs, 25 per share.

The fifteen States' 4 per cent loans opened for subscription during the week. Out of these, up-to-date ten States' loans, namely, Bombay, Madras, Madhya Bharat, Saurashtra, Rajasthan, Andhra, Mysore, Travancore-Cochin, Uttar Pradesh and Punjab have been fully subscribed.

Meanwhile the business in loans and securities was at a very low ebb. But, paradoxical though it may seem, the 1986 Conversion Loan moved up by as much as four annas to Rs 75-5 as against Rs 75-1 last week.

MARKET LEADERS DURING THE WEEK

	Sept. 4 1956	Week's Ranges High	Low	Aug. 28, 1956
Steel Shares:				
Tata Ordinary ..	199-12 x.d	215-8 c.d.	198-8	216- 8
Indian Iron ..	36- 5½	37-1	36-3½	37- 4½
Textile Shares:				
Bombay Dyeing ..	653-12	683-2	647-8	696-14
Central India ..	153- 8	161-8	153-0	164- 0
Century ..	566- 8	596-0	559-0	605- 0
Kohinoor ..	365- 8	394-0	362-0	397- 0
Simplex ..	209- 8	216-8	206-0	217- 0
Swadeshi ..	253- 8	268-0	251-0	272- 8
Miscellaneous Shares:				
Associated Cements	205-[illegible]8	207-8	203-8	207- 8
Belapur ..	249- 0	256-0	248-0	257- 8
Burma Old ..	750- 0 x.d	787-8	736-4	793-12
Premier Constr. ..	215- 0	220-8	211-0	221- 8
Scindia ..	18-13½	19-4	18-9	19- 3
National Rayon ..	263- 0	273-8	262-0	275- 8
New India Assoc. ..	48- 0	48-0	48-0	48- 0

Cotton

Recalling the Past

COTTON market opened the week with the announcement of the signing of the Indo-American agreement relating to imports of food grains, cotton, tobacco and other commodities at an estimated cost of Rs 170 crores in the next three years. This agreement will undoubtedly play a significant role in India's Second Five-Year Plan, especially in the context of the rising trend in food grains prices.

As far as cotton is concerned, however, the Agreement has not much to commend itsef. Presently importers do not seem to be keen on getting US cotton. In fact, even the lifting of the ban on imports of sterling area cotton has not produced the desired result. The reasons for the apathy towards US cotton are not far seek. In the first place mills and importers may still not have got over the episode of imports of damaged cotton in 1952-53. Secondly US cotton forms only a small proportion of India's total cotton imports. Further in the light of the well-known US campaign to dispose of her surplus cotton, it is natural for importers in India to be sceptical about the US surplus cotton especalily because it has now become quite common for one to hear about dumping in association with the export sales programme of US surplus cotton.

The increase in the excise duty on cloth, and reports from the interior of favourable weather, forced down cotton futures during the week. Spot prices, however, ruled firm owing to lower stocks of quality cotton with the dealers. Demand was centred on good lots of Vijay, Surati and quality Jarilla varieties.

Oilseeds

Selling Pressure

OILS and oilseeds moved downwards during the week with increased speculative offerings, and in the absence of any appreciable demand from millers and Vanaspati manufactures. Owing to the unwillingness on the part of the longs to accept tenders, selling pressure increased towards the close of the week.

Total tenders issued against the September castor contract amounted to 69,000 candies. Castor, groundnut and other seeds lost further ground during the week.

Company Note

National Carbon

FOR the year to December 25,1955, The National Carbon Company (India) Ltd, declared a dividend of 32½ per cent. On December 23, 1955, the Company was converted into a public limited company, and the share capital was increased to Rs 1.60 crores. Forty per cent of the shares are now held by the public in this country.

In the report, the directors furnish details about the Company's expansion plans. Besides the establishment of a zinc rolling mill, these plans include the erection of a flashlight case plant and a chemicals plant. Construction of the zinc rolling mill was started in West Bengal last year, and the construtcion work is proceeding satisfactorily. This mill will be operated as a metals and ores Company, a division of the National Carbon Company (India) Ltd. It is expected to commence production during the latter part of 1956. Both the flashlight case plant and the chemicals plant are in the design stages, and negotiations for sights are proceeding.



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CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
Note circulation	1424.51	1431.62	1444.28	1285.09
Rupee Coin	116.74	115.25	111.96	110.97
Deposits				
a) Central Government's	65.77	61.58	76.16	104.65
b) Banks'	56.56	55.44	53.35	51.36
c) Other Governments'	2.91	5.70	6.83	36.42
d) Others'	12.27	12.50	12.22	16.27
4. Foreign Securities	606.68	606.68	616.68	622.04
5. Balances held abroad	24.94	28.79	42.75	95.50
6. Rupee Securities	693.71	693.71	708.62	543.99
7. Investments	50.12	50.13	49.39	62.65
8. Loans and advances to Governments	8.06	7.64	5.16	0.80
Scheduled Banks				
1. Demand liabilities (net)	637.46	628.86	628.01	599.21
2. Time Liabilities	461.90	459.02	456.97	409.06
3. Cash on hand	37.53	37.62	37.91	33.27
4. Borrowings from Reserve Bank	34.63	40.87	47.27	16.48
of which against Usance Bills	28.12	30.76	34.85	12.14
5. Advances and Bills discounted	689.98	690.36	693.15	563.90
of which State Bank's	123.77	125.25	126.44	103.39
6. Invst. in Govt. Sec.	362.02	361.22	353.39	378.28
of which State Bank's	106.18	106.19	100.52	107.42
Cheque Clearance	131.16	136.46	142.06	131.10

†For Reserve Bank and Cheque Clearance week ended 31-8-56. Scheduled Banks week ended 24-8-56.

Bombay Money Rates	31-8-56	24-8-56	3-8-56	2-9-55
Inter-Bank Call Rate	3 1/8	3 1/8	3 1/8	2 7/8
3 months deposits	3 3/8	3 3/8	3 3/8	3
6 months deposits	3 3/8	3 3/8	3 3/8	3

Bombay Bullion — In Rupees and Annas

	6-9-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	103-0	102-10	103-1	95-2
Forward	103-2	102-10	103-1	†
Silver (per 100 tolas)				
Spot	174-0	171-7	172-8	165-0
Forward	174-6	171-14	172-9	†

† no trading

INDUSTRIAL PRODUCTION

Estimated Production of Selected Industries

Consumer Goods:—	Units	June 56	June 55	June 54
Sugar	000 tons	59.2	13.9	Nil.
Coffee	tons	2,510	1,425	1,625
Tea	Md. lbs.	83.2	78.0	69.9
Salt	000 mds.	17,270	15,271	16,143
Matches	000 cases	49.7	50.1	34.1
Razor Blades	lakhs	189.2	260.4	81.3
Sewing Machines	Nos.	10,150	8,200	6,470
Raw Materials or Intermediate goods:				
Coal	000 tons	3,197	3,075	2,885
Jute—				
Hessian	,,	35.0	34.2	29.8
Sacking	,,	57.3	47.9	42.1
Other manufactures	,,	6.6	3.6	2.7
Cement	,,	422.5	329.5	352.5
Sheet Glass	000 sq. ft.	1,431.7	1,196.7	1,081.7
Acetate Yarn	tons	127	102	63.4
Asbestos Cement sheets	000 tons	9.1	7.9	5.9
Antimony	tons	55.0	55.0	56.0
Lead (Vergin)	,,	207.3	174.1	85
Iron and Steel:				
a) Pig iron	000 tons	134.7	144.5	138.4
b) Direct castings	,,	11.7	12.0	13.3
c) Ferro alloys	,,	0.3	0.6	4.8
d) Steel ingots and metal for castings	,,	134.4	133.1	131.0
e) Semi finished steel	,,	105.8	117.5	115.3
f) Finished Steel	,,	100.4	103.7	96.9
Capital Goods:				
Power transformers	000 Kva	79.0	36.9	29.3
Electric motors	000 H.P.	29.7	20.6	15.2
Twist Drills	000	135.9	69.3	27.3
Grinding Wheels	000 lbs.	173.7	96.8	90.4
Arc Welding Electrodes	lakh ft.	146.8	93.5	81.7
Dry Cells	in lakhs	159.4	135.8	145.3
Aluminium Conductors	tons	538	705	550
Calico Looms (Plain, semi-automatic and automatic)	Nos.	283	254	205
Complete rings spinning frames	,,,	94	61	36
Carding engines	,,	36	40	40
Footwear (leather):				
(a) Western type	000 pairs	309.4	253.0	252.3
(b) Indigeneous type	,,	245.8	197.9	160.3
Footwear (rubber)	lakh pairs	26.8	28.6	22.7
Bakelite Moulding Powder	000 lbs.	170.9	107.9	63.4
Glue	cwts.	1,855	169.0	3,246
Copper pipes and tubes	tons.	4.0	5.9	5.6
Brass pipes and tubes	,,	0.6	1.4	..

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group	Week Ended 18-8-56	11-8-56	21-7-56	20-8-55
I **Food Articles:**	**401.1**	**397.7**	**382.3**	**320.5**
Cereals	505	502	484	386
Pulses	410	391	386	285
Others	264	264	250	237
II **Industrial Raw Materials:**	**505.1**	**497.7**	**493.3**	**405.6**
Fibres	475	474	473	415
Oilseeds	582	566	540	385
Minerals	515	488	525	414
Others	426	425	419	419
III **Semi Manufactures:**	**409.5**	**405.0**	**394.9**	**326.3**
Leather	381	383	396	338
Mineral Oils	208	208	208	201
Vegetable Oils	606	576	544	383
Cotton Yarn	498	495	476	405
Metals	329	330	327	257
Oilcakes	479	467	432	333
Others	361	361	362	330
IV **Manufactures:**	**388.0**	**387.2**	**386.0**	**371.2**
Textiles	422	420	419	407
Jute	398	390	386	423
Cotton	430	430	430	402
Rayon & Silk	470	470	470	474
Woollen	266	266	264	278
Metal Products	388	388	388	352
Others	293	294	291	286
V **Miscellaneous:**	**564.6**	**567.0**	**560.8**	**563.2**
All Commodities:	**421.1**	**417.9**	**409.9**	**358.5**

EXPORT OF RAW JUTE FROM EAST PAKISTAN

(in 000 bales)

Destination	May '56	April '56	Mar '56	July 55* to Feb 56
India	40.0	50.0	84.8	1,162.3
France	14.9	24.3	76.8	328.0
Spain	—	—	44.0	72.8
Japan	5.6	16.3	19.4	121.7
Germany	12.1	24.0	101.3	378.4
U K	11.4	33.9	136.6	475.2
South Africa	—	—	19.3	85.3
Belgium	6.3	23.4	98.5	448.7
Italy	6.0	17.4	56.0	200.0
U S A	9.9	19.2	61.0	270.0
China	16.0	43.6	52.8	103.5
Poland	5.6	—	22.5	34.1
Argentine	—	11.5	—	17.0
Other countries	14.4	36.8	67.1	409.1
TOTAL	142.2	300.4	840.1	4,106.3

*Including cuttings and mesta fibre.

Source : India Jute Mills Association

OUTPUT OF CRUDE PETROLEUM AND MAJOR REFINERY PRODUCTS IN THE MIDDLE EAST

(in 000 metric tons)

	Crude Petroleum			
Country :	*1955	1954	1953	1950
Bahrein	1,500	1,503	1,501	1,506
Egypt	2,000	2,198	2,618	2,592
Iran	15,779	3,502	1,345	32,259
Iraq	33,850	30,674	28,187	6,584
Kuwait	55,000	47,723	43,286	17,291
Neutral Zone	1,262	850	—	—
Quatar	5,448	4,779	4,062	1,636
Saudi Arabia	47,040	46,455	41,173	26,649
Turkey	200	59	27	17
Total, Middle East (in mn metric tons)	162.1	137.8	122.2	88.5
World Total† (in mn. metric tons)	788.5	706.6	675.4	536.3
Middle East Output as % of world total	20.6	19.5	18.1	16.5

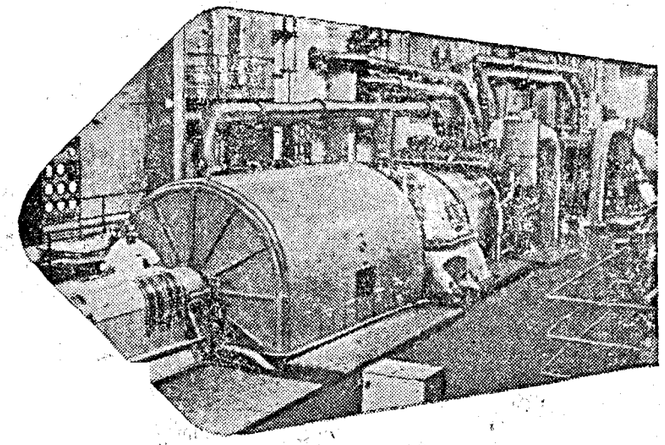
† Including natural gasolene

Major refinery products in 1954				
Country :	Motor Spirits	Kerosene	Heavy oils	Total
Aden	126	43	1,011	1,180
Bahrein	2,230	1,033	6,282	9,545
Egypt	256	220	1,727	2,203
Iran	267	488	1,850	2,605
Iraq	131	176	631	938
Israel	170	141	612	923
Kuwait	45	13	1,450	1,508
Lebanon	112	66	330	508
Saudi Arabia	1,494	1,093	7,905	10,492
Turkey	1	—	4	5
Total for 1954 (in mn metric tons)	7.6	3.8	27.9	39.2
1950	4.6	2.8	19.4	26.8
1953	4.8	3.2	21.8	29.8

Source : Economic Developments in the Middle East 1954-55

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Kashmir	6,000 KW
Jogindarnagar	48,000 KW
Greater Calcutta	1,61,000 KW
Madras (Basin Bridge)	2,15,450 KW
Pykara, Mettur,	
Papanasam and Moyar	
Mysore (Jog)	48,000 KW
Travancore	22,500 KW
U. P. (Harduagang)	40,600 KW
Bahadrabad, Bhola,	
Sumera & Muhammadpur	
Bhakra dam	500,000 KVA



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18 SEP 1956

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Suez Crisis Deepens

THE situation is still fluid as we go to press, but it is clear that the D day for Suez is drawing near. That day may have arrived before these lines are in print. At this writing, the full report of the emergency session of the British Parliament which had been called to discuss the Suez issue is not available. So what moderation Labour is able to exert on Sir Anthony Eden is not known, but it can be guessed. The pilots and other employees of the Suez Canal Company which has been displaced by Colonel Nasser, but continues to operate from Paris, had been asked by their previous employers to quit by the 14th. British and French ships which pass through Suez pay their toll to the old company and these payments are blocked by their respective Governments. Americans pay cash on the spot, but not many American ships pass through the canal. So a situation has been created where Egypt has neither the money—the daily cost of managing the canal exceeds two-thirds of the toll—nor the trained personnel to run the canal services and yet Egypt has not so far shown any signs of giving up. And ships wanting a passage through the canal have neither been refused entry nor have they complained of bad service.

Britain, however, has been spoiling for a fight. Sir Anthony Eden has talked himself into a war, and a shooting war, not merely a war of nerves or attrition, through economic blockade, though at this writing P & O shipping lines have announced that their ships are being re-routed via the Cape of Good Hope, and doubtless other British and French shipping lines will follow suit. Sir Anthony is too puny to make a tragic figure in history. He is no man of destiny. History has passed him by and so the war he is going to have will only be a little war. Unfortunately, it will not be localised. The British Government left no one in doubt about its intentions. Few even in Britain have any doubts either, about what the results would be, should Britain go to war.

'The Manchester Guardian' had warned that "The Government seems to be preparing to go to war immediately if the Menzies mission fails". It had also answered, what the cost of such a war could be: "a damaged American alliance, a broken Commonwealth, the waste of many British and Commonwealth lives, economic isolation of Britain and France or the end of the United Nations, no oil and an open door to Russia in the Middle East. Sir Anthony will have made Britain truly great".

All this could not deter the Tories who do not want to lose their hold on the Middle East and its oil and have no faith in anything else except force. They are suspicious of the Americans, who too, have their eye on this oil and may double-cross. But sober opinion in Britain, knowing full well which way things were going, had nevertheless expected that Sir Anthony would need an 'incident' before he started off. Not that incidents would be hard to come by, or difficult to manufacture, if need be. The demands of good form are now being met. The users of the canal would use the canal. What could be more simple? A Suez Canal Users' Association has been formed, consisting of the representatives of Britain, France, and U S. They will take their ships to Suez and operate the canal. If Egypt refuses entry, no further talk will be necessary. To this Mr Dulles has added the rider that if Egypt objects, American ships

will be diverted to the Cape route. There are variations on this theme e g the proposal by the Users' Association of sending battle ships to the Suez to man the canal.

The element of the comic in the situation would be irresistible had it not unfortunately been overshadowed by the tragic. India is as much concerned about the Suez as any other country, not excluding Britain. For by far the greater part of her foreign trade has to pass through the Suez which means that if this route is interrupted, even temporarily, her Plan would be held up and development very nearly blocked. India has not got the shipping resources to afford the longer Cape route.

But the step announced by Sir Anthony Eden to assume operation of the Suez Canal, as Pandit Nehru pointed out in a statement in Lok Sabha on Thursday, "which purports to be in the interests of the users of the canal and to maintain freedom of the use of the canal, seems, to say the least, surprising and the consequences that may flow from it may well be grave".

Though he did not minimise the gravity of the situation, Pandit Nehru still refused to believe that the issue could not be settled peacefully through negotiation, as Egypt has never declined to safeguard the interests of the users of the canal and to maintain freedom of navigation through the canal. The acceptance by the Egyptian Government, Pandit Nehru stated, of all international obligations and its invitation for negotiations opened the way for settlement. Once the sovereignty of Egypt is accepted without any mental reservation, a solution should not be impossible. "To seek to impose a settlement by force or by threats of force", Pandit Nehru finally warned, "is to disregard the rights of nations even as the failure to observe international treaties and obligations would be".

But Pandit Nehru's faith that Britain will respect the sovereignty of Egypt is no longer unshaken for he also warned, before Parliament went into recess, that an emergency session might be called at short notice, should the situation make it necessary to do so.

Calcutta Milk Scheme Under FAO Auspices

HOW best to dispose off farm surpluses is a world problem, though it has been overshadowed by the magnitude of the problem which America has to face, in pursuit of its policy of supporting agricultural prices and farm incomes. The paradox of unsaleable (i e at the sellers' price) food stuffs and dairy products running to waste or the mounting cost shouldered collectively by the people of the country concerned of carrying the burden of unsold stocks, has persisted too long to excite anybody particularly. But it has not ceased to perplex those who have to carry the surplus. They are searching for the best possible means of disposing the surplus. The FAO has been studying this problem for a number of years, with a view to devising a method of utilising these surpluses for helping economic development in underdeveloped countries, subject to the condition that the disposal of surplus do not depress either domestic or international prices.

Now surplus milk and milk products, for example, can be used for helping those who need special care, for feeding school children or expectant mothers; surplus food grain can also be used for relieving famine or distress as an emergency measure. But utilisation of agricultural surpluses for helping continuous development needed special study, and India agreed to serve as a 'guinea-pig' for the experiment. 'A Pilot Study in India' was published by the FAO in June last year. Many individuals and institutions assisted by carrying out special surveys for the purpose or in other ways. Dr V M Dandekar, acting as Consultant to the FAO, produced a report on the subject, drawing largely upon the findings of the Agricultural Labour Enquiry, which has also been published.

A big deal, perhaps the biggest in recorded history, has just been put through for the imports on concessional terms of US farm surplus, foodgrains and cotton, to meet shortages in the Second Plan period, as part gift and part loan. The details of the agreement, however, remain to be worked out, and an examination of the deal has to be postponed pending publication of the final agreement. It may be noted, however, that this was not under the auspices of the FAO.

The first programme to use surplus agricultural products under the auspices of the FAO is expected to be in action in India before the end of the year, according to an FAO press release issued during the week. The product concerned is primarily dried skim milk; the supplying countries are US, Australia, New Zealand and Holland. The deal is a package deal, for besides the dried skim milk to be supplied, there is a grant of £175,000, or its equivalent, towards equipment and expert advice for using the milk powder for making toned milk. The first scheme that has gone through is for the Calcutta Milk Scheme; similar schemes for assistance to other dairy centres in India are under contemplation.

Though not as well advertised and as attractive as a show-piece as the Aarey Milk Colony of Bombay, Calcutta has also its milk colony at Haringhata. A smaller colony has been started in Fulia and Kalyani is to have a dry farm. But the programme that has to be put through, if Calcutta is to have a reasonably good supply of milk produced under hygienic conditions, has only been begun; much of it still remains to be done. The problem is the usual one of all large cities; naturally it is a great deal more acute in Calcutta than in most. The supply of milk is inadequate and its price high. Most of the cattle are housed within city limits, in horrible 'khatals' which breed mosquitoes and spread dirt and disease all around; yet nearly 80 per cent of the milk supply of the city comes from them. There is then the problem of dry cattle, the difficulty of maintaining them, the high rate of mortality among calves, engineered or connived at by the 'gowalas' leading to the infamous practice of 'phooka' the sight of which made Gandhiji give up cow or buffalo milk for life.

A milk team from the FAO visited Calcutta to examine the West Bengal scheme and found it to be technically and economically sound. However, in view of the magnitude of the project and the manifold technical complications, the team provided for:

(1) a direct grant of £150,000 to the West Bengal Government for purchasing equipment;

(2) a sum of £25,000 for services of qualified technical staff; and

(3) the supply of dried skim milk on concessional terms for a period of three years.

At present the Haringhata dairy factory is able to use only 120 tons of dried skim milk per year, as against 1000 tons in Aarey Milk Colony, for the manufacture of toned milk. The dairy factory to be set up at Calcutta under the auspices of the FAO will initially consume 1900 tons of dried skim milk (for production of toned milk) but later its capacity may be expanded by another 1000 tons per year. This will be in addition to treating cows' milk and producing ice cream, butter and ghee.

Toned milk forms only a minor part of the milk supply of cities. It is important that in view of its advantages—nutritive properties and low cost—its supply should be augmented. This requires both technical assistance and specialised equipment and through FAO, these are now being made available. Now among the agricultural surpluses, the disposal of which has been a problem, skim milk no longer figures prominently, as unsold stocks of skim milk have been going down with its increased use as animal feed. So the countries which have come forward to assist the utilisation of skim milk may not be primarily interested in building up a market for this export of their's. In fact, among the schemes awaiting finalisation, there is at least one for the manufacture of skim milk in India in some chosen area where the disposal of fresh milk is unremunerative.

The main function of the FAO is to help food and agricultural production all over the world and to improve their distribution, without affecting adversely the normal channels of trade. How difficult it is to convince member countries that a particular scheme of assistance does, in fact, meet this rigorous test, by matching concessional imports with additional consumption! Every proposal that is put up is discussed at several sessions, and has to pass through several stages at each of which the hawk-eyed representatives of the exporting countries, particularly of the countries which stand to suffer from the subsidised export of others, raise objections and obstruct. To be fair, even recipient countries have their own domestic markets to guard. India which generally welcomes assistance in the form of surplus food and agricultural products had nevertheless to reject, after a trial, the offer of surplus US butter to be sold as ghee. The Government of India found it difficult to sell it, because the appearance of American ghee on the market immediately brought down the price of Indian ghee below the economic level.

It is not surprising, therefore, that the input-output ratio of schemes submitted to FAO and schemes finally passed by it should be so high. This is all the more reason to welcome this particular form of assistance for toning up the milk supply in one of our cities which badly needs improvement.

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Weekly Notes

Shipping Oil via Cape

THAT the centre of gravity of world oil has shifted to the Middle East is, of course, not a new discovery. But how fast the dependence of the West on oil and on this source of supply has been increasing is not often realised. Even for U S, its own and Carribean oil is not enough. By the late '60s, it is estimated that Western Europe will be needing 200 million and U S 70 million tons of Middle East oil per annum. This presents a formidable problem of transport, for only 68 million tons could pass through the Suez Canal in 1955. And yet, oil tankers constituted 65 per cent of all shipping passing through the canal. So if by 1960, the present plans to increase the canal capacity to 48 ships a day are completed, it would not be able to carry more than 100 million tons of oil a year, as against estimated requirements of more than double this volume. And until atomic energy substantially substitutes coal and oil—this it may do only in the last quarter of the century—the problem will get a great deal worse, for the annual requirements of Western Europe alone are expected to exceed 300 million tons by 1975. Transport to U S, however, does not pose a similar problem, for the bigger tankers carrying oil to the States are already being directed via Cape of Goodhope, Suez being too narrow for them.

Britain's stake in Suez is twofold: control on oil and its transport. To yield to Nasser would be the beginning of the end of Europe's control on oil in the long run and forced diversion via Cape in the near future which would call for huge investment in tankers and in expanded capacity of shipyards which will raise the price of oil.

Some figures have been cited which help to size up the problem. To carry 100 million tons of oil from the Persian Gulf to Europe by Suez requires 14 million tons of deadweight tankers; to carry the same quantity by the Cape would require an additional 7.5 million tanker tons, at a capital cost of £500 million. It will also mean doubling West Europe's tanker fleet every 10 years and proportionate expansion of shipyards. A second canal, it is estimated, would cost only £120 million and would present no major engineering difficulties. Extension and duplication of pipelines would cost a trifle, compared to the capital cost of building an adequate tanker fleet to carry oil via the Cape. But all this requires peace in the Middle East and co-operation of the Arab countries. Oil companies will not risk their capital in so risky a venture; they are now reported to be determined to switch from fixed transport investment which would be exposed to the wrath of growing Arab nationalism, to mobile investments the safety of which can be safeguarded by the Western Naval powers. The way shown by Onassis will be followed and super oil tankers will be built. But resumption of the Cape route will mean higher cost and will be to the detriment of both the Arab States who will lose their share of transport earnings and European consumers of oil who will have to pay more.

The assumption behind these explorations in the economics of oil transport both in the columns of 'New Statesman and Nation' and the 'Financial Times' is that Arabs may successfully interfere with the transport of oil but they would be powerless to stop the extraction and export of oil by foreign interests. In other words, the politics which obstruct the transport of oil will not interfere with its production and disposal. This is a curious assumption to make.

Better Hope in Pakistan

WITH the East Pakistan Cabinet persistently refusing to face the Assembly and the Governor, in the interest of his party, supporting the Chief Minister in flouting the Assembly, it was on the cards that a strong President like Iskandar Mirza would act. A similar constitutional crisis had also overtaken the Centre where the Prime Minister, Chaudhuri Mohammad Ali, had lost the support of the Muslim League members who had put him in office. On both fronts, therefore, immediate action was overdue and the President has acted in a manner which has happily belied the fears of those who had anticipated a dictatorial move on his part. He was close to the Army and the army group had been moving too close to politics in Pakistan to rule out such possibilities altogether. The popularity which food administration in East Pakistan, handed over to the Army by Iskandar Mirza, had won from the people, strengthened the suspicion.

Happily, recent developments have completely belied these fears. Those who interpret political developments in Pakistan primarily in terms of foreign influences, however, would not admit that they have been proven to be in the wrong. Even Dulles, they say, does not care any more for another Bao Dai or Synghman Rhee.

What has happened in the last few days is the final exit from Parliamentary Government of the Muslim League, which had been overdue for years. In fact, the instability of successive Governments in Pakistan has been due mainly to the tenacity and persistence of the old guard, who continued to dominate, even after the League had been routed in the general elections in East Bengal.

What was accomplished in East Pakistan by a general election was accomplished at the Centre by regrouping of parties. The emergence of the Republican Party was forced by necessity. The League had lost all popular support and yet it wanted to be in power. The Republican Party was led, significantly by the most consistent opponent of the League in West Pakistan, who had fought against the very idea of Pakistan at one time—Dr Khan Saheb.

Among the groups which defeated the League, the Awami League has shown the greatest cohesion and its leader, Mr H S Suhrawardy, now heads the Government at the centre with the support of the Republican Party which is, however, numerically the stronger. It is not exactly a coalition, for The Republicans have not yet gained the cohesion of a proper political party and still remain as an ad hoc group.

The East Bengal Cabinet offers better promise of stability but it cannot function smoothly, unless the Government at the Centre is stable and amenable to Parliamentary discipline, as well as wise enough to meet the just claims of the Eastern wing of the State. True, Mr Suhrawardy would be himself there to press these claims, but how far he will succeed will depend on the somewhat heterogeneous following.

Statistics in the Plural

WHILE moving the bill to raise the excise duty on cloth, the Finance Minister circulated a "Note on Supply and Price Trends of Cloth" to the members of Lok Sabha which was also released to the press. In this Note, among other things, the figures of exports of mill-made cloth in 1954 and 1955 are given as 810 and 693 million yards respectively. In the authoritative Report of the Ministry of Commerce and Industry, circulated at the time of the last budget, the figure of export for 1955 had been put at 824 million yards. Lest it be suspected that this figure includes handloom cloth, it was explained:

> "Exports of cloth continued to be licensed freely and the total quantity exported in 1955 was about 824 million yards. To this may be added exports of handloom cloth totalling 60 million yards and export also of manufactured fabrics". (Report 1955, page 54).

In the same publication, in Appendix III, the figures of cotton piecegoods exported during 1954 and 1955 are shown as 867 and 752 million yards. The Finance Minister could not be deliberately understating exports in order to impress upon Parliament the necessity of stepping them up. The Cotton Textiles Export Promotion Council which he had set up as the Commerce Minister has been publishing in the "Texprocil Bulletin" a much larger figure than the one given by the Finance Minister. How does this wide disparity arise? Those who have a stomach for statistics, particularly foreign trade statistics, may contemplate on the table alongside showing different figures for exports of cloth that have recently appeared in different places. The list is only illustrative.

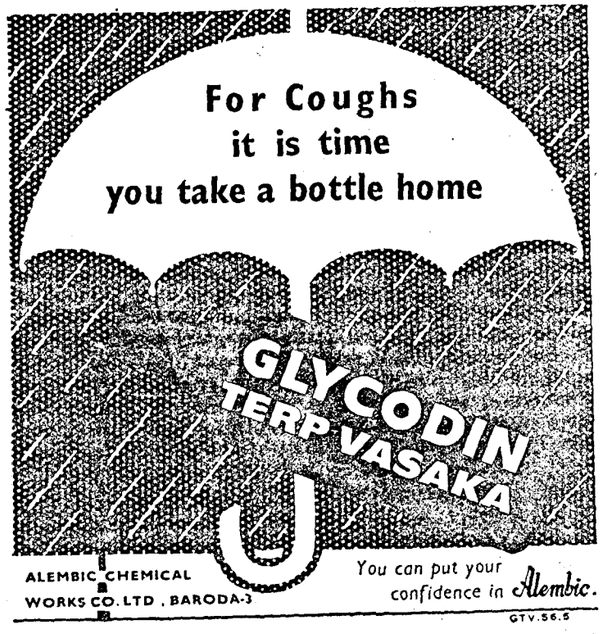
The data in Shri Krishnamachari's Note circulated in the Lok Sabha agree fairly closely with those in the monthly Accounts relating to Foreign Trade, with but minor differences. The real conundrum is with regard to the other four sets of figures items II, III, IV and VI of the table. It has been mentioned above that the Ministry's Annual Report gives figures which do not agree with the figures in the Finance Minister's Note. The discrepancy is not fully covered by including handloom cloth with the latter. But what about rows III and IV? They both relate to the Bombay Port only and are in excess of the all-India totals!

A possible explanation might be that these figures are for the piecegoods passed for shipment. Between the amount entered in a shipping bill and amount actually shipped, there is often some difference. This short shipment escapes recording. The next shipping bill is drawn up afresh, and without taking into account the shortfalls in earlier bills of the same party. There may be a similar difference between goods passed for shipment and goods actually shipped. But surely the Commerce Ministry is not ignorant of all this?

Really, what is one to make of the statistics released by the Joint Chief Controller of Exports? The statement issued over his signature purports to give figures of export of millmade cotton piece-goods, and not of piece-goods passed for shipment, either in Bombay or all Indian ports!

TABLE SHOWING EXPORTS OF COTTON TEXTILES

	(million yards) 1954	1955
i. Ministry of Finance—"Note on Supply & Price Trends of Cloth". Exports of mill made cloth	810	693
ii. "Ministry of Commerce & Industry—Report for 1955-56." App. III(b) Cotton Piecegoods Exports	867	752
iii. Texprocil Bulletin, 5-4-56. Cotton piecegoods exports from Bombay Port (Source: Daily Trade List, Bombay Customs)		783
iv. Texprocil Bulletin, 5-4-56. "Mill made cotton piecegoods passed for Shipment from Bombay Port". (Source: Office of the Jt. Chief Controller of Exports, Bombay)		825
v. Accounts relating to the Foreign Trade of India (D G C I S Calcutta) Millmade	804	691
Mill and Handloom	862	747
vi. "Statement showing comparative figures of exports of millmade cotton piecegoods from India, U K and Japan", (cyclostyled) issued by the Joint Controller of Exports, Bombay	898	815



More on Shipping

REFERENCE has already been made in these columns to the important speech delivered by Shri Lal Bahadur Shastri at the Indian Steamship Owners' Association, and the programme of shipping in the public sector was mentioned in the last issue. One can see in it a faint glimmer of the reflection of the Bandung spirit in the extension of shipping services to India's neighbouring countries. There are some other points in the speech also which deserve consideration. There is nothing in the programme, as he outlined it, to suggest that the intention is to drive out Indian shipowners out of business or to impinge on the field which the latter have developed. Shri Shastri, while resenting loose talk about the fancied battle of sectors in shipping, was at some pains to convince the shipowners that neither of the two shipping concerns in the public sector, the Eastern and the Western Shipping Corporations would poach on their domain, and that they would open services which either the shipowners were not interested in taking up or which they had decided to abandon. The present programme, therefore, contains no threat to it; the private sector may only complain that scope for expansion into these hitherto untapped fields, which may prove profitable in the future, would now be closed to it. To that extent, it will affect their future prospects.

Scindia's ceased to be the managing agents of the Eastern Shipping Corporation from August 15 "as a result of the provisions of the new company law". Though Shri Shastri said that the matter is receiving consideration, indications are that this Corporation will become a fully State-owned undertaking. The circumstances under which private participation in the Western Shipping Corporation fell through, however, were not disclosed. This Corporation starts as a full fledged Government undertaking, right from the beginning. The Indo-Polish Service, however, has made the ship-owners uneasy. Not that the ship-owners are interested so much in the Indo-Polish trade. But what about picking up cargo from the intermediate ports? This route would be passing through some of the most paying centres of traffic and if the Western does that—the route may not offer full load both ways—it may cut into what the Indian shipping companies consider to be their sphere. Overseas trade has been much the more profitable to them. They have been getting Government business too, as much as they can carry. And there is also heavy accumulation of goods awaiting shipment to India, for the phasing of which steps are seriously being taken. But business is business and the shipping companies will naturally want to be assured on this point. Shri Shastri did say that unlike in the India-Soviet service, the proposed service to Poland does not have a clause restraining the Western from lifting cargo from intermediate ports. But the shortage of shipping being acute, the Government may not be in a position to commit itself and so the Indian shipping companies have to take Shri Shastri's assurance that care will be taken while finalising the details of the India-Poland service that their interests "do not suffer unduly".

All this, however, does not mean that the Government is going to slacken on its assistance and encouragement to the shipping companies. Far from it. The terms of loans are to be liberalised; it is conceded that shipowners have a case for it, active assistance is promised to shipping companies in securing a greater portion of import and export cargo on Government account. Coastal shipping has been allowed an increase of 5 to 10 per cent on freight rates, pending the results of the enquiry by the Rail-Sea Co-ordination Committee. Even the suggestion made by Shri Ramaswamy Mudaliar, the Chairman of the Indian National Steamship Owners' Association, that freight rates for newly built ships should be fixed somewhat higher, has been accepted for the consideration of this Committee.

Plans for the development of ports and measures for speeding up loading and unloading of ships were set out in detail but this contained nothing new, nor did the Transport Minister seek to play down the difficulties that lie immediately ahead, that is until the expansion is completed by 1958. Congestion and hold up, therefore, despite the improvements achieved, are not ruled out and foreign shipping lines were politely told not to make too much fuss about it.

Secretarial Blinkers

ALTHOUGH coastal shipping has been entirely reserved for Indian shipping since 1950 and expansion has been financed through Government loans, yet no commensurate improvement has taken place. While tonnage in overseas shipping had exceeded the First Plan target by 55,000 tons, the Transport Minister complained that "those who were interested in developing coastal shipping would not, for various reasons, expand to the extent expected." Whether the complaint was justified or not, the tonnage in coastal shipping had fallen short of the target by 63,000 tons. No statistics of coastal shipping is published by the Government, but now that the Shipping Directorate is going to have a 'statistical' cell; this deficiency may be made good.

The data supplied by the shipping companies go to show that the quantity of dry cargo handled fell from 2.9 million tons in 1953 to 2.3 million in 1955. Obviously if the freight offering was on the decline, there would hardly be any inducement to expand, even if loans were offered on attractive terms and 4½ per cent for coastal shipping compared to 2½ per cent charged for overseas shipping was not attractive. But all this has undergone a sea change. Coastal traffic is now running at the annual rate of 2.8 million tons and co-ordination or no co-ordination, it is expected to go up by 50 per cent in the Second Plan period.

On the question of co-ordination of transport, however, despite his sparkling honesty, it is to be suspected that secretarial blinkers have completely blinded Shri Lalbahadur Shastri. Had it not been so, he would not have expected so much from the Standing Committee of the Central Board of Transport, merely because this Committee has been re-organised "so as to include at secretary level representatives of all the Ministries" concerned. Far from being re-assured, his final assurance that there was "no need for the apprehension that any one form of transport will be developed to the detriment of the other" leaves one gaping with wonder whether the Minister in question and his opposite numbers really know what they are talking about? It is no longer a question of snatching business from one another but pooling of resources to do a job that should strain to the full all forms of transport that could be pressed into service, for the implementation of a big size plan.

A Calcutta Diary

A Port in Storm

THE frequency of the storms visiting the Port of Calcutta has done much to blunt popular reaction. One hardly knows when there is a state of emergency in the port and when there is not; the interval between the lifting of an emergency and its re-imposition may not be more than a few hours. In the past few weeks, for instance, there have been strike notices by both dock labour and port labour, and twenty-four of the port's assistant harbour masters just resigned. There has since been a settlement with the latter, and the port is again receiving ships; but unless the administration of the port has undergone basic changes in the meanwhile (including perhaps the most urgent of them, namely the appointment of a more competent Chairman) there will probably be a strike in the middle of next month. Calcutta is already among the most unpopular ports in the world, and ships visit it mostly under protest. One can be sure that other parties have much to say against the shipowners of the world, but it is apparently rather expensive to hang about sandheads for weeks. The daily cost of waiting runs into hundreds of pounds.

The recent agitation of the assistant harbour masters suggests that trouble is not confined to labour, easily dubbed intransigent. If technical personnel at the level of assistant harbour masters is obliged to threaten strikes, offer resignations, and risk going to jail, there is clearly something wrong with the administration. The assistant harbour masters were fighting for what in Britain has come to be known as 'differentials', for their basic wage—which reaches Rs 1,750 a month—has not been under dispute. What is significant is that even at this level of employment negotiations failed to achieve what was eventually effected under duress. It is no secret that the Chairman's methods of negotiation are not the best, and this has now had to be driven home by what is indistinguishable from a defeat for the Chairman. To speak to a labour leader, as I have just done, about the more serious threat of a strike in mid-October, is to be persuaded to the gloomiest view of the port's future. Violence on the waterfront has been seen outside Hollywood films, even in Calcutta; and this is an additional reason for not being complacent.

To enquire into the many causes of trouble in the port of Calcutta is to come up against a vast network of vested interests, some of whom serve the port, if at all, only by taking some money out of it. The shipowners are a pretty closed ring, and even if they had no additional vices (which labour freely attributes to them) the very fact of their being so united would enable them to impose on the rest a larger measure of dictation than those affected could help resenting. Ten years ago, these presented no problem. The shipowners then knew their strength (part of which was derived from the then rulers in Delhi) and labour did not know its. There has been a change since, and labour is doubtless asking for more than they had done before. The employing agencies — shipowners, stevedore contractors, the Port Commissioners — are also, one may be sure, paying more. That there would be a lag between the two, between what one would give and the other would keep asking for, is also to be taken as an essential part of modern industrial relations. What may be amiss in the port of Calcutta is that although the aforesaid modern industrial tensions obtain here the other lessons of modern labour relations have not been learnt. One reason may be that a bureaucracy is always less responsive, being at once less affected by the consequent monetary losses and more influenced by the authority of the State behind it.

Labour speaks louder, for obvious reasons, but there have been complaints against the port administration from almost every party concerned. One hates to bring into these discussions questions of personality, but they are of inescapable importance and relevance. It is doubtful whether Shri R Gupta, ICS, looks back upon his term as Chairman of the port with much satisfaction, but he certainly enjoyed the respect of the men and interests who worked with him. One has to add it with regret that, in one's conversations with various people who ought to know, one has failed to discern the same degree of respect for the present incumbent, Shri R Mitra, ICS, whose previous record of service as Home Secretary in the Government of West Bengal was not very distinguished either. With what truth it is impossible to establish, it is widely suggested that Shri Mitra was placed in his present position by Dr B C Roy, so that the latter would be able to direct matters in an organisation quite outside his purview. If anyone believes this story ,it is because it is not flatly contradicted by what is known of Dr Roy's insatiable desire for taking more and more work under his wings. From what is known of Shri Mitra's temperament, acceptance of this position would also be, as the dramatic critics say, 'in character.'

It was an unfortunate choice. But it is a thankless job at the best of times. Not everyone is agreed on the indispensability of master stevedores, and they are by no means the only middlemen against whom prejudice is strong. At almost every level there are sardars, contractors, and such folk, who stand between (in more senses than one) the Commissioners for the Port of Calcutta (itself composed of a variety of unreconciled interests) and their workers. It is not easy to maintain contact with thousands of workers(many of them casual) but it is probably true that the paternalism of old has gone without an efficient impersonal organisation arising to take its place. There is discontent, and the employers' response to it is almost always delayed. If there have not been more crises in Calcutta, in fact if the port has not come to a complete standstill so far, in spite of coming pretty near that point more than once, it may be more because of frequent declarations of a state of emergency, which entail penalties for strikers, than because of much efficiency in the administration of the port.

It is not beyond the wit of an efficient and strong administration to remove these anomalies smoothly. The trouble is that the present administration is neither strong nor efficient. And there are obvious dangers in making it stronger before making it efficient.

— **Flibbertigibbet**

From the London End

The Trade Unions in Revolt

THE spell of Sir Stafford Cripps over the British trade union movement is now broken. In 1948 the Trades Union Congress responded to the call of the then Labour Chancellor of the Exchequer for an acceptance of the "wage freeze". This gradually gave way to "wage restraint" when the Conservatives attained power in 1951. Now, eight years after, the TUC meeting in conference at Brighton has resolved to throw off the shackles which have so far moderated the wage demands of the trade unions. In a significant sense this development amounts to nothing less than a formal TUC renunciation of its connections with the Government and with official policy.

The break with official policy is complete. Prior to the conference Mr Macmillan, the Chancellor of the Exchequer, issued an appeal not only for a continuance of restraint in wage demands but he also wanted to be invited to address the Conference—a privilege which was accorded only to Labour Ministers. In what must have been the worst snub in British domestic politics for many years, the TUC ignored the Chancellor's appeal and opened the way for the preparation of a frontal attack on the Government's policy to establish what it calls a "price plateau".

A close reading of the transcripts of the speeches at the TUC conference suggests that the trade union movement has come to understand the Government's economic policy as a challenge to be met by power and the force of power alone. No delegate at this conference was able to raise a single argument favouring either the official policy or the continuance of wage restraint. Indeed, as one delegate remarked, the Conference witnessed a "demonstration, not a debate" on the wage question. The General Council had decided to leave the question to a "free vote", that is, not to advise the conference on the policy it would wish it to adopt. This decision was crucial to the outcome. In the General Council itself, a serious disunity on the question was evident. Mr Frank Cousins, who took over the leadership of the Transport and General Workers' Union from the very right-wing Arthur Deakin, was in favour of a policy of militancy while the TUC General Secretary, Sir Vincent Tewson wished for a continuance of the 1951 agreement on "amicable relations with the Conservative Government." This evident clash of opinion being left unresolved in the General Council, it was transferred to the Conference floor without the usual advices and trappings which have hitherto hamstrung the effective expression of opinion at TUC conferences.

The argumentation at the conference that led to this vital reversal on wage policy reflected a curious understanding of the country's economic problems on the part of the trade unions, though it must be stated that the viewpoints expressed arose from thinking no less rigorous than can be expected from any other quarter. Mr Cousins who led the "wages fight" and who must have, therefore, been responsible for turning the conference in favour of his fight, argued that ". . . . this plateau which Mr Macmillan talks about is one which goes up and up . . . . he says it will stay. Of course it will, if we do nothing about wages and if he can balance his economy at the expense of the workers." Two possible inferences can be drawn from this argument. It can mean that the trades unions are so irresponsible that they are prepared to wreck any price stability that is achieved at the existing wage level. Alternatively, it can mean that the trade unions are only asking for a fairer share of any increases in productivity that take place—a demand which need not impinge on whatever price plateau Mr Macmillan establishes. Mr Cousins' speech did not indicate which of these possible inferences he had in mind—his statements were certainly not specimens of clear thought or of sound reasoning—and it is certain that when the Conservative commentators come to study the Conference transactions, they will give the first of these inferences all possible publicity.

To the trade unions the inflationary problems in the economy have been the result of a rapid dismantling of controls and the government's implicit sponsorship of a "free for all' attitude. One delegate referred to the Chancellor's knowledge that in 1955 dividends rose by 21 per cent and "in the first seven months of this year ,in spite of his pleas for stabilisation, dividends had increased by another 11½ per cent." The warning from the Railway Union leader, Mr Campbell, was couched in ominous words:—

> "....the **laissez-faire** philosophy is completely *incompatible* with wage restraint. We say to Mr Macmillan: if you want a free for all, you can have it. Return once *again to a planned* economy and you might create a climate in which trade unions will not be compelled to seek further wage *increase to* adjust the prices which have been foisted upon us."

This certainly is some choice for a Conservative Government. It augurs the most desperate wage battle the country has seen since 1945.

This was not all. The Conference in the new mood of militancy, rejected the advice of the TUC General Council and resolved to fight for a "40-hour week". The short-time working in the motor industry and the sudden declarations of redundancy were understood by the Conference to be expressions of irresponsibility on the part of the owners of capital and the Government. In this situation "a 40-hour week has become a necessity....it is a safeguard against the declared intention of the British Employers' Federation to establish a pool of 750,000 unemployed."

If the Conference proved to be a historic turning point on economic matters, it was less so where questions of a political character were concerned. The Suez crisis was dealt with in an emergency resolution—its content recognized the trend in public opinion against force but conceded that force was a possible solution after "reference to the UN and with its consent." It rejected a resolution calling for a peaceful settlement over Cyprus and for the return of Archbishop Makarios. But the economic decisions are so overwhelming that it can truly be said that the TUC is "no longer what it was." And Conservatives in and out of the Government can now only remark in the succinct words of the Times ". . . . it is a pity."

Profile of West Bengal

(From a correspondent)

FOR West Bengal "profile" is the appropriate word for it is a State from which the body has gradually slipped away. When the first Indian Census was undertaken in 1872 Bengal's area was 248,231 sq miles, in 1901 it was 189,837 sq miles, in 1941, 82,876 sq miles and in 1951 no more than 33,524 sq miles.

Now the head remains—Calcutta, the most industrialized city of India, perhaps also the most unpredictable, undoubtedly one of the least happy cities. And part of the trunk—15 districts grouped under two administrative commissioner's divisions, predominantly agricultural, where the average density of population was 799 per sq mile in 1951, varying in the southern district from 817 to 2,877, one of the highest in the world; too high certainly to be maintained in a land-hungry State even if there were not the burden of refugees streaming in since 1948 at a rate, accelerated in recent months, to an average of between 20,000 to 30,000 a month.

What is the sharpest feature in the "profile"? Perhaps a sense of unfulfilment and lack of direction manifesting themselves in the present hyper-sensitiveness and nostalgia for the earlier years of the century when the leadership of India rested largely with Bengal.

Francis Bernier, describing his Travels in the Mughal Empire wrote that if there was any other country in the world where there was such abundance as in Bengal, it was probably Egypt (which he had not visited). But these and other enthusiastic details are from portraits of yesterday and the day before; in todays' profile the ancestry is recognizeable but the expression has altered.

Probably the biggest problems today for the State are the economic —how to sustain in the second-smallest State in India a large population, now about 28 million.

Complicating Factors

The situation is complicated by other factors. One is that the people of the State itself own no more than a fractional part of the enterprises which make West Bengal the most industrialized State in India. This is reflected also in the employment situation where only 37 per cent of the total of 6.3 lakh labourers in organized industry is Bengali. In Jute mills, for instance, Bihar contributes 36.98 per cent of the labour and U. P. 19.52 per cent.; Bengal's share is 22.04 per cent. In his Budget speech in the Assembly two years ago West Bengal's Chief Minister, Dr B C Roy, estimated that employment from development expenditure leaked about 50 per cent. to competitors from outside the State. So that if Rs 1 crore were calculated as investment necessary to give employment to x numbers, say, in actual fact the investment in West Bengal would need to be Rs 2 crores.

Partly at least this is due to a rigid refusal of Bengalis to enter certain occupations. In the large city of Calcutta the conservancy, plumbing, house-building and (until lately) transport are in the hands of workers from outside the State; the myriads of "pan" and cigarette booths are owned by people who have come from other States to make a living; even in the more sophisticated trade of catering and hotel-management the story is the same.

Land and Houses Changing Hands

Apart from some traditional business firms the people in West Bengal have, as a whole, been totally unable to adjust themselves to the conditions and opportunities of modern business. Any solicitor could confirm one of the results: his conveyancing records would show that land and houses in Calcutta steadily but inexorably change hands from the Bengalis to the Marwaris. Another index is the loans and advances registers of large banks where Bengali names hardly figure.

In this trend in trade the only exception is small business which is almost wholly controlled by Bengalis, outside participation being negligible. But this refers to an occupational area where the total annual value added is Rs 48 crores compared to Rs 124 crores added by organized industry and where self-employment covers considerable under-employment.

To a sociologist this background of the control of economic life of Calcutta and West Bengal would yield a rich harvest if he were studying social tensions. In a big city of about 3 million inhabitants, not including the industrial suburbs which are in reality a chain of cities, the social structure remains unresolved, the linguistic and national groups earn their living in common fields but the pattern of their lives does not mix. A large part of the wide trunk road through the heart of Calcutta, Chittaranjan Avenue, is almost exclusively Marwari. In South Calcutta South Indians live in the interstices of Bengali households but yet form a self-sufficient community of their own, the foreign business community continue to chase their socially fatal objective of in-bred exclusiveness. This is what makes Calcutta an unhappy city and accounts for much of the trouble among industrial labour, and the undercurrent of violence that runs through all expressions of public dissent.

Society Lost its Integration

The willy nilly transition in the character of the economic life of the State has robbed West Bengal's society of its integration. Even before the zamindari system was legally abolished its economic fabric was riddled with holes. The middle class, the enlightened middle class, which had the virtues, the perseverence, and the constructive vision of the Victorians is almost dead. They provided the leadership in politics, the professions and the arts.

Uncertainty in politics is now to be expected from the social elements which compose its scene. Previously the political community which was ably led and made its opinion felt was the middle-class community of the intelligentsia. The political community is now much diluted but is still incomplete as it only imperfectly includes large segments of occupational life (industrial labour, for instance) and this very lack of cohesion and comprehensiveness in the political community reflects the lack of cohesion in the political structure. One of the indices of the dilution is the changed character, standards and attainments of Calcutta University, though its plight is also partly due to sectarianism and internal intrigue.

In the professions the pioneering advantages are over and the lack of social integration makes itself felt. In those professions ancillary to economic life, accountancy, the law and engineering, for instance, the fact that the control of banking and

business is largely in the hands of exclusive *non-Bengali* groups inevitably makes itself felt. Gradually this even affects the human professions, like medicine, though the *effect* is slower and less potent. Provincialism is a powerful factor in Indian life.

Decline of Middle Class

To these two forces within the middle class, its economic decline and its inability to adjust itself to the changes forced upon it by time can be traced a significant proportion of the inner conflicts and contradictions in Bengal today. Of course there are many natural causes—the dislocations and stresses of World War II; communal frenzy and finally the Partition of 1947, the final blow to possibilities of an integrated nation-consciousness. In a Union of large States, small West Bengal can never commend significant influence.

Since partition, the biggest single problem has been the influx of refugees from East Pakistan, 2,890,400 of them upto April-May 1955 and still pouring in; they depress the standard of living of the State and create a litter of problems which makes the struggle for economic development seem like fighting with one hand strapped behind the back. A problem like unemployment among the educated, fraught with grave implications for social morale, is made infinitely worse by the pressure of refugees.

Peering into the future, the prospects of this State give scope for speculation between the probable and the possible. First, one should consider politics because the grievances and the feeling of being neglected offer no hope of a stable society which can plough its own furrow without paying much heed to political parties and their manoeuvres.

Scornful of Authority

A fairly recent survey carried out by a private gallup poll organization concluded that support for the Congress party has increased considerably in West Bengal since the last general election. This is surprising for there is much dissatisfaction with the Congress. Part of it is undoubtedly due to the temper of the people which, as the Chief Minister once described grew "scornful of authority" because of the bitter experience the State underwent. But a substantial part also can be ascribed to the uninspiring condition and leadership of the party in power and the hint of corruption and inefficiency that invests it. There is a natural streak in favour of Leftist parties (it is worth remembering also that the Communist Party of India is now the only party in which Bengalis are prominent) but much more important than the sympathy is the irritation with the administration in power. If therefore, the opposition parties can erect some durable united structure with which to oppose the Congress in straight fights, its strength in the Assembly is likely to be considerably improved. The question of Bihar territories which West Bengal claims is bound to be reopened in the election campaign and will be used vigorously by the Opposition.

The main question, however, for a commentator scanning the future is the economic policy which the State will pursue. Repeated socio-economic surveys, the latest being one by Calcutta University's Department of Economics and Statistics, have drawn attention to the low level of income and amenities enjoyed by West Bengal's population. Unemployment, high generally in the State, is particularly so among Bengalis (in Calcutta for instance Bengalis are 50 per cent of the population but over 70 per cent of the unemployed); another worrying index is the high rate of unemployment among the educated which a West Bengal Government survey and other inquiries revealed. For any responsible and well-employed individual in West Bengal today, nothing is more mortifying and frustrating than to have no suitable advice to give to dozens of bright young people anxious to earn a living and retain their self-respect.

Vision in Planning

Dr B C Roy's Government, or more truthfully, Dr B C Roy himself has shown encouraging vision in planning West Bengal's economic future. For an impoverished state the performance during the first plan period when Rs 77.75 crores were spent on development was commendable, and this did not include the Rs 49.92 crores advanced to the Damodar Valley Corporation and the Rs 35 crores spent on refugee rehabilitation. The Second Plan provides for an expenditure of Rs. 153.44 crores, more than the Planning Commission considers the State as capable of achieving. Refugee relief will continue to demand large additional sums.

The commendable part of Dr Roy's effort is not so much in these targets and figures but in schemes of lasting benefit such as the *Mayurakshi Project*, the Ganga Barrage, the Durgapur Project, the reclamation of Salt Lakes round Calcutta and so on. These give evidence of vision and are praiseworthy even if other schemes like that of fishing trawlers have been a flop.

But vision, though indispensable is not enough and the drive of one person, however able, is also insufficient. So much of the capital, management and economic control rests in other, and not always sympathetic, hands that a laissez faire solution to unemployment, underemployment and the burden of refugees is difficult to contemplate. The lack of confidence and security makes a solution even more difficult.

Perhaps the best and most equitable method is to apply planning and controls much more stringently and organize the development of the State's resources through State enterprises. This would solve the problem of capital and management and ensure that the resources were utilized primarily in the interests of the State and its people. It would also provide the basis of a technical revolution in the State's educational system and leave a significant impress on the unemployment problem. State enterprise has many pitfalls but in West Bengal the peculiarities of the situation make it the method most likely to be fruitful.

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Time and the Choice of Technique

Sukhamoy Chakraborty

THE choice of techniques appears to have become something of a choice *theme* for the Indian economists today. This is possibly as it should be, since we are no longer ready to delegate the crucial investment decisions to the so-called impersonal forces of the market. The problem of technological choice, properly understood, is only one aspect of the more comprehensive problem relating to the determination of the amount and pattern of investment that would in some sense maximize whatever is taken as our target variable. The problem gets more complicated if we have more than one target variable. For example, in the case of India two target variables appear to be regarded as equally crucial, namely, the quickest possible elimination of unemployment and the maximum possible rate of growth of income. In both cases, the solutions have to be worked out under the constraints of a more or less unchanged structure of private property rights. Mathematically, the question is capable of being answered if the number of instrument variables is equal to the number of target variables. The problem, then, becomes one of finding out the appropriate instruments in a concrete economic setting.

But what leads us to think that the two target variables are independent of each other? Surely, employment cannot be regarded as a determinate magnitude from the economic standpoint unless we specify the type of production function into which employment enters as one of the independent variables. In the thirties, Keynes was in a position to isolate the problem of employment because he assumed away technical progress and changes in the production function. But, here, the situation being the precise opposite, it is difficult to see how the problem of maximising employment irrespective of its effects on productivity may be regarded as an economic problem by itself. Employment problem, viewed properly, is the problem of distribution of national income between profits and non-profits income, once given the level of real wages. But the basic problem in India is not one of distribution, but of growth.

This is not to assert, however, that the way the national income is distributed has no relevance from the growth standpoint. As a matter of fact, increase in the share of income going to the classes having investment propensities is likely to affect the rate of growth of income quite favourably. On the other hand, if employment is sought to be created through paying subsidies to workers in those lines of production where the net value added per unit of labour falls short of the level of real wages, the result will be only a temporary increase in employment at the cost of slackening in the rate of growth of the economy. The long-run effect on unemployment will, however, be quite adverse and will be in the same direction as the effect on the rate of growth of income. Correctly viewed, therefore, the rate of growth of income and the rate of growth of employment are not antithetical objectives. The two target variables, therefore, reduce to one.

From that viewpoint, the choice of techniques has to be geared naturally to maximise the rate of growth. The discussion that has taken place in the pages of 'Economic Weekly' has emphasized many relevant factors involved in this choice. But the whole discussion has been sigularly lacking in any explicit reference to time. The variable that has been emphasized are no doubt the correct ones, namely, output per worker, the level of real wages per worker, and finally, the capital cost per unit of labour. Questions have, however, been raised regarding the method of calculating the capital cost involved, in the case when money-cost cannot be regarded as the appropriate index of real cost or when international transactions in goods are involved. But they do not get down to the question of time, which is of the very essence of the problem of capital and investment. Time appears in this context in three different ways. Firstly, there is the time that elapses between the first application of investment effort and the emergence of the capital good usually known in economics as the gestation period. Secondly, we have the so-called fruition lag, consisting in the time-interval between the first application of the capital-good and the emergence of the flow of consumable products. Finally, we have the question relating to the time for which the capital asset may be expected to work.

Since no decision on the technological form of investment can be taken without considering how much of the national income is to be devoted to investment and how the total amount of investment is to be allocated between the different branches of production, it becomes essential to introduce time explicitly into our scheme of inter-relationships. The so-called fruition lag and the gestation period have however been mentioned often in this connection in economic literature. It may therefore be enough to point out their significance quite briefly. Consider a case where the planners decide to go in for capital-intensive projects as against labour-intensive ones where the technological nature of production at all permits of such a choice. A capital-intensive project will naturally entail a large so-called fruition lag. What is more, it also presupposes the existence of capital goods in requisite quality and quantity, the availability of which is conditioned by the prior distribution of investment among the several sectors of what is technically known in the Marxian terminology as the Department I and also by the basic decision relating to how much to invest. If, therefore, the choice of techniques is to be effective, the aggregate demand for consumer goods must be equal to the aggregate supply of consumer goods. In case we are dealing with a thoroughly planned economy, the adjustment may be brought about through rationing of scarce consumer goods, prices playing a role completely subservient to the target for accumulation. If, however, we deal with a so-called mixed economy, the extent of the lags has to be correctly ascertained as much as the productivity coefficients in arriving at equilibrating magnitudes. So much for the first two ways in which time enters into the picture. But the significance of the third way namely that relating to the age-distribution of the capital assets has not often been clearly understood in this context of choosing one's techniques.

Any significant investment programme is likely to affect the age-distribution of the capital assets of the economy. If the programme emphasizes capital-intensive techni-

ques, the corresponding structure of producers' durables will help raise the average life-span of the capital asset. Now, with a larger average life of capital, the ratio of depreciation to gross investment will fall, assuming a given rate of growth of national income. Further, this will mean that not whole of the depreciation will be needed to replace the old assets. In this context, depreciation obviously means current provision for amortization. As a matter of fact, depreciation will exceed replacement by a certain percentage which varies directly with the average life of the capital assets. This follows directly from the fact the economy is not stationary. In the nature of the case, therefore, the ratio of replacement investment to gross investment will fall. The extent of fall in the ratio of replacement to gross investment will, however, exceed the amount of fall in the ratio of depreciation to gross investment. This leads to a higher share of new investment in the investment total. The effect on the rate of growth of national income will be highly favourable since it is precisely new investment that helps in increasing productivity as against maintaining it. Other things remaining the same, the choice of capital-intensive projects would then lead to an acceleration in the rate of growth of the economy. A very good illustration of the above mode of reasoning is provided by the Soviet experience in economic development. Norman Kaplan's (Kaplan in Soviet Economic Growth) data as well as the data provided by the recent Economic Survey of Europe in 1955 go to show that the phenomenal growth of production in U.S.S.R. is as much due to a high ratio of investment to national income as to a high ratio of new investment to total investment. The advantage of choosing capital-intensive methods, therefore, consists not merely in the savings in wage-costs that accrue in the course of successive rounds, but also in making a larger total of new investment possible.

The rationale of the above line of reasoning has been explicitly worked out in mathematical terms by E D Domar and Robert Eisner on the assumption of straight-line depreciation.

Domar, for example, gives the following formula for calculating the ratio of replacement tongross investment:

$$\frac{R}{G} = \frac{I}{(I+r)^m}$$

where R=replacement, G=gross investment, r=rate of growth of gross investment and m=average length of life of fixed capital.

If for example, r=10% per annum, m=30, $\frac{R}{G}$ is nearly 5% while if r=10% and m=10, $\frac{R}{G}$ is approximatly 40%. It is evident from the above that a change in the life-span of the capital assets alters significantly the ratio of new investment to gross investment. A very clear recognition of the factor is also to be found in the writings of a Soviet Economist A I Notkin.

(Ref. A I Notkin: Ocherki teonii sotsialicheskovo vosproizvodstva and Voprosi opredelenia ekonomicheskoi effeklivnosti kapitalnykh vlozhenii v promisohlennosti SSSR. —Essays in the theory of Socialist Reproduction and Problems relating to the determination of the effectiveness of capital investment in the industries of USSR). Our purpose in this short note was only to point out the significance of the above factor in the matters relating to the choice of capital-intensity. A further discussion would entail several technicalities which are rather ill-suited in the present context.

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Farnborough—1956

(From a London Correspondent)

IN January, 1954, one of BOAC's Comets was lost with all on board off Elba. In April, 1954, a second Comet crashed into the Mediterranean. At about the same time, a turboprop Britannia crashed into the Severn. In that year, export sales of British aircraft slumped by ten million pounds. All Comet deliveries ceased. Production of the Vampire and Meteor was declining, with fewer orders. To what extent have these series of disasters affected the British aircraft industry of 1956?

Farnborough, 1956 leaves a very different impression from the display your correspondent attended in 1952. In 1952 there was an air of excitement which permeated down even to the spectators. All delta-shaped planes flew high over the aerodrome at a sober, secret pace. There was a feeling of great things to come and even the misfortune of a jet plane disintegrating over the aerodrome and killing many of the spectators could not dull the thrill of looking into the future. To-day, much of the promise has been falsified. Yet, in a more sober sense, the British aircraft industry is still very much a competitive industry. Since the war, Vickers-Armstrong has sold £ 35 million worth of its Viscounts including 32 to Capital Airlines and 18 to Trans-Canada Airlines in North America. Rolls-Royce has sold £.88 million worth of orders overseas for its engines. Whereas Farnborough 1952 emphasised the new Comet and the new fast fighter aircrafts, Farnborough 1956 emphasises progress already made with the new medium size passenger aircraft and in the sale of engines.

Two of the most noticeable things about the display were the marked divergence between aircraft designed for civilian and military use and the rapidity with which military aircrafts are outmoded. In military aircraft, the jet engine is the dominant means of propulsion. In civilian aircraft, the turbo-prop is the main from of propulsion. In military aircraft, the emphasis is on speed and yet more speed. The FD2 has the world air speed record of 1,882 km. per hour. But in civilian aircraft, economy of operation is combined with a design for a specific route and payload. Within civilian aircraft, a plan for internal operation must have markedly different characteristics from aircraft on international routes. This difference extends even to the training of pilots. A pilot trained in the RAF is unsuitable as a civilian pilot.

The rapidity with which military aircraft are outmoded is surprising. It seems doubtful whether on purely commonsense grounds, it would be worth while keeping more than a token force of aircraft in existence. By the time an aircraft is thought of, had its prototype made and is put into production, new methods of defence will already have been devised to make the whole progress useless. As long as research is as advanced as possible, there seems little point in putting the results of it into production at enormous cost. It is no secret that there have been several suggestions that the British Fighter Command should be abolished on the grounds that they would be no protection against ICBMs (Inter-continental Ballistic Missiles). The Javelin F(AW)7 had a device by which rockets shot from the plane would automatically link themselves on to an enemy at a signal from the pilot. But under these conditions, why send up a plane at all? It is possible that within the next ten years, missiles could be launched from a platform revolving around the earth above the gravitational field. The question is already being discussed as to how far into the sky do a country's territorial rights extend.

Besides the large military and civilian aircraft, there were also exhibited several new designs of helicopters and small cabin planes such as the Auster and Pioneer. Being of simple construction, their manufacture can still be undertaken by firms with small capital. It is exceptional however for a modern jet fighter to be built by a small company. The Folland Aircraft Company has constructed a jet fighter, the Gnat, only 29ft 9in in length and 22ft 2in in span which, by sound design and careful considerations as to weight, has succeeded in equalling the performance of a jet fighter three times its price. In 1954, negotiations began between the Company and the Government of India to manufacture the Gnat under licence in India. In July this year, the agreement was finally concluded. Work on the design of the Gnat was started in 1951. Owing to the refusal of the British Government to consider the original design, the capital and support for the initial development of the plane was provided privately. The engine for which it was originally designed did not become available and a smaller model, the Midget, with a smaller engine, had its first flight trials on August 11, 1954. Later, a better engine, the Orpheus, was used, and the first new engined Gnat flew on July 18, 1955. The following month the Ministry of Supply ordered six Gnats. All the original design, organisation and capital were provided outside any of the big aircraft firms and without Government support. The production costs are at least a third of a similar, more orthodox jet fighter and this economy results from the design. For example the wheels and wheelcovers are part of the same mounting. It has been estimated that a company with a total payroll of only 3,000 and with slightly less than 50,000 sq ft of floor space could build at least 20 Gnats a month. It is individual enterprise of this sort which gives hope for the British aircraft industry. It is greatly to be regretted that the high initial capital cost and the organisation of larger and larger units, makes an achievement such as this more and more difficult in the future.

Farnborough was duller this year than for a long while. Perhaps it is only the breathing space before a bigger effort on new fronts. The fight between jets and turboprops on civilian routes has only just commenced. Newly designed aircraft have not yet reached the exhibition stage.

India's Villages

Copies of this book are available from the West Bengal Government Press, Calcutta.

Price Rs 4-8-0

Indian and Chinese Plans

(Continued from last issue and concluded)

Gyan Chand

AS stated by Dr Raj, the problem of unemployment remains unsolved in China as in India—particularly the problem of rural unemployment and under-employment. The latter problem cannot but acquire great urgency in China, owing to the programme of rural reorganization which is well under way. Through large works of prevention of soil erosion, afforestation, water conservancy, local projects of public utility, development of auxiliary industries and handicrafts, every effort is being made to find palliatives, even if the solution of the problem cannot be taken to be in sight. Surplus labour in rural areas is being utilized in an organized manner and planned transfer of population from congested areas to under-populated provinces and newly reclaimed areas has already been undertaken. Internal re-distribution of population is inevitable in China for its present distribution is known to be extremely uneven; but even then, it is not certain that through re-distribution, development of agriculture and industrialization, complete success will be achieved in solving this problem. There is a growing understanding of its importance in China and it is not unlikely that revision of existing theories and assumptions would be clearly indicated by the empirical considerations and may in fact be undertaken.

Exit of the Small Trader

In one respect, however, Dr Raj's statement in this regard needs to be corrected. The fear of aggravating the problem of unemployment has not deterred the Chinese planners from going ahead with the programme of nationalization of retail trading. The latest position in this respect is that of 2.4 million households in retail trade, the business of nearly 75 p c has already been nationalized and they have been absorbed in jointly operated enterprizes, state trading corporations, trading co-operatives and as agents on commission basis for these commercial organizations. Twenty-five p c of pedlars and small traders have, however, not yet been provided for and in order to alleviate their position, they are now being organized into co-operatives and public trading organizations have been specifically assigned the duty of (a) raising loans from the banks for these co-operatives, (b) supplying commodities to them, and also (c) collecting taxes from them.

Private retail trading would practically disappear by the end of 1956 and the distribution of commodities down to the lowest level become entirely a public function. It would take some time before these changes are fully carried out, but it is clear that private enterprize in industry and commerce will be eliminated at all levels and replaced by state or co-operative undertakings.

Trade is expanding owing to the expansion of production, agricultural and industrial, and distributive functions would increase in extent and importance; but they are being rationalized and socialized even when they have not been nationalized. The small trader in China, as elsewhere, was a symbol, an instrument and an efficient cause of exploitation and also its victim. His exit now need cause no regret; he is himself better off on that account. The fear of unemployment has not prevented the helmsmen of the new Chinese economy from carrying out their programme of nationalization and rationalization of commerce, both wholesale and retail. Waste and anarchy, which the small independent retail trader represents, are incompatible with the development of a planned economy.

Small Scale and Village Industries

Handicrafts, as stated by Dr Raj, have been given an important place in the development programme and are being organized and developed rapidly to play their role. The craftsmen have already been largely organized into co-operatives and the trading co-operatives and state trading corporations have undertaken the responsibility of supplying their raw materials and marketing their products. Their production is expanding fast and in 1955 it expanded by more than 16 p c. There is an autonomous Federation of Industrial Co-operatives and it is functioning at national, provincial, county and Hsiang or basic level. Apart from the speed and vigour with which this integrated programme is being carried out, it has certain features, which make it different from our programme of the development of small and village industries. These features are:

(a) There is no competition between these industries and large-scale factories and there is no need for subsidies and reservations, as distribution of both craft and factory made commodities is made through the same agencies and their production is, as far as possible standardized.

(b) Construction and expansion of factories and mills is being proceeded with, along with the development of the small and village industries and expansion of their output.

(c) Production of these industries is being mechanized as a matter of policy and wherever possible, power is being provided and is utilized in production.

(d) Local needs are, as far as possible, being met by local industries, and unnecessary transport of goods is being avoided.

(e) Development of these industrial co-operatives is being combined with social education of the craftsmen i e they are being given an understanding of their place in the changing economy and exhorted to play their part with a clear knowledge of the changes that are in progress.

(f) Research and training institutions have already been established for the benefit of the craftsmen and are being utilized with advantage. In other words, owing to standardization of commodities, pooling of costs and prices, effective and rational distribution of goods, China has already introduced a common production programme, a common price policy and an all-embracing social purpose. We in India have been talking about all these for years, without understanding their implications in regard to industrial production as a whole and without taking any practical steps to realize these objectives. Even in the execution of the Second Five Year Plan, the prospect of this being done with success is rather remote. Our whole policy in this respect is full of contradictions and is not taking us anywhere. Differences between the Chinese and our plans in this respect are far more significant than their similiarities.

Why Rationing?

There are two other points in Dr Raj's article which cannot be passed over. For, a clear understanding of these points is essential for a correct comparative view of the Indian and the Chinese plans. The first of these relates to inflation and inflationary pressure. It is not possible for me to cite figures, but there has been, in spite of enormous development expenditure in China, no deficit financing, if published figures of public revenue and expenditure are dependable. Since 1952, all budgets have been surplus budgets, i e receipts have been in excess of expenditure, including development expenditure. China does not publish figures of currency in circulation and it is, therefore, not possible to assess the position with reference to the money supply of the country. There has been no price inflation, prices having been remarkably stable since 1952 and as costs and wages are also under public control, there has been no cost inflation on account of a rise of wages. Figures of the value and volume of trade are again not available, but according to official sources, inter-national account has been in equilibrium, in spite of rapidly expanding foreign trade.

And yet, as Dr Raj points out, it has been necessary to introduce rationing of rice, wheat, oil and cloth on a nation-wide basis, and the quotas, though reported to be adequate, are by no means liberal. What are these shortages due to and what do they indicate? The peasants, of course, have their own supply of foodgrains and possibly oil, but monopoly procurement has been introduced all over the country, surplus of the peasants assessed on the basis of estimates of their produce and needs, and grain deliveries are being collected regularly, which of course, means indirect rationing also of the rural population. The official explanation of this development is that per capita production and consumption of the essential commodities has gone up considerably all over the country and in some parts, very rapidly; and yet the appetite for these goods is growing on account of the growth of the purchasing power of the people and production of goods cannot keep pace with it. There has been shift of demand from coarse to finer grain, from lard to oil and from coarse to fine cloth. That is why 'planned purchase and supply', which is the Chinese phrase for monopoly procurement and general rationing, has had to be introduced and has to be maintained.

Inflationary Pressure?

Does it mean inflationary pressure? This question cannot be answered without a detailed consideration of the whole problem and without more data than are available at present. The crux of the matter is, whether the people are getting enough to satisfy their essential needs without being reduced to unduly low subsistence or even austerity level. The general level of nutrition in the country appears to have been greatly improved, and most reports bear out the view that acute distress is rare, if not non-existent, and the people psychologically can stand the strain.

The programme of development now in the process of implementation in China cannot but mean abstinence on a mass scale and the latter would do no harm if the people are not unduly hard pressed and understand that rapidly increasing investment has to mean willingness to wait for the 'pie' in the future. Balance has to be struck between reasonable needs of the people and urgency or rapid development. Recent experience of planned economies in Europe makes it clear that this balance has in practice been upset and is being redressed with great effort. Answer as to whether there is inflationary pressure in China depends upon this vital consideration. The Chinese authorities are alive to its importance and are learning from the experience of other socialist countries.

The Fundamental Contradiction

A few words need to be said also about "the fundamental contradiction" to which Dr Raj refers in the last concluding paragraphs of his article. He writes that impetus from land reform is running out, and the contradiction between the needs of a fast growing population, rapid industrialization and the limits inherent in the Chinese economy remain unresolved. The Chinese would not agree that revolutionary impetus is running out and the pace of socialist transformation does not seem to indicate any slackening of the impetus. And yet the problem remains as to whether the economy can sustain the increase of 12 million of population every year with the present man-land ratio in the country. (There is per capita less than ½ acre of cultivated land in China).

The contradiction arises out of the pace of development but even more out of the existing pressure of population and its annual growth. The rate of the latter, which is 2 per cent at present is likely to be accelerated. The death rate in China is at present 17 per thousand and the birth rate 37. The latter can and will be reduced in the next five years—it has been reduced from 27 to 17 in the last five years. The death rate in countries like Peurto-Rica and Ceylon has been reduced to 9 to 10 per thousand and even in Formosa, it is not much higher; and if that happens in China also, the annual rate of growth will probably go up to 2.7 per cent, which means roughly an increase of nearly 16 millions every year. Population will double itself in about less than 25 years if it continues to increase at this rate. Are the Chinese aware of this great contradiction?

Scope for Land Reclamation

According to Dr Raj, they are clinging to their 'illusions' as 'hard-boiled Marxists' and there is not even the recognition of the need to make a beginning with family planning. The Marxist ideology is supreme in China and according to it, the danger of over-population is an exploded Malthusian fallacy—a bogey of which China, being in a process of rapid socialist transformation, is not and need not be afraid. This view is being freely expressed and is the basis of official economic policy.* This position

* Both in regard to land reclamation and population policy, there has been some change. Mr Chou-en-Lai told the Indian Agricultural Mission which has just returned from China that:

"Although there may be some reclamation here and there, the main emphasis in China was on intensive cultivation and there was not likely to be much reclamation of new lands during the next few years. ....Reclamation was not only costly, but also raised very difficult human problems of colonisation.

"The Chinese were getting convinced that the population there was getting unduly large and that there was an urgent need of family planning. Family planning was necessary both for the health of the mother and the future education of children."—Ed.

can be disquieting even from the point of view of China, but there are two or three considerations which suggest that it is not necessary to take a gloomy view of the matter. In the first place, it is not a fact that there are no virgin areas available for extension of cultivation in China. Vast open spaces of the Soviet Union are not available in China, but there are areas in which very considerable extension of cultivation is possible. In the last four years China has reclaimed about 8.5 million acres of land and rapid reclamation is going on. Our Second Plan provides for reclamation of 1.5 million acres. In North East, Mongolia, Kansu, Sinkiang and Shenshi, Qhinghai and other Western provinces of China, large areas are reclaimable and are likely to be reclaimed. No authentic estimate of 'cultivable waste land' is available, but according to an American estimate, this area is likely to be of the order of 300 to 400 millions—nearly equal to the cultivated area of China at present.

Planned transfer of population to these areas has, as stated above, already commenced and is being speeded up. In these areas large scale mechanized farming, it need not be added, would be the rule. Moreover, though yield per acre in China is among the highest, yet it is not as high as in Japan, Italy and Egypt and there is considerable scope for raising the yield through scientific cultivation and improved farming practice. The yield has in fact greatly increased in the last four years and can be further increased. A combination of sound social economy and modern technique of agricultural production can deal with the 'fundamental contradiction'—at least for a good while yet.

Changing Policy on Population

Further, rigidity of Marxism is, in practice though not in theory, being lessened and in China knowledge of contraception is being freely imparted and contraceptives are being freely distributed through the public health services, and according to my information, no barrier to the acquisition of knowledge on contraception and contraceptives are being put up or maintained. This is more than token recognition of the need for family planning; and Dr Raj will perhaps agree with me that neo-Malthusian view on population is not an essential condition of the successful implementation of the programme of family planning.

Another change, which has occurred in China and is of great significance from this standpoint is the revolutionary change in the status and role of women in that country. This change is an event of far-reaching importance and has clearly an important bearing on the practice of contraception. Minds of the men—even more of the women—are being moved very deeply in China and taboos and inhibitions cannot stem the tide of a new sex-code and a new sex ethics in the making. Family planning in China will really mean much more than merely the use of contraceptives. It should and possibly will mean a new conception of the family and its place in personal and social relations. More is being done in China in practice for family planning than in India and profound changes in actual behaviour cannot be prevented. Even in the Soviet Union, the birth rate in two or three decades has fallen from 40 to 25 per thousand and is no higher than in the USA, in spite of rigours in action of Marxism and Stalinism. After the great 'thaw', which is a fact, similar decline in the birth-rate in China can well be postulated and may take place more rapidly than in many countries—including the Soviet Union. That does not alter the fact that the Marxists every where—more in China because of the context of their specific situation—have to do serious re-thinking of the premises of their views on population. This change also may come, and whether it will precede or succeed the change in practice no one can tell. In the next ten years the population of China will most likely continue to increase at least at the annual rate of 12 millions. That means that the population of China in 1963 will be well over 700 millions. From that there is no escape and that is not at all a frightening prospect. If China can realize the manifest possibilities of her existing situation, she will also realize her hopes without running into any formidable difficulties. She will before long have to think in terms of stabilizing her population at some desired level and make this thought the basis of her economic approach, policy and practice. This, she can, in my opinion, do without abjuring her Marxist faith.

Limitations of Comparison

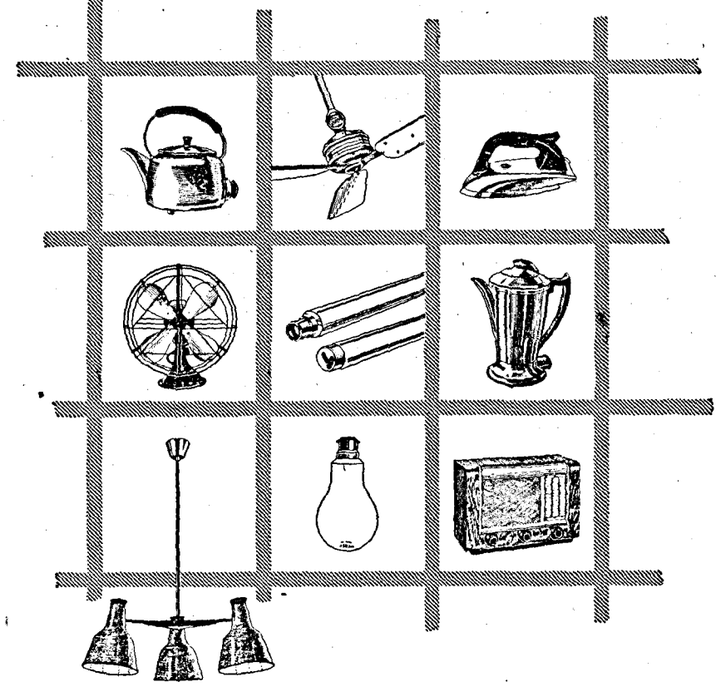
In conclusion I want to add a few words on the limitations of comparing the Indian and Chinese plans. My view is that much more can be done in the way of planned development of our country and more should be done; and implication and obligations of social revolution, to which we are committed, have to be clearly understood and acted upon. This, however, does not imply that the line of development in China can or should be reproduced in this country and we should aim at establishing the political or economic institutional framework of China. We can and should learn a lot from her experience; but our solutions have to be framed in terms of our own history and concrete problems. It is not the purpose of this article to disparage our own achievements, but to indicate the need for right understanding of the planned development of the Chinese economy and its mainsprings.

We in India have in our own way to bring about a change of the same order and set up a pace of development not significantly below that of China. We have to do so in our own way, but if our way cannot relieve misery, open out vistas of real hope, and enable our people to rise to the best in them and the need of the situation, our way would necessarily cause frustration and serious revulsion, and therefore would have to be abandoned. Let us hope that that will not happen and we too will blaze new trails. I do not want to say more. I hope that I will not be misunderstood. I am thankful to Dr Raj for having provided me the occasion for writing this article. Besides having warm personal relations with him, I greatly value his writings and his integrity even more than his undoubted ability.

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Book Review

Village Exchange Scheme

Industrial Development—A New Approach By Sushil Dey, ICS. Thacker Spink & Co, Calcutta. 1955. Pp IV, 82. Price Rs 5.

Reviewed by **R K Hazari**

THIS neat little book by a distinguished member of the ICS "claims to furnish in broad outline the key to the solution of a seemingly intractable problem." Its objective is "intensely practical, and the real value of the thesis is to provide a correct guide to concrete action."

Shri Sushil Dey opens with the story of Kulkuri, a village of 581 inhabitants in Birbhum district of West Bengal. It is one of the 185 contiguous villages contained in a community development project. The contribution of Kulkuri to history lies in the simultaneous creation of new wealth and new markets without displacement of any persons or products. This has been achieved through the Village Exchange Scheme, the objective of which is to base welfare on wealth and to provide more employment to artisans. It is not to be confused with barter because its purpose is not confined to mere exchange; it is concerned with increasing reciprocal demand, stopping or diminishing the cash outgoings from the village and to give a psychological impulse towards self-generating cumulative growth. It seeks to make for creditworthiness through self-help, without the use of cash as far as possible.

How has Kulkuri set out to fulfil these objectives? This is how the process works. A carpenter longed to possess a razor of his own. He had no means to buy one in the market. It was ascertained that the village blacksmith could make a crude razor blade with a spare bit of rusty steel he had. What did the smith think its price should be? Fitted with a handle, he thought, it would sell for As 5 but he did not think he would have a buyer for such a crude product. It was then suggested to the smith's wife that she would be glad to have a little stand to set her lamp on before the family altar. She readily agreed but had no money to buy one. The carpenter was got to carve a small wooden stand and a grooved handle out of a piece that was being thrown away as fuel, and he thought that the two together would be worth As 5. But he had no chance of selling them in the market. The lamp stand and the razor were then exchanged for what both parties thought was an identical price. They also thought it was a fairer price than what they could hope to get in the market, if there were a market at all for such things. Both felt that production and exchange had cost them nothing except a little labour, of which they had plenty to spare. This process had worked with ease in the case of multilateral exchange as well, since the appearance of barter about the transactions is only an illusory one. Every commodity or service offered in exchange is first evaluated in money by common consent in the village meeting and only then is the transaction effected and accounts squared. The form of barter that prevails here is, in other words, of the international type with facilities for multilateral clearance and short credits. The ultimate aim is to improve productive techniques continuously and to raise real incomes by making full use of the possibilities of trade within the village.

This scheme is not to be taken as a programme for village self-sufficiency. Its basic purpose is to extend the market for the present crude and unimproved products of rural industry. "This cannot be done on any appreciable scale by taking away the existing market from competing factory products. The market we are looking for must be (a) new or additional market". In other words the scheme is devoted to the idea of complementarity of large and small industries without cumbersome taxes, cesses, restrictions on production, etc.,

The author derives theoretical support from a note (which one supposes, is also a clean bill of health) by Mrs Joan Robinson who compares the scheme with the EPU and considers cash in the former case as the equivalent of dollars in the latter.

Obviously the scheme which enables villagers to make productive use of surplus labour and of materials which would in its absence have been thrown away, is beneficial. But what is not obvious is the author's claim that "the story of Kulkuri is the first tremor of a deep industrial upsurge starting in .... our economy".

Whether the scheme can start such an upsurge depends on the amount of unused resources in villages, not only of labour but also of materials and tools. The wasted resources need not be diversified: even if the village carpenter is fully occupied selling to towns, if the village weaver has idle looms, he can add both to his and the carpenter's wealth by offering more cloth per table than the carpenter could obtain from the towns (assuming that either of them can obtain the raw materials).

Whether the scheme will succeed depends on the amount of organisation required. Village groups could probably do the work of the more formal organisation that would be required in less close knit societies. But even so, some outside help appears to be necessary. Mere demonstration of the benefits to be received may not be enough: the carpenter's wife may have to be persuaded to use handloom instead of mill cloth. The EPU expedient, to continue Mrs Robinson's simile, of bargaining or restricting dollar imports is not open to villages.

Whether the scheme should succeed depends on the relation between village and urban costs of production (including the social costs of transfer, housing etc.). EPU is clearly beneficial to Europe (and it could be argued to the world as a whole) even if American industries remain idle instead of their less efficient European counterparts, since only restricted numbers of European workers can emigrate to America. But Indian villagers can move to Indian towns, and millowners can build mills in rural areas, and it may increase total wealth to do so.

None of these points are criticisms of the scheme—they only raise problems for the detailed research and planning, the need for which the author himself stresses.

Around Calcutta Markets

Uncertain Outlook

Wednesday, Evening

THERE is more than one reason for the set-back and the subsequent upward rebound in equities in the last few days. Fall in equities was initiated by the increase in excise duties on cloth. To be more precise, the set-back was aggravated by the Government's decision to raise cloth excise duties. For, equities had developed an easier trend even before the announcement of the decision to increase cloth excise duties. A corrective set-back was widely anticipated. It has come, though it is yet too early to say whether it is over. At the moment, equities remain hesitant at levels slightly above the recent "lows".

In the recent set-back, some of the speculative scrips reached the bottom levels recorded during the crisis on Lyons Range months ago. Indian Iron, for instance, were "done" down to a level which was only two annas higher than the bottom touched during the crisis. This was not entirely due to the higher cloth excise duties. There were troubles about the settlement on Dalal Street. Doubts about the settlement aggravated the fall in equities. There is a market saying that, even in a secondary "bull" market, the earlier "low" is repeated twice.

Market Technique

On this technical theory, it is not without significance to note that the present "low" in Indian Iron is two annas above the crisis bottom. It would be unsafe to stress this point. But there is some technical point in it. Nor is it without significance that, on both the occasions, the "low" in Indian Iron was witnessed during kerb dealings. But this latter fact has a "bearish" implication. There is another market saying that "lows" and "highs" in kerb dealings are repeated in official trading hours. Does this mean that the outlook is still uncertain?

Wednesday's recovery in equities is mainly technical. It is due to replacement buying. There has not been much of fresh buying. But "bears" have been prompted to cover their sales because of developments relating to the Suez Canal crisis. That President Nasser would reject the 18-nation plan was not unknown to stock markets. But reports of the Anglo-French reaction to the failure of the Cairo talks have revived fears about the dangers of war and some responsible papers in London have been openly warning Britain about war danger. Though the Press in India is not, stock markets seem alarmed at the possible turn of events.

War Fears

Besides revival of war fears, some other factors combined to enable equities to recover a portion of the ground lost earlier in the week. There is considerable inter-trading between Bombay and Calcutta mainly on speculative accounts. It is, therefore, natural that apprehensions about the smooth passage of the settlement in Bombay would affect equities in Calcutta. With the end of the Bombay settlement troubles, equities have resumed the upward trend. But, in the absence of fresh buying support, the upward movement remains technical.

Any deterioration in the situation in west Asia may cause a sudden spurt in equities on Lyons Range. Wars have always had a "bullish" effect on stock markets. It is rather academic to argue that any disruption of traffic through the Suez Canal, as a sequel to war, will only raise import costs of the Second Plan. In wartime, imports are costly, and goods are not always available. These are the very reasons why stock markets move up. There is no reason to believe that stock markets would react otherwise to any worsening of the situation in the Middle East.

But if war dangers are the only factors responsible for the revived spurt in equities, the stock market steadiness may not last long. Because the Cairo talks have failed, it does not mean that war is inevitable on the Canal issue. Both America and Russia are in favour of solving the crisis under the auspices of the United Nations. President Eisenhower may have conceded the Anglo-French right to use force, but this is conditional on aggressive acts or designs by Egypt. Cairo is determined not to provoke any war-like action. This aspect of the situation must not be ignored.

Apart from war troubles, the market outlook is not gloomy. Inflationary trends still persist. But latest price movements are not discouraging. Food prices are not moving up. There has been a slight fall in food prices. Living costs remain high because of the rising trend in cloth prices. But the recent Indo-American Agreement about supplies of agricultural products by America to India may have a sobering effect on prices. Those who are aware of the incidental monetary repercussions of the American wheat Loan will appreciate how the latest Agreement may have similar effects. With lower prices for food and for industrial raw materials, some of industry's troubles may be over.

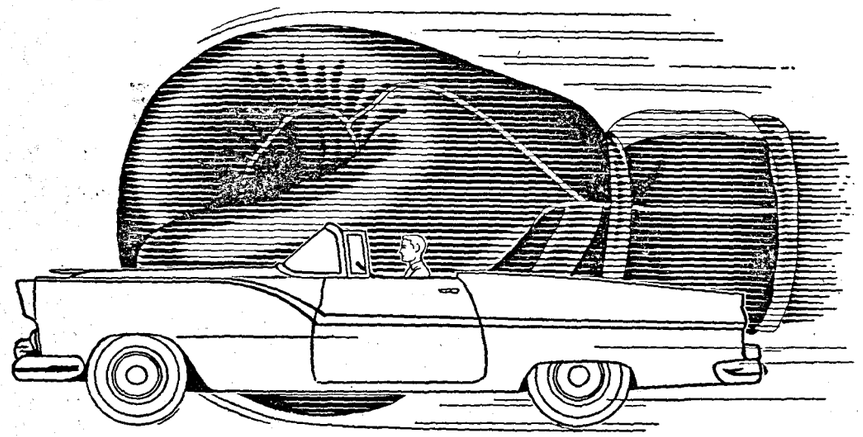
Firm Jutes

In an otherwise "bear" market, Jute shares have been consistently firm. Steadiness in Jute shares is more than justified. By the middle of July last, 2½ per cent of looms were re-sealed. During August, mill stocks of jute goods declined considerably. Not only has output fallen, exports have also gone up. By the middle of this month, another 5 per cent of jute looms will be re-sealed. Mill stocks of jute goods may decline further during this month. These stocks will certainly decline heavily during the next month. But the gunny and stock markets are anticipating these developments.

Besides Jute shares, Burrakur Coal did not fall while equities in general were slumping. At the time of this writing, the outcome of the amalgamation project is not known. But the revived spurt in Burrakur in the last few days indicates that the amalgamation plan will go through. In that event, Burrakur may rise further. There is no difference of opinion that the amalgamation plan is favourable to Burrakur. Despite the spurt in Burrakur, Coal shares remain inactive. There is growing gloom about Coal shares. But it is of interest to note that sellers are not active.

A disturbing development is the quiet trend in Engineering and Miscellaneous shares. These groups of shares are not falling, but there is not much of activity in these counters. Meanwhile, Paper and Cement shares remain steady, and attract investment support at all set-backs.

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Around Bombay Markets

In Jitters over Excise

Thursday, Morning

THE Stock Exchange is on trial, as it were. It is not only that the market has been in jitters, especially the cotton mills section, ever since the announcement of higher excise duty; the Finance Minister's threat, that controls might be imposed as a last resort to check undue price inflation, has led to some rethinking. The facile argument that controls will mean flourishing business for the mills, as they did in the past, does not carry conviction any longer, for not only the economic situation, but also the political climate has changed so much. At least the operators will be kept guessing when the Finance Minister will strike next, in order to mop up surplus mill profits.

In the circumstances, it is natural to talk about bear markets. But there are other considerations, the Suez canal issue, for instance, which is a "very, very grave situation". Britain might be inviting trouble, but market operators stand to gain from it, if she does. There is also the Reserve Bank Report for the year to June 30, 1956. Its broad finding that India has been able to combine in a substantial measure economic development with financial stability, cannot be dismissed off hand. The growing foreign exchange shortage is yet another factor which must boost domestic industrial production, by forcing further cuts on imports of a variety of goods. This is certainly a bullish point.

Whether the market will derive strength and support from these bullish factors is anybody's guess at the moment. But as there has been a forced technical correction in the last fortnight, a reversal in trend may not be ruled out altogether.

Indicative of the landslide in prices, industrials succumbed to long liquidation, with Tata Ordinary losing over Rs 6 as compared to the previous week but they improved to close on a steady note at Rs. 196-8. Indian Iron also suffered a sympathetic decline to Rs. 35-1 but closed better at Rs. 35-9, compared to the highest during the week of Rs 35-14. Textiles, however, experienced a precipitate drop.

In the miscellaneous section, conditions were no better. Bombay Burmah recorded a heavy drop of Rs. 30 to be placed at Rs. 718-12 but recovered at the close of the week to Rs. 742-8. Some replacement buying was noted in Tata Chemicals, Scindia, Premier Construction and National Rayon all of which had suffered in the general decline in values.

Cotton

Still Higher Targets

THERE was nothing of note in the cotton futures which continued to show a bearish trend. The annual meeting of the Indian Central Cotton Committee, Bombay, served to focus attention on the need for an appreciable increase in the production target for cotton in the Second Plan. Some other points which were taken note of by the ICCC were: (i) the constitution of State Cotton Committees in all the important cotton growing States, for reviewing the progress of cotton extension schemes and other related problems; (ii) the need to bring about uniformity in legislation relating to cotton in various States; and (iii) the constitution of Regional Research Stations to deal with problems of cotton vis-a vis crop rotation and other allied subjects.

Shri M. S. Randhawa, Vice-President, Indian Council of Agricultural Research, who presided over the last meeting of the ICCC, made a strong plea for raising the target for cotton from 58.6 lakh bales to 65 lakh bales during the Second Plan. Judging from the phenomenal increase in mill consumption of Indian cotton during the First Plan from 25.17 lakh bales in 1950-51 to 43.47 lakh bales in 1955-56, the need for an acceleration in the tempo of production is obvious. This apart, there is also the question of raising the textile production target to be taken into account. This naturally presupposes an intensification of the production campaign.

The Committee reports that the work done under the cotton extension schemes has been generally satisfactory, although there is still need to improve per acre yield by judicious use of manure, fertilisers and improved seed, intensive cultivation, adoption of improved cultural methods and more irrigation. An area of 2.13 lakh acres have been already brought under irrigation and it is expected that 10.54 lakh acres would be brought under irrigation in the projects which are now on hand.

Here increase in acreage will not of course ensure a commensurate increase in output. Expanded acreage should be supplemented by intensive cultivation and scientific application of fertilisers. Thus, improved seed, use of fertilisers and improved agrnomical practices should be combined to bring about the desired increase in production to 65 lakh bales. It may be noted here that at the Conference of State Ministers of Agriculture at Mussoorie in June last, a working target of 58.58 lakh bales was accepted with the recommendation that the States should strive hard to raise it to 61 lakh bales. The ICCC has proposed the target to be raised to 65 lakh bales, taking into consideration the increased target of textile production and allowing for exports, extra-factory consumption and the need for a comfortable carryover.

It is all very well to indulge in target practices of this kind. But care should be taken that in an attempt to raise production, the supply-demand equilibrium is not lost sight of. Should that come to pass, the price of cotton may become so unremunerative as to restrain the cultivator from putting his land under cotton, which would eventually hit the production target pretty, badly. Discussing relative prices in agriculture has been a favourite pastime of the Agriculture Minister. It is to be hoped the Agricultural delegation may learn from Chinese experience and do some thing about it.

Oilseeds

Quietly Steady

QUIETLY steady trend prevailed in the oilseeds market during the week under review. Traders are looking forward to the middle of October when it would be possible to form some idea of the statistical position from the trend of arrivals. It is felt that production will be considerably larger than last year's unusually low output. In view of the vague crop prospects, the market tended to be influenced more by technical considerations than by the sentiment of the spot market at a given moment.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1440.18	1424.51	1451.78	1292.99
2. Rupee Coin	116.03	116.74	112.42	109.58
3. Deposits				
a) Central Government's	58.86	65.77	54.04	64.38
b) Banks'	56.16	56.56	51.04	56.56
c) Other Governments'	16.72	2.91	9.38	40.16
d) Others'	18.01	12.27	11.88	18.88
4. Foreign Securities	596.74	606.68	616.68	656.82
5. Balances held abroad	34.22	24.94	32.02	63.10
6. Rupee Securities	703.65	693.72	708.62	508.91
7. Investments	51.31	50.12	49.41	63.20
8. Loans and advances to Governments	5.32	8.06	7.08	0.25
Scheduled Banks				
1. Demand liabilities (net)	637.71	637.46	623.26	593.67
2. Time Liabilities	461.32	461.90	458.08	409.78
3. Cash on hand	37.58	35.53	36.01	33.28
4. Borrowings from Reserve Bank	30.99	34.63	36.56	20.62
of which against Usance Bills	22.00	28.12	25.34	13.66
5. Advances and Bills discounted	689.27	689.98	692.83	572.71
of which State Bank's	124.22	123.77	126.34	107.05
6. Invst. in Govt. Sec.	361.42	362.02	361.35	379.45
of which State Bank's	106.18	106.19	106.08	107.51
Cheque Clearance	107.33	131.16	116.43	123.35

†For Reserve Bank and Cheque Clearance week ended 7-9-56. Scheduled Banks week ended 31-8-56.

Bombay Money Rates	7-9-56	31-8-56	10-8-56	9-8-55
Inter-Bank Call Rate	$3\frac{3}{16}$	$3\frac{1}{8}$	$3\frac{1}{8}$	$2\frac{7}{8}$
3 months deposits	$3\frac{3}{8}$	$3\frac{3}{8}$	$3\frac{3}{8}$	$2\frac{7}{8}$
6 months deposits	$3\frac{3}{8}$	$3\frac{3}{8}$	$3\frac{3}{8}$	3

Bombay Bullion — In Rupees and Annas

	13-9-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	103-3	103-0	104-4	95-4
Forward	102-8	103-2	104-4	†
Silver (per 100 tolas)			-	
Spot	173-1	174-0	172-5	165-8
Forward	173-9	174-6	172-5	†

† no trading

JUTE STATISTICS

Production ('000 tons)

	July. 1956	June. 1956	May. 1956	July'55 to June '56
Hessian	34.3	35.0	35.8	403.0
Sacking	52.9	57.3	59.6	622.9
Others	6.9	6.6	6.3	69.1
TOTAL	94.1	98.9	101.7	1095.0
Total Production in the corresponding months of:				
1955	84.1	85.7	81.7	1095.0
1954	80.7	74.6	71.3	994.8
Stocks at the end of the month ('000 tons)				
Hessian	38.5	37.5	40.6	—
Sacking	91.1	83.0	71.7	—
Others	6.2	6.5	7.4	—
TOTAL	135.8	127.0	119.7	
Stocks at the end of the corresponding months of:				
1955	81.5	87.6	94.7	—
1954	80.8	86.9	86.5	—
Despatches:† ('000 tons)				
Hessian	33.3	38.3	40.0	413.5
Sacking	44.6	46.5	51.4	579.5
Others	6.3	5.9	6.6	54.2
TOTAL	84.2	90.7	98.0	1047.2
Total despatches in the corresponding months of:				
1955	91.6	84.0	89.6	988.4
1954	87.4	66.1	68.3	791.9
Raw Jute Consumption: (lakh bales of 400 lbs each)				
1956	5.25	5.54	5.8	63.40
1955	4.65	4.94	4.72	57.92
IJMA Mills' purchases of raw jute (lakh bales)				
Pakistani	0.43	0.37	0.21	11.99
In corresponding periods of:				
1955	1.90	1.26	0.95	10.80
1954	0.6	0.9	0.80	9.35
Indian	3.41	3.78	3.85	49.70
In corresponding periods of:				
1955	2.84	3.09	1.79	44.19
1954	2.92	3.23	2.54	37.87

† Despatches include exports and sales for internal consumption

Source : Indian Jute Mills Association

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group	Week Ended 25-8-56	Week Ago 18-8-56	Month Ago 21-7-56	Year Ago 27-8-55
I **Food Articles:**	**399.1**	**401.1**	**387.8**	**318.5**
Cereals	512	505	489	386
Pulses	406	410	384	267
Others	255	264	257	236
II **Industrial Raw Materials:**	**505.6**	**505.1**	**496.8**	**404.7**
Fibres	477	475	475	414
Oilseeds	581	582	545	380
Minerals	513	515	537	422
Others	423	426	420	419
III Semi Manufactures:	**411.1**	**409.5**	**397.5**	**325.0**
Leather	372	381	391	337
Mineral Oils	208	208	208	201
Vegetable Oils	615	606	550	371
Cotton Yarn	503	498	482	407
Metals	329	329	327	257
Oilcakes	487	479	446	332
Others	361	361	361	330
IV Manufactures:	**389.7**	**388.0**	**386.0**	**370.6**
Textiles	425	422	419	406
Jute	407	398	386	416
Cotton	432	430	430	402
Rayon & Silk	470	470	470	474
Woollen	266	266	266	278
Metal Products	388	388	388	352
Others	294	293	291	286
V Miscellaneous:	**565.0**	**564.6**	**562.0**	**562 4**
All Commodities:	**421.4**	**431.1**	**412.7**	**357.3**

JUTE CROP FORECAST

	Area in '000 acres 1955-56	Area in '000 acres 1954-55	Yield in '000 bales of 400 lbs each 1955-56	Yield in '000 bales of 400 lbs each 1954-55
EAST PAKISTAN				
Tippera	179.5	117.9	612.7	458.7
Dacca	162.6	150.1	572.2	578.0
Mymensingh	383.4	331.8	1458.2	1282.6
Rangpur	220.2	175.2	743.1	637.0
Faridpur	182.9	127.5	632.3	480.0
Other districts	505.9	340.7	1573.8	1226.0
Total Pakistan	16,34.5	12,43.2	55,92.3	4662.3
INDIA				
WEST BENGAL	673.7	476.4	1689.1	1295.3
24 Parganas	102.5	80.2	294.2	240.6
Murshidabad	127.5	97.5	214.2	190.1
Other districts	443.7	298.7	1180.7	864.6
COOCH BEHAR	105.8	74.2	268.7	201.1
TRIPURA	20.0	19.0	48.0	46.0
ASSAM	367.0	280.0	1212.0	750.0
BIHAR	270.0	270.0	588.0	374.0
ORISSA	111.0	87.0	245.0	192.0
UTTAR PRADESH	33.0	34.0	86.0	70.0
Total India	15,80.5	12,42.6	41,36.8	29,28.4

Source : Indian Jute Mills Assn.

INTEREST RATES IN SELECTED WESTERN EUROPEAN COUNTRIES

	1956 June	Mar.	Dec.	1955 Sept.	June	Mar.	Dec.	1954 Sept.	June	Mar.
United Kingdom										
Discount rate ..	5.5	5.5	4.5	4.5	4.5	4.5	3.0	3.0	3.0	3.5
Government bond yield ..	4.74	4.65	4.39	4.48	4.15	3.98	3.76	3.66	3.78	3.89
Yield of industrial bonds ..	5.66*	5.66	5.36	5.36	4.94	4.82	4.44	4.50	4.57	4.66
Yield of industrial shares ..	5.20*	6.31	5.64	5.52	5.10	5.58	5.24	5.14	5.56	5.73
Netherlands										
Discount rate ..	3.0	3.0	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Government bond yield ..	3.90	3.46	3.40	3.29	3.20	3.22	3.22	3.27	3.17	3.27
Yield of industrial bonds† ..	3.89	3.40	3.45	3.20	3.15	3.14	3.16	3.24	3.20	3.16
Yield of industrial shares ..	5.3	4.7	4.6	4.4	4.7	4.8	4.8	5.2	5.5	5.4
Western Germany										
Discount rate ..	5.5	4.5	3.5	3.5	3.0	3.0	3.0	3.0	3.0	3.5
Government bond yield ..	5.2‡	5.2	5.5	4.4	3.4	3.8	4.2	3.8	4.4	5.0
Industrial bond yield ..	5.9‡	5.9	5.8	5.3	4.9	5.2	5.6	5.1	5.7	..
Industrial share prices ..	213*	217	222	233	225	208	190	155	127	117
France										
Discount rate ..	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.25	3.25	3.25
Government bond yield ..	5.35	5.19	5.15	5.22	5.19	5.25	5.36	5.43	5.52	5.38
Yield on industrial bonds† ..	6.39	6.46	6.42	6.35	6.36	6.70	6.87	6.98	7.41	7.58
Yield on industrial shares ..	3.54*	3.32	3.30	3.00	2.92	2.72	3.07	3.59	4.57	4.32
Denmark										
Discount rate ..	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	4.5
Government bond yield ..	5.69	5.65	5.62	5.65	5.56	5.47	5.47	5.41	5.28	4.98
Industrial share prices ..	127	122	119	121	118	111	107	109	111	104
Norway										
Discount rate ..	3.5	3.5	3.5	3.5	3.5	3.5	2.5	2.5	2.5	2.5
Government bond yield ..	3.19	3.16	3.14	3.02	2.99	2.96	2.75	2.68	2.68	2.68
Industrial share prices ..	149	157	149	148	147	149	130	122	110	109
Sweden										
Discount rate ..	3.75	3.75	3.75	3.75	3.75	2.75	2.75	2.75	2.75	2.75
Government bond yield ..	3.70*	3.66	3.75	3.81	3.90	3.40	3.37	3.21	3.19	3.19
Yield of industrial bonds ..	4.73	4.46	4.78	4.64	5.28	4.03	3.77	3.70	3.65	3.58
Yield of industrial shares ..	4.65*	4.72	4.26	3.91	..	3.80	3.58	3.79	3.95	4.27
Belgium										
Discount rate ..	3.0	3.0	3.0	3.0	2.75	2.75	2.75	2.75	2.75	2.75
Yield on government bonds ..	4.18	4.18	4.17	4.15	4.15	4.13	4.20	4.22	4.28	4.34
Yield on industrial bonds† ..	4.87	4.80	4.90	4.74	4.73	4.60	4.95	4.98	5.27	5.25
Yield on industrial shares ..	3.54	3.44	3.27	3.19	3.29	3.07	3.17	3.31	3.80	4.53

* May.
† includes some non-industrial, but no government, bonds.
‡ April.

Source: Economic Bulletin for Europe—August 1956, United Nations.

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Arresting Price Rise

ON Delhi's Cotton Textile Policy, there has always been sharp differences of opinion within the Cabinet. Considering that these differences arise from fundamental and irreconcilable differences in outlook, which are often ascribed, somewhat euphemistically, to differences in economic philosophy, one should be prepared for sudden and unpredictable changes. The Finance Minister modestly claimed to have outwitted the market when excise duties were raised. For once, Bombay, and Ahmedabad could not get advance information or even anticipate what was coming, and forestall Delhi. The timing also, the Finance Minister claimed with the same modesty, could not be more strategically accurate. The increase came at a time when stocks with the mills had gone down to a record low.

But need the Finance Minister have been so modest? He had raised the excise duty not because Government wanted more revenue but because cloth consumption had to be restricted. If he had outwitted the market, he has more than outwitted both Parliament and his critics outside who failed to see that when he said restrict consumption, he really meant increase, for Delhi is now agog with the news of a fresh expansion of mill capacity, issue of additional licences for spindles and looms intended to raise the ceiling of cloth production by another 800 million yards. Surely, if restriction of consumption was the object and an appeal had to be made to Parliament and the people to sacrifice and contribute their bit to the success of the Plan, it could not have been better worded. After all, the excise duty was not a threat aimed at anybody, certainly not against the mills. If latest reports from Delhi are to be believed, it was a harbinger of more plentiful supply of cloth to come and eventually of lower cloth prices also, via increased mill production. Verily the path is narrow and as sharp as the razor's edge; deprivation and self-denial lead but to untold bliss.

It is a pity that the Finance Minister cannot make the period of transition from denial to plenty any shorter than the couple of years which would be needed to issue the licences, get the plant and machinery, largely through import, install new capacity, and expand the flow of supply. But wait, one can never tell. If the Food Minister can get emergency imports of U S surplus foodgrain, why cannot the Minister of Consumer goods industries get long cloth woven in other countries which have the needed manufacturing capacity from surplus U S cotton? Mills from Manchester would any day be a better stick to beat the mills with than the threat held up against them of further raising the excise duty.

There are unfortunately some who are congenitally incapable of taking the dynamic view of things and acting according to the need of the moment. They complain if their apple cart topples in the general hustling which is inevitable in the display of dynamic energy. Elsewhere in this issue an esteemed correspondent writes about the discontent among handloom interests, if not consternation, at what appear in retrospect to be the milder and already out of date changes contemplated in the textile policy of an earlier day. Handloom interests, he writes, have threatened to go on strike and withdraw from Government Boards, if the Government persists in implementing its programme of phased introduction of power looms. The contributor argues persuasively that this

change over in technique is ultimately in the interest of the handloom weavers themselves and that the latter should not obstruct what is after all a desirable and an inevitable part of the programme for their rehabilitation.

The place given to handlooms and village industries in the Plan has always had its critics. It did not, however, argue on the part of the planners a preference for inferior techniques as such. Partly it was a political concession, but it did not lack rationale because it offered scope for employment and could be exploited in the period of waiting inevitable in planning until the capital base of the economy had been properly built up, and the foundation firmly laid for the widest use of improved techniques of production. This sector could be exploited, so it was felt, also for supplementing mill production during this period of waiting. The employment potential of industries was not perhaps examined very carefully and was accepted more or less on trust. Is it now to be inferred that the capacity of the handloom sector to contribute significantly to the supply of cloth has also been found to have been grossly overestimated?

The rise in cloth prices which has been going on since the later half of last year, lately at an accelerated rate is most likely the result of rising money incomes the impact of which, it had always been known, would first fall on the demand for food and cloth. On the supply side it is possible that the handloom production has not increased at the expected rate. In any case, demand for cloth has certainly not risen faster than supply.

The target of per capita consumption for the Second Plan period, we are now told, may have to be stepped up from 18 yards to 20 yards. This limited measure of increase in planned consumption will be welcome. No caveat need be entered against it. But misgivings arise that in providing for this warranted increase in consumption, the Finance Minister may be taking a line which takes us away from the basic problem of planning. Macro-planning is not merely a matter of size or scale. Neither is it a matter of filling up details. There might be a definite departure from the basic fundamentals. So far as the objectives are concerned, it is a question of altering the Plan. Headines in the newspapers that the Plan is being re-written may be sensational but they may also be true.

It has all along been accepted without reservation and as fully recognised that the Plan will never succeed unless the price line can be held. If prices could be maintained unchanged by allowing supply to increase then, of course, there would be no problem. It is precisely because supply, even of the essential consumer goods, cannot be increased beyond a point without destroying the pattern of allocation of resources which had been decided upon, after a great deal of deliberation, that one begins to feel puzzled. The outlook is not made any clearer when, instead of exploring lines of action for holding prices, the Finance Minister goes in to dilate on the merits of higher duty on cloth as a substitute for a rational programme for making cloth available at reasonable prices to the general body of consumers.

Fair Price Shops appear to have been discussed by members of Parliament at one stage but there is danger of this proposal as well as sanity being swamped by wild promises. Free markets and planned allocation of resources cannot be made to co-exist happily together. To argue that restriction of consumption through taxation could be a possible alternative to controlled distribution on the ground that taxation in general is dis-inflationary —if they cut into savings, even taxes on income may be inflationary— and therefore it does away with the necessity of interfering with free markets overlooks the proviso that such taxes must not raise wage costs, that is they should not be imposed on 'wage goods'. Taxes on wage goods inevitably lead to fresh rounds of cost increase. The academic controversy whether some direct taxes can also be passed or not may not have been settled yet. But there has been little difference of opinion on the effects of a tax on essential consumer goods. So raising prices of cloth would not help to hold the price line, whoever may pay the tax, mills or consumers. Grand strategy may require that he hold up his tax proposals yet a while; the country is waiting for the Finance Minister to say something about his price policy.

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Balancing the Two Wings

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EIGHT years ago, the Muslim League celebrated its spectacular achievement in establishing Pakistan as a separate, sovereign State. There are not many instances in history of such phenomenal success of any political party in any country in such a short time. Today, the Muslim League, in its hour of crisis, must be bewildered at its swift loss of glory and prestige. In less than nine years, the Muslim League has so disintegrated as to cease to be the party in power in the State of its own creation. Disruption of the Muslim League has been swift, but not sudden. It lost its hold over Eastern Pakistan during the last elections. Dacca was not the only challenge to Karachi. Soon, Lahore emerged as another rival. Already ousted from Eastern Pakistan, the Muslim League also lost its hold over Western Pakistan. The Republican Party wrested the power from the League in Western Pakistan just as the United Front had done earlier in Eastern Pakistan. But the League was still supreme in Karachi, though it had to accommodate the United Front as a junior partner. And now the Muslim League has also been ousted from Karachi. It is not even a party to the new coalition cabinet for Pakistan.

If the rise and fall of the Muslim League have been so swift, the emergence and the disintegration of the United Front have been much more sudden. There is a close parallel between the rise and fall of these two political parties. Even as the Muslim League lost prestige as it ceased to represent the wishes of the people, the United Front went into sudden eclipse as its desire to cling to power forced it away from its popular moorings. No one except the party members concerned will mourn the political eclipse of these two parties. Both lost popularity as each disowned the interests of the people. Disintegration of the Muslim League is a welcome reflection of Pakistan's rejection of reactionary politics and parties. It is a development which will be hailed by all those who wish well of Pakistan. It is to be deplored that the United Front has lost a glori us opportunity by deviating from its original roots. But the United Front can take solace that one of its constituent groups is now the dominant party in the central coalition cabinet. Like the withering away of the Muslim League and of the United Front, the emergence of the Awami League as the dominant, though not the majority, party in Pakistan is a tribute to the political consciousness of the people of that State.

Two deep influences have shaped Pakistani politics since its birth. Dacca has always resented Karachi's dominance. This was not the only, but the main factor which led to the fall of the Muslim League in Eastern Pakistan. Lahore resents, no less than Dacca, the supremacy of Karachi, but for reasons which are entirely different. Lahore is symbolic of Punjab's determination to dominate Pakistan. Like the Muslim League, the Punjabi elements in Pakistan (who are not necessarily Punjabi Muslims) are in favour of a strong Centre. Unlike the Muslim League, Lahore knew, and knows, that it can never be popular in both wings of Pakistan. Creation of Western Pakistan as a single unit is an achievement more of the Republican Party than of the Muslim League. While Lahore has been shrewd in exploiting the Muslim League to curb the separatist tendencies in Eastern Pakistan, it has never made any secret of its ultimate design to dominate Karachi. In Mr Suhrawardy's Coalition Cabinet, the Republican Party is in the majority. Time may yet reveal that Dr Khan Saheb has stooped only to conquer. It is already clear that, uncertain of solid support from the East Pakistan Awami League, Mr Suhrawardy will have to lean heavily on the Republican Party.

Mr Suhrawardy's emergence in Pakistani politics has been widely welcomed on political grounds. Since the death of Quaid-e-Azam, the Army and the Bureaucracy have been competing with each other to gain supremacy. Since the assassination of Mr Liaquat Ali Khan, the politician has been under eclipse in Pakistan. Loyalty of the Army or of the Bureaucracy is not in question. But political parties have, naturally, resented the machinations of both in the triangular struggle for power. Faced with this dual challenge, politicians and political parties pursued intriguing means to hold the balance even. General Iskander Mirza was lured into politics in the politicians' efforts to woo the Army. Mr Ghulam Mohammed was successful in his tactics. President Mirza is an assurance against any Army revolt. But Mr Ghulam Mohammed was essentially a bureaucrat. So is the outgoing Premier. Since the death of Mr Liaquat Ali, the Bureaucracy has taken advantage of continuing political instability and of personal jealousies among politicians to emerge as a powerful element in Pakistan. Both the late Mr Ghulam Mohammed and the outgoing Premier have, unwittingly, encouraged this development. Mr Suhrawardy is the first Premier since Mr Liaquat Ali who is essentially a politician. Mr Suhrawardy is able and ambitious. He knows how to play party politics. Re-emergence of politicians in Pakistani politics is not an unwelcome event. There are not a few who have doubts whether Mr Suhrawardy's personal trumph can have any other significance either for Pakistan or for her neighbours.

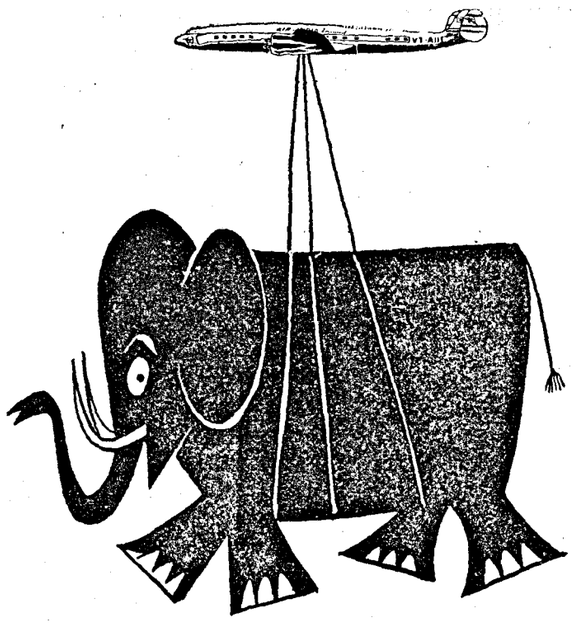
Mr Suhrawardy, leader of the Awami League, leads a Coalition Cabinet in which Republican Party members are in a majority. This may be a democratic gesture by Mr Suhrawardy to the Republican Party which is numerically superior in the National Assembly. In the near future, the Coalition Cabinet will be enlarged. Mr Suhrawardy may find it convenient then to increase representation of the Awami League in his Coalition Cabinet. But it is evident that he and his Awami League will have to depend for their survival on the Republican Party. On two major issues, there are basic differences between these two coalition parties. While the Awami League is committed to regional autonomy and joint electorates, the Republican Party is for a strong Centre and supports the system of separate electorates. President Mirza has shown diplomacy in asking Mr Suhrawardy to form a Government in the hope that the latter may succeed in creating cordial relations between the two wings of Pakistan. Dacca is pleased that the Awami League leader has become the Premier of Pakistan. But Eastern Pakistan has not reacted favourably to Mr Suhrawardy's selection of his

Coalition Cabinet. Specifically, Dacca resents the inclusion of Mr Feroze Khan Noon because of his attitude to the language controversy.

Mr Suhrawardy has every reason to congratulate himself on his spectacular personal triumph. It is no mean achievement for him to have been selected as the only political leader who has the competence to ensure stability in uneasy Pakistan. Reasons which influenced Mr Ali to stand down in favour of Mr Suhrawardy are somewhat obscure. Mr Suhrawardy owes his present exalted status to Mr Ali's humility and Dr Khan Sahib's tolerance. Had Mr Ali not refused the offer to form a Ministry, Mr Suhrawardy could not have become the Premier. Without the support of Dr Khan Saheb and his Republican Party, Mr Suhrawardy could not have formed a Government. Karachi's acceptance, as well as the continued acknowledgement of Dacca and Lahore, of Mr Suhrawardy's leadership is an emphatic tribute to his iron determination and magnetic personality. But there are already indications that Mr Suhrawardy may have overshot his mark, while the calculations of those who have helped him to fulfill his ambition may not materialise. Both Karachi and Lahore are hoping that Mr Suhrawardy will succeed in softening Dacca's attitude to regional autonomy. There are reasons to assume that Mr Suhrawardy is confident that he can function as a bridge between Dacca and Karachi. It may not be long before Mr Suhrawardy discovers that he remains suspect in Eastern Pakistan. In due course of time, both Karachi and Lahore may also discover that Maluana Bhasani, and not Mr Suhrawardy, is the leader of the East Pakistani Awami League.

Dacca is not likely to abandon its demands for joint electorates and full regional autonomy. Nor will Dacca disown its forward policy of economic and social reforms. Though the Awami League is now in power in both Dacca and Karachi, its position at the Centre remains delicate. In Karachi, it rules and exists at the mercy of Lahore. And Lahore can , or will, never accept Dacca's major political and economic demands. Lahore represents vested interests. Though Dr Khan Saheb is the leader, the Republican Party is an organisation of zamindars and industrialists. It will not be easy for even so wily a politician as Mr Suhrawardy to assure smooth relations between the two wings of Pakistan, or to ensure internal political stability. In his first broadcast address to the people, he has assured the Republican Party that Pakistan's foreign policy will remain as it is. His references to Kashmir were for consumption in Western Pakistan, and in Lahore in particular. His tirade against corruption is a sop to Maulana Bhasani. His declared aim to solve the food crisis in Pakistan and his announcement that the next session of the National Assembly will meet in Dacca have been welcomed in Eastern Pakistan.

Mr. Suhrawardy remains suspect in both wings of Pakistan. There are indications that Western Pakistan is more hostile to him. He is aware of his dilemma. He knows that he will have to perform hazardous balancing feats to keep Dacca and Lahore in step. He cannot be unaware that both Maulana Bhasani and Dr Khan Saheb may be interested in using him as a pawn. He does not lack political acumen. He was clever in telling the people, in his first broadcast address, that his prime concern was to prepare the country for the next general elections. While Dacca and Lahore will tolerate him for the transitional period, he is playing for time to outmanoeuvre both. In the struggle for power, Mr Suhrawardy will have scope to expolit, at least, two sets of alternative combinations of political parties. He will not lack ingenuity. But the people of Pakistan as well as her neighbours will hope that Mr Suhrawardy will have the statesmanship to choose his political alliances in such a way as to further the cause of progressive and prosperous democracy in that country.



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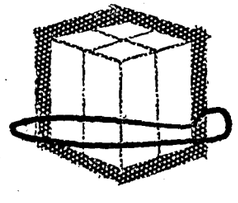
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Weekly Notes

Election Prospects

A FEW weeks hence, nationl executives of both the Congress and the PSP will be in session in Calcutta. Election issues will be the main topics under discussion in both these conferences. Spokesmen of the rival parties in West Bengal have confidently predicted the results of the election in this State. Shri Atulya Ghosh, President of the West Bengal Pradesh Congress Committee, has no doubts that the Congress will win more seats for the Assembly this time. Dr. Suresh Chandra Bannerjee, Chairman of the West Bengal Praja Socialist Party, is less dogmatic about the chances of his party. But he thinks that West Bengal "is tired of Congress rule". Many other States presumably are. But it does not necessarily follow that the people will not vote Congress.

Shri Atulya Ghosh's analysis of the position of parties is interesting. His calculations are not entirely without basis. Neither the Jan Sangh nor the Hindu Mahasabha is any longer active in this State. Nor are these parties popular in any other State. Some of the influential members of the Forward Bloc in this State joined the Congress some time ago. Without any dynamic leadership, the Forward Bloc is no longer a political factor in this State. Shri Atulya Ghosh is not worried about the PSP. Neither the Socialist Party nor the KMPP was successful in the last general elections. They are not likely to fare better this time. Shri Atulya Ghosh admits that the CPI is the only rival party which the Congress will have to fight in the coming elections. But he argues that the CPI has lost some of its safe pockets. Constituencies have been delimited in such a way that the CPI will not be able to exploit the labour vote this time. But the WBPCC President concedes that the CPI has gained some hold among the middle-class office employees.

Dr. Bannerjee pins his faith on an agreed arrangement among the parties of the Left for electoral "adjustments". There is nothing surprising in the Bombay decision of the PSP to reject plans for any "united front" with other Opposition parties. Socialists can never form any "united front" with the Communists. But there is nothing unholy about some form of electoral "adjustments" so as to avoid triangular contests. Though an influential group in the PSP is opposed to even such co-operation with the Communists, Socialists in this State are planning their election strategy on the assumption that electoral "adjustments" will be concluded with the other Opposition parties. It is a reflection of the optimism of the WBPCC that its President welcomes such an electoral arrangement so that the people can exercise their votes decisively.

Live Issues

WEST BENGAL PCC Chief's optimism may be based on his confidence that the people may dislike Congress, but will still vote for it. There is something in this negative aspect. But current political trends indicate that, with an agreement on electoral "adjustments", the parties of the Left may capture enough seats to form a strong Opposition. Such an eventuality will be welcomed in the interest of democracy. But the Congress is hoping that the issues now agitating the people will be solved, or will be nearer solution, by the time of the elections. Only in a few States is the problem of reorganisation of States still a live issue. But the rising trend in prices is spreading discontent among the people. Parties of the Left in this State, and the PSP in particular, are concentrating their energies on this problem. They have issued a call for a general strike on September 25. On this issue, all the parties of the Left are united. There is considerable resentment against the rise in cloth prices, as a sequel to the new excise duty, as the Puja demand for cloth approaches.

Unemployment, rising prices and refugee rehabilitation will be the main issues on which the Congress will be fought. Refugees will have the right to vote this time. There is discontent among them. They are not satisfied with the Government's policy. Though the parties of the Left have always exploited this source of trouble, it is doubtful whether they can rely on the refugee vote. Unemployment is equally a menace in this State. But both labour and the white-collared workers know that the parties ef the Left cannot give them jobs unless they are in power. There is abundant evidence that the rising trend in prices is causing serious economic and political trouble. If food and cloth prices do not start falling by the time of the next elections, the Congress chances may be prejudiced. Congress may win

the next elections. But, if the prices of necessities do not fall, it is not likely to win the elections with such a comfortable majority as in the last elections.

Stamp Out These Dying Embers

THE Semitic as well as Mosaic injunction against idolatry, which was taken over by Islam, applies to idols carved from wood or stone or cast in metal. The injunction could also cover images, pictures and paintings, but happily it does, except in the very special case of the Prophet of Islam. A publisher in Calcutta paid with his life for publishing a book in which the author had reproduced from one of the well known collections in Europe what was supposed to be the image of Prophet. This happened some twenty years ago, about the same time that Swami Shraddhanand was assassinated for his book on the life of the Prophet.

The injunction, unfortunately, does not cover the much more dangerous form of idolatry where idols are carved from words. Experience has shown how deep rooted and disastrous such idolatry can be. It is not that Indian Muslims alone are susceptible to such idolatry. People and large masses of people anywhere in the world can be aroused and their emotions can be worked up to white heat by clever and mischievous exploitation of symbols and words that go by the name of shibboleth or slogan so that they completely lose their reason and act in the manner of lunatics. And the best in man can also be inspired by the same device. What else is the flag, but a symbol, to defend which man will die cheerfully; what else is fatherland or socialism? The ideas for which men live and die, how else are they communicated and concretised except by images, whether formed in words or painted in line and colour or carved out of wood or stone?

When a particular image is associated with other images, by long association the mind comes to identify the one with the others. The agitation that is being formented by some Muslims over a book that was published in America 15 years ago is made up of all these. But the image formation behind it must have required considerable skillful construction and could not have been spontaneous. In all the reports on the book 'Religious Leaders' that has appeared in the 'Dawn' for example, it is nowhere mentioned that the publication by the Bharatiya Vidya Bhavan is only a reproduction of a series and that the book was written by an American and was published many years ago in the U S A. The nettle should have been grasped firmly and pulled out by the roots. Instead of that, the agitation has been allowed to be engineered from State to State and some of the State Governments have unwittingly played into the hands of the mischievous organisers of the agitation by banning this reprint in their respective States. According to the law of the land, expression of opinion is free, unless the motive can be established of deliberately inciting hatred against a particular community. Surely this could not be the intention of the American author of the book?

It is not to be expected that, however great the individual, whether it be Christ, Buddha or Mohammed, that he will be held in the same respect or that his personal life would be regarded in the same light by different people. Many Western historians and popular writers have written about the Prophet in a vein which the followers of Islam do not like. They have written in similar vein about all other historical characters and among others, naturally of the characters, legendary or historical, whom Christians, Hindus or Buddhists regard as divinities or saints. It has not led to assassination, murder or civil commotion.

That there is method behind this madness is becoming increasingly clear day by day. That this engineered agitation happens to synchronize with the final eclipse of the Muslim League in Pakistani politics is not a chance coincidence is equally beyond doubt. There is more to it than cherished images and idolatry. This could be inferred from the behaviour of the students of Aligarh Muslim University. The farewell address of Dr Zakir Hussein, the Vice-Chancellor, brings it out clearly and effectively. The dying embers of the fire that scorched the land in the past have still to be stamped out.

Ministry of Community Projects

THE transformation of the Community Projects Administration, which had so long been a wing of the Planning Commission, to a full fledged Ministry of the Government of India and the elevation of the Community Project Administrator, Shri S K Dey, to the status of a Minister with a cabinet rank, but without cabinet membership, are both events of unusual interest.

The first ends an anomaly in that the CPA, an administrative department, was under the Planning Commission which did not otherwise have any administrative function. This is as it should be, for the change leaves the Planning Commission a purely recommendatory body, with supervisory, but no executive functions. The significance of the new set up depends, therefore, on the hope it holds out for more effective functioning of what has been held to be the most potent of the agencies for transforming rural India. More than community projects, however, it is the National Extension Service which has become the key to the success of the Plan in that it is expected to step up agricultural production far beyond what had been aimed at in the Second Plan and that, too, without any additional investment.

Because of the vital role that has now been given to agricultural extension, the question had naturally been asked, who was to remain in charge of it? If Shri A P Jain was to be responsible for stepping up agricultural output through the help of the NES, but the latter were still to remain under the Community Projects Administrator, would not the division of powers and functions seriously impair the ability of the Food and Agricultural Ministry to deliver the goods?

In his report on China, Shri P N Thapar, Secretary, Ministry of Food and Agriculture, had stressed two features of Chinese agriculture, the significance of which could hardly have been missed. One was that area for area, agricultural services in China were several times as deep as in India and the second was that China had not only price support but also fixed relative prices for different agricultural produce. So proper planning of agriculture was possible. Translated into the language of Delhi, the lesson clearly was that Shri Thapar's Ministry should be placed in charge of extension and that it should be given adequate funds to operate a price support and integrated crop planning programme. Speculation on the first has been laid to rest by the formation of a separate Ministry for Community Projects; the reaction of the Ministry of Finance is still awaited with regard to the second.

Fishery as Income Generator

SHRI M V KRISHNAPPA, the Deputy Minister of Agriculture, who led the agricultural delegation to China and Japan sums up his impression as follows:

Turn away from the West and look to China and Japan, particularly Japan, for increasing yields. What impressed him most in China was the use of night soil for manure and he came away convinced that "we must also destroy all the enemies of crops—harmful insects, rats, sparrows, monkeys, stray cattle etc." In his righteous indignation against all destroyers of crop, the Honourable Deputy Minister from Mysore may want stray cattle to be destroyed. One would be curious to know whether his constituency would be prepared to go that far with him.

Another of his interesting findings: "The Japanese agriculturist, in particular, with an average of 2½ acres of land, has proved to the world that fragmentation does not come in the way of increased production—rather it has helped them to increase production." Shri Krishnappa found the development of fisheries in Japan even more striking. This is not surprising. The macro-economics of fishery, regarded as a powerful income generator, has been described as follows by a contributor to the Indonesian Economic Journal, "Ekonomi Dan Keuangan Indonesia":

"It stimulates the growth of a very large number of subsidiary industries, such as ship building and repairing, fishing gear production, ice manufacture, cold storage, transport etc. In some countries fishery has contributed to the development of several new industries, such as artificial fibres industry or electronic industry. In the Far East, Japan provides the best illustration of this thesis: her rapid growth of the output of fish-finders, employing either sound (echo) or visual (radar) methods is really phenomenal. Fourteen universities concerned with teaching and research in all aspects of Japanese fisheries are both the outcome and the lever in this all-embracing process of income-generation.

"Fishery can provide employment to a great number of people, covering all types of occupation, with outlets to all kinds of human skills; at sea or under the sea, on land or in the air; in rural and in urban areas; in daytime as well as at night; to craftsmen, mechanics, entrepreneurs, financiers, scientists, economists, sociologists and social workers. Musicians, painters and writers have discovered the stimulating effect of fishery long ago. Actors are finding employment in the entertainment halls often attached to big modern aquaria."

The West Bengal Government had tried to reverse this 'chain-reaction'. But the trawlers which it imported are all lying idle, because trained personnel is not available to man them, special berths for trawlers have not been built, manufacture of fishing gear has not been developed, dry ice factories have not come up etc etc. The conclusion that the Development Department has naturally drawn from its limited experience is that modern fishery cannot be developed on a small scale or taken up piece-meal. This does not justify the neglect of fisheries in India which has drawn pointed attention from many foreign experts. Shri Krishnappa is the first front rank politician in this country to draw attention to it.

Exports of Engineering Goods

IN his speech as Chairman of the Jay Engineering Works, Ltd., Shri Shri Ram, the Chairman, expressed the opinion that there was no considerable scope for expanding the export of general engineering goods. He suggested that the Government should call a conference of railways, industry, trade, labour, etc., to consider seriously as to how such exports could be encouraged and helped.

During the year to March last, there was an all-round increase in production. The average monthly production of sewing machines was higher. During the year, the manufacture of hurricane lanterns was discontinued. During the year, the Company put on the market table fans costing Rs 60. The Government issued licence to the Company for expansion of the fan factory capacity from 10,000 to 26,500 fans per month and of the sewing machine factory from 10,000 to 25,000 a month.

For the expansion of factory capacity, more finance was needed, and the Industrial Finance Corporation sanctioned another loan for Rs 30 lakhs. Orders have already been placed for the requisite machinery to expand the fan factory, and the balancing of the existing sewing machine factory. The needle plant has already been shipped from Europe, and will be in operation by the end of the current financial year.

Though the cost of raw materials for sewing machines has gone up by over 20 per cent. and that of raw materials for fans has increased by over 10 per cent., the Company has not raised the selling prices of its products. The very poor and unstable quality of pig iron and of hard coke is creating difficulties. Recently, the Government has announced uniform prices for steel and pig iron, both Indian and imported. This has helped the industries which are away from port towns. Shri Shri Ram suggests that, so far as exports of engineering goods are concerned, the prices of raw materials, whether pig iron or steel, should be charged on the basis of indigenous prices. This suggestion, if implemented, will encourage exports of engineering goods.

Chiselling Epstein's Picture

"MAY be that when a man draws a pencil drawing on a board, it resembles more like Epstein's effort, than anything which is very clearly and precisely delineated which looks beautiful. It is massive, it is huge in shape and is something mysterious. I would therefore claim that when we, as a Government, accepted the Plan-frame, we intended it to convey nothing more than what Epstein's work conveyed to the man who sees it.

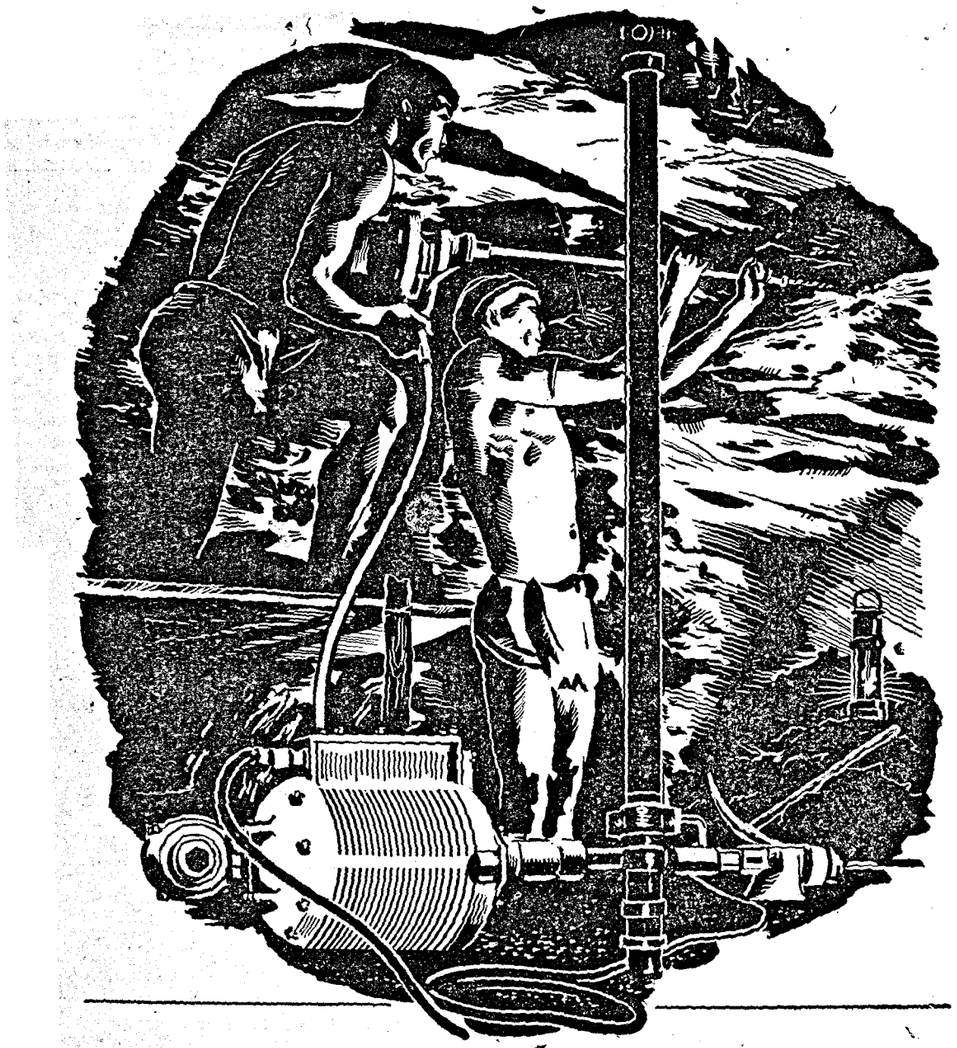
"The Plan-frame is again an attempt at what is called 'macro-planning', a word which my predecessor used in the other House, that is, a plan on a big scale leaving the details out, the details in various degrees to be filled up after precisely evaluating each sector.

"If in an attempted macro-planning, we presented a particular picture and thereafter we started chiselling it to give it a proper shape, I don't think we can be blamed for it. Besides, there was no positive or definite attempt to depart from the basic fundamentals, so far as the objectives are concerned".

—Shri T T Krishnamachari in Rajya Sabha

"Stalin thought that now he could decide all things alone and all he needed were statisticians; he treated all others in such a way that they could only listen to and praise him".

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The Divided Nation

THE debate on the Suez question in the recalled Parliament was by every count a historic occasion. Never was the British nation more divided on a foreign policy issue as important as that of Suez. Britain's power in the international field in the past was largely the consequence of the British people's unity of view on matters of external security. This source of strength is now gone. On a long view, it is this feature which gives the present situation in Britain a historic significance. On a short-term estimation of the Parliamentary and national debate, it now appears that there are prospects of a serious Cabinet crisis, of a crisis in the national economy, possibly calling for a new Autumn budget, and finally, of a serious exacerbation of the differences between the two leading parties, making the legislative process more difficult.

The actual course of the debate in Parliament and the nature of the "concession" extracted from the Prime Minister are now known throughout the world. What appears to be less known was the turbulence of the debate, the sharp division among influential opinion and, most important of all, of the recognition by many thinking persons that insofar as Britain's international status is concerned, the vital issue is no longer whether force will be used against Egypt but whether there is any opportunity left for re-uniting the British people and Parliament on matters of foreign affairs. Some days before the debate, when the opposition to the employment of force became widely evident, it became necessary for even that staid "defender of British interests", the **Times**, to call for some recourse to the Security Council. Instead, the Government presented to Parliament a piece of blatant provocation in the form of a Users' Association — a provocation which was so quickly recognised that the division in national opinion hardened irretrievably.

There is now a growing feeling in the country that the blame for this "tragic" division must be placed fully on Sir Anthony Eden. He has pursued a personal policy, the true nature of which was never made clear to the country and the world. All his talks of a settlement included courses of negotiation and "other means of settlement". It is these "other means" which have aroused the gravest fears. The military preparations which were taking place on a gigantic scale had all too plainly suggested that diplomacy of the "gunboat" type was foremost in Sir Anthony's mind. His speech before the recalled Parliament contained curious assertions—assertions which could only have been made by a desperate man preparing for a desperate course of action. His statement that the Egyptian Nationalisation Act had disturbed the "balance" of the whole Suez system has already been dismissed in Britain as "rubbish", unless, of course (and it is this which suggests a desperate course of action) a "balance" is to be secured by the return of British forces to occupy the Canal Zone. Further, the Prime Minister's attempt to equate Nasser with Hitler is regarded generally as a cheap piece of spohistry designed to give validity to an infamous policy. As Mr. James Cameron of the **News Chronicle** put it, ". . . . . it is like equating sour grapes with cyanide ....this is murky short-cut symbolism."

Even those who believe that the last-minute concession of reference to the United Nations has diminished the chances of war, continue to find Sir Anthony Eden an unacceptable leader of the Government. The liberal **News Chronicle** spoke of the "tragedy of Eden". The **Manchester Guardian** went further and said that the Prime Minister's policy was leading "to disaster." It will be remembered that Sir Anthony closed his first speech to Parliament on what he called "a personal note." He stated that he had "constantly in mind" the parallel between events of today and the events before the last war. Apart from showing how false such a parallel was, the **Manchester Guardian** thought it remarkable that a British Prime Minister could have drawn such a parallel.

The danger of war has by no means receded. Few have troubled to read the full text of the Prime Minister's speech at the close of the debate. It is true that Mr Gaitskell extracted the concession: ". . . if the Egyptians are in default (of the 1888 Convention) we should take them to the Security Council." This was followed by an interruption from the opposite side of the House and as Mr Gaitskell now says in a letter to the **Times**, Hansard does not put a full stop at the end of the concession sentence. The Prime Minister may have added a proviso which is believed may have been drowned by the interruption. But more remarkable was the subsequent statement of Sir Anthony: . . . . it would be our intention if circumstances allow, in other words, except in an emergency, to refer the matter to the Security Council." Equally important was the blank refusal of the Prime Minister to give a guarantee that force will not be used. These statements certainly make the concession lose much of its value. Nobody is clear what would in British eyes constitute an "emergency". Already something in the nature of an emergency has arisen with the withdrawal of foreign pilots from the Suez Canal and in the slowdown of convoys proceeding through the Canal.

The behaviour of the American State Department and of Mr Dulles throughout the period of the Suez crisis has been the subject of much comment. In the Parliamentary debate, Mr Emmanuel Shinwell of the Labour Opposition, "suspected" an American policy which was designed to exterminate British influence in the Middle East. He believed that the manner in which Mr Loy Henderson, the American member, "went over the head" of the Menzies Mission made America a doubtful ally to Britain. More important, Mr Dulles' assertion that the United States would not go to war if the Egyptians refused facilities to the Users' Association has, as one M P put it, "taken the steam out of the project". Most significant of all has been the ease with which the United States has announced the availability of US oil and dollars to Europe.

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Book Review

Background to Bandung

India's Economic Relations with the Far Eastern and Pacific Countries in the Present Century. By B N Ganguli. *Orient Longmans 1956. Pp 348. Price Rs 9-8-0.*

Reviewed by **R K Hazari**

THE vogue of the day is planning, with its esoteric models, input output ratios, investment and income targets, and all that. Some sort of a Gresham's Law has enabled these fancy goods to drive painstaking economic analysis of facts practically out of circulation. It is therefore some relief to find an eminent economist digging deep into facts instead of launching into a set of half-baked prescriptions. The present work of Prof Ganguli does not attain the abstruse heights which one normally associates with him. It is welcomed for precisely that reason, at any rate by the reviewer, for it fulfils the rather urgent need of rearing a younger generation of economists on the basis of facts instead of fanciful concepts.

The book "seeks to present a survey of India's economic relations with the Far Eastern and Pacific Countries in the present century." This is carried out by analysing our relations with each one of the countries in this region. The author traces the colonial pattern of trade in Southern Asia from the arly days of bilateral trade through the days when tropical goods came to be used to multilaterally balance intra-European payments and what is more, Europe's accounts with North America. The author opines that anti-Japanese tariffs were partly responsible for the impetus to industrialisation in pre-war Asia. He deals briefly with the post-war urges of the people against the West as well as the Chinese and Indian minorities.

Apart from the able presentation of a massive array of facts relating to different commodities and periods, Prof Ganguli has a number of pertinent remarks to make about intra-regional trade. For instance, he points out htat while Burma finds India an almost natural market for her products, Ceylon, Malaya and the Philippines are in a different position on account of the composition of their exports, and the last mentioned country lies in a different currenc yarea, in addition. Conversely, however, India is in a position to export to all these countries so long as her exports are competitive. Multilateral balancing of accounts is, therefore, essential to this region. The author, unfortunately, does not compare the extent of intra-regional trade here with that in other underdeveloped regions so as to place these facts in their proper perspective. In this connection the results of a calculation made by the present reviewer are shown in the table below.

Intra-Regional Trade

(As per cent of total export trade)

	1951–53 (average)
Africa	10
Latin America	9
Asia & Far East	37
Middle East	22
Europe	64

Source: Direction of International Trade.

The figures include trade with advanced countries within the same region.

Note: To prevent bias caused by the weight of a few leading countries, the above figures are calculated as averages of country-data on the proportion of intra-regional exports; they are not computed from the total quantum of trade of a region. The under-developed regions are defined as follows:

Africa—the whole continent except Egypt and Sudan.

Latin America—Middle and South America.

Asia & Far East—the whole of Asia, excluding the Middle East and Turkey, and Oceania.

Middle East—Egypt, Sudan, Iran, Iraq, Israel, Jordan, Lebanon, Saudi Arabia, Syria, Aden and Cyprus.

Europe—Greece, Italy, Portugal, Spain, Turkey, and Yugoslavia (data for Eastern Europe are not available).

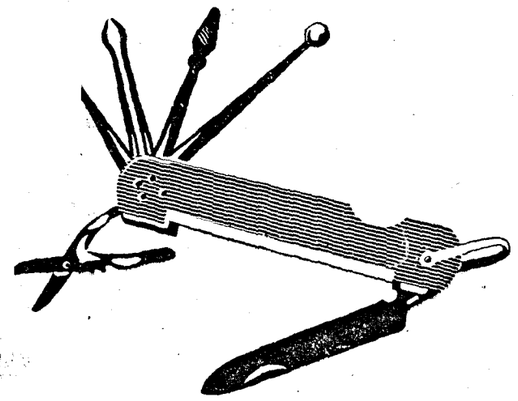
Compared to other under-developed regions, therefore, Asia and the Far East puts up a better show—though this is attributable largely to the trade in rice and the presence of Australia, and New Zealand—together with the Indian colossus in the region.

There are two further significant points in this context to which Prof Ganguli does not draw adequate attention. One is the fact that on account of fluctuations in incomes and external accounts which are, as we all know, generally greater than those of advanced countries, greater intra-regional trade may not be a sound bit of advice. The other is the fact that the countries in this region differ very widely in size and in degree of industrialisation; as a corollary, a small country trading with India, for instance, finds that the latter takes 80 per cent of her exports but sends only less than 10 per cent of hers in return, to the great detriment of her bargaining strength. These two points taken together give rise to the crucial question: is it (hypothetically speaking) any consolation to Burma, dependent on the fluctuating Indian market for rice, that it is trading with a neighbour and not with a distant country outside her region? The case for greater intra-regional trade—Prof Ganguli would probably agree though he does not say so in this book—rests not so much on its innate virtues, if any, but is merely an aspect of the wider case for general and simultaneous economic growth ,which would create new markets and widen old ones. The author himself gives an example of this in pointing out the simultaneous development of motor transport in India and the increase in the exports of motor vehicles from Canada to India, and of gunny bags in the reverse direction, to pack Canada's increasing surpluses, during the inter-war years.

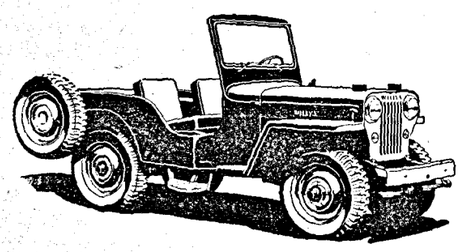
The 1948 Census of India's foreign liabilities and assets disclosed that she was a net creditor, largely on long-term and government account, in this region. In connection with this and the presence of Indian traders and labourers, the author rightly considers that the pattern of trade and contacts in the future

would have to be different from the past. Human pipelines of earlier days have obviously to give way to export of goods and services. It would have been interesting to know Prof Ganguli's views ,based on his experience, inter alia, of international conferences, on how other countries in this region would look upon India's (and Japan's) inevitable 'leadership' in trade in future. Our philosophical foreign policy apart, is it not likely that other countries will view India as Latin American countries view the USA at present?

To conclude, Prof Ganguli's present work, though delayed in publication by nearly half a decade, is a valuable addition to our stock of knowledge on India's foreign trade.



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Official Papers

Export Credit Guarantee

Sukumar Chakrabarty

EXPORT trade has to face various risks, not only after export is actually effected but in many cases, long before shipment takes place. Of these, credit risk is the most important. From manufacturing to the final payment by the foreign buyers, there is a long range of credit risks. A large part of these risks has now been taken over by banks under the cover of their letters of credit, but a sizable portion of credit risks, both commercial and political, have still to be shouldered by exporters themselves.

In persuance of the policy of expanding Indian exports, the Government of India had appointed an Export Credit Guarantee Committee to report on the feasibility of establishing an institution which will give the exporter insurance cover against the risks that they carry at present. The Committee has recommended that export credit insurance being an important export promotion measure, it should be started without delay and that for working the scheme, an Export Risk Insurance Corporation should be set up. The Corporation should have an authorised capital of Rs 5 crores, and should be wholly owned by the State. The Committee recommended that both pre-shipment risks which start as soon as the exporter enters into a commitment with the foreign buyers and post-shipment risks which become operative after the goods are despatched from India, should be covered by the Corporation.

Cancellation of export licence, ban on exports, ban or restriction on import of raw materials required for the manufacture of goods to be exported, increase or imposition of new export duties, non-availability of transport, strikes etc, are some of the pre-shipment risks which impede expansion of exports. Post-shipment risks, on the other hand, are those arising during the transit period or after the goods reach destination. For example, if the goods are directed from the port contracted for to some other port for some reason or other, charge for re-transporting the goods cannot be shifted to the buyer by the shippers. Even after the goods reach their destination, there is no certainty that they will be paid for cover against changes in export duty and the amount will be duly remitted to the exporter. The buyer may repudiate his obligation to take up the goods or may refuse to pay after having accepted the goods or may become insolvent. Even if the buyer is willing to abide by his commitment, expiry or cancellation of his import licence or total ban on import or refusal of the exchange control to permit remittance of the value of the goods may stand in his way to fulfil his obligations. War may break out between the exporting and importing countries and the export consignment may be seized and confiscated.

Thus the risks borne by the exporters are various. To offer cover against every such risk is neither feasible nor desirable. The exporter cannot expect to shift every risk and always sail in smooth waters. The Committee has therefore accepted the principle followed by export insurance organisations abroad that only those risks should be covered (except some pre-shipment risks) which are beyond the control of the exporter and occur outside India.

Cover for the following risks, the Committee recommends, should be made available to the exporters.

A. Post-shipment Risks

(1) Diversion risk.

(2) Import control risk, except when the importer has no valid licence when the order is placed or if his licence is cancelled for his own fault.

If, however, the buyer is a public body which cancels the contract unilaterally, the risk may be covered.

(3) When the buyer repudiates contract and is adjudged insolvent.

(4) War and civil war risks.

(5) Transfer risk, including moratarium and freezing of debt imposed by the buyer's government.

(6) Omnibus risks including risk of port strikes overseas, dock clearance delays and natural calamities in the buyer's country.

B. Pre-shipment Risks

(1) The post-shipment risks enumerated above should also be covered when such risks arise in the buyer's country before shipment, except in case of:

(a) repudiation of contract by a private buyer, and

(b) Cancellation or non-renewal of an import licence of the buyer for his own fault.

(2) Export control risk, provided the exporter is in possession of valid export licence when he enters into the contract.

This is a measure of protection against sudden changes of export policy though, the Committee was aware, it would mean that a Government organisation would have to pay compensation for the action of the Government. The Committee, however, declined to recommend cover against changes in export duty ("To cover this risk will, to some extent, frustrate the object of the Government action") or against non-availability of wagons, shipping space and shipping berth.

Cover against the risk of ban on imports of raw materials necessary for the manufacture of exports contracted for was not recommended, because there was not much demand in the country for such cover. But the Committee wanted the position to be re-examined later as demand for such cover might arise in the future.

C. Risks of Special Transactions

1. C I F risks of increase in insurance and freight charges after the C I F contract is entered into by the exporters.

2. Risks of exports on consignment basis and goods sent for display in foreign fairs, except those of devaluation and exchange fluctuation.

3. Risks pertaining to non-receipt of money for services.

4. Risk of non-recoupment of expenses incurred on market surveys, stock building, publicity and other promotional measures should be covered in special cases.

There are many questions of detail. Should the proposed Corporation cover the whole risk or should the exporter also be made to bear a portion of the burden? If the portion of the risk covered by the Corporation is small, it will not encourage the exporter to obtain such cover. On the other hand, if it is too big, it will destroy the zeal of the exporter to be discriminating in his selection of buyers. Depending on the practice followed abroad,

the Committee has recommended that commercial risk may be covered upto 80 per cent, and political risk up to 50 per cent of the unrecouped expenses. This percentage may be changed according to the experience of working the scheme.

Period of Coverage

The period for which insurance can be offered, it is recommended, should be determined by the nature of goods. Perishable goods cannot be covered for a long period. Demand and consequently price of raw materials of one season may be adversely affected by the supply of the next season. But no such short period risk attaches to the export of durable manufactured goods. Demand for capital goods changes only in the long period, depending on developments in technology. Economic and political conditions of the country of import also affects the risk involved in such exports. Thus exports to a country suffering from economic and political instability carries higher risk than exports to a country which is more stable. Foreign competition in particular goods and our need for promoting particular exports should also affect the period for which insurance cover is offered.

The Committee has recommended that export risk should be covered for the following period from the date of shipment for different category of exports:

Raw materials—3 to 4 months.

Consumer goods—upto six months.

Light capital goods—upto 2 years.

Heavy capital goods—upto 3 years.

Pre-shipment risk may be covered for a period of 4 months preceding the date of shipment.

These recommendations are too general to be of much help to the proposed Corporation in fixing the terms of its policies. Detailed market research will be necessary in order to determine the period of credit necessary for different types of exports. If credit is extended for too long a period, it entails pressure on the country's resources and may also encourage buyers to overtrade. On the other hand, in special cases, as rightly pointed out by the Committee, the period may have to be extended in order to strengthen the competitive position of the exporter, but extension in such cases should be given with due caution. It is not on the subject of period of cover, however, that the Committee is too general. True, the Committee did not undertake the actuarial valuation of the various export risks. But without a proper assessment of risks, it could not offer the exporter much of a choice. As had already been mentioned, the Committee recommended separate policies only to two types of policies (A) and (B) above.

It is over the question of the spread of risks that the Committee encountered the greatest difficulty. Should credit insurance be made compulsory or not? All the big exporters opposed compulsion; the smaller ones in a body demanded it. A member who failed to see how the Corporation could function unless its policies were made compulsory wrote a note of dissent; the rest of the members yielded to the unanimous opposition of the big exporters. Whether this recommendation was based on expediency or on an actual estimate, however, is not clear from the report.

Should the exporters be allowed to cover any one or more of the risks allowed by the Corporation according to his own discretion or should he be compelled to cover all the risks without any choice? A wide choice cannot be granted in the case of credit risk insurance, because of the loss due to more than one specific cause. But to force the exporter to cover all types of insurable risks is rather hard on the exporter, especially when he is reasonably sure that certain risks do not arise at all in a particular transaction. For example, the exporter definitely does not run any transfer risk while exporting to the UK. Enforced cover against such risk is unjustified. So the Committee has rightly allowed the exporter a limited scope for choosing the risk covers. The issue of separate policies has been recommended in respect of:

(a) Commercial and political risks together.

(b) The following political risks together:

(1) Import control risk,

(2) Diversion risk,

(3) Risk of non-transfer, provided that payment has been made within 30 days of the due date,

(4) C I F risks,

(5) Change in the standard imposed in the importing country on import of food and other products after the goods are exported,

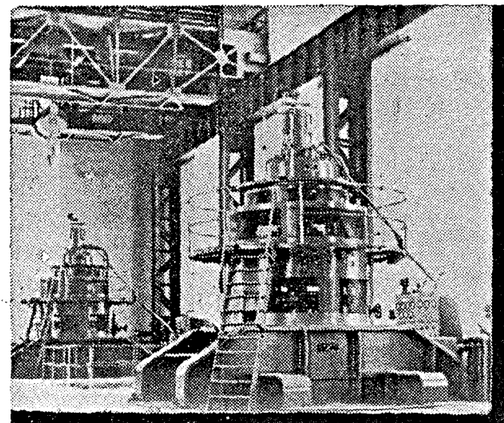
(6) War between the buyer's and exporter's countries, before expiry of 30 days of due date,

These are the broad recommendations. Now let us examine the foundation in which the Committee proposes to raise this super-structure of export credit guarantee. It stands to reason that unless one knows the handicaps of the exporter, one cannot possibly advise how best these handicaps could be removed, to the extent that they can be removed by a suitable insurance cover. The Committee proceeds on the assumption that 60 per cent of India's exports are effected under letters of credit and therefore require no credit guarantee; the scheme of insurance is therefore only for the balance of exports which are shipped without adequate cover.

After consultation with banks and exporters, the Committee came to "believe" that out of the total export of India valued Rs 600 crores in 1955 export to the extent of Rs 250 crores was effected without coverage under letters of credit. It based its estimate of the capital requirement of the Export Credit Corporation, on the above figure. Of course, it covered itself against any attack on its estimates, with the remark that it was not possible to make an exact estimate of such business.

For many years now, ever since the institution of exchange control in fact, all exports have to be routed through a bank. Enquiries made by the Committee from banks elicited some information about the manner in which bills drawn against exports are negotiated. These have been tabulated in Appendix VIII to the report. Half a dozen exchange banks (excluding such banks as the Mercantile, Hong Kong & Shanghai, Lloyds, the Bank of Middle East, Bank of Tokyo, Mitsui Bank) submitted returns. Similar returns were submitted by half a dozen Indian banks. What proportion of the total exports are handled by these 12 banks has not been mentioned or sought to be ascertained. The results are shown in Table I which show that of the bills handled by the exchange banks, only 40 per cent on an average are covered by L/C. The percentage for the Indian banks is even smaller. How did the Committee, then, conclude that approximately 60 per cent of all exports are covered by L/C?

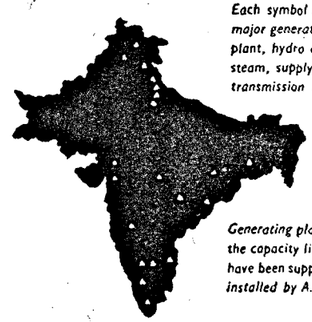
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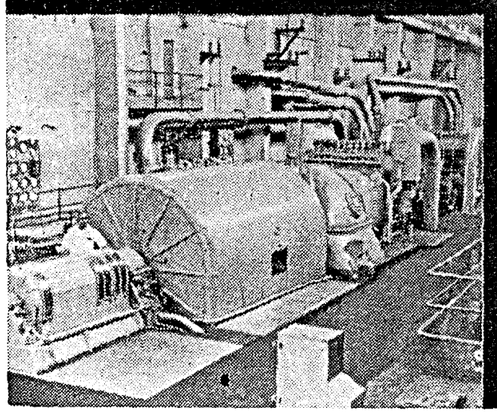
Khaperkheda	30,000 KW
Ramgundam	37,500 KW
Ahmedabad	1,35,000 KW
Surat	15,000 KW
Visakhapatnam	6,750 KW
Tatanagar	55,000 KW
Kashmir	6,000 KW
Jogindarnagar	48,000 KW
Greater Calcutta	1,61,000 KW
Madras (Basin Bridge), Pykara, Mettur, Papanasam and Moyar	2,15,450 KW
Mysore (Jog)	48,000 KW
Travancore	22,500 KW
U. P. (Harduagang), Bahadrabad, Bhola, Sumera & Muhammadpur	40,600 KW
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trade, there has never been much information. Committees of enquiry had never been able to elicit much from the exchange banks. Now-a-days, of course, the Reserve Bank is in a position to get much detailed information, but no statistical data regarding the method of financing of exports by category of bills have yet been given out to be public. It is possible, the Reserve Bank may not have them. Otherwise why should the Committee have to carry out an independent investigation? The poor results suggest that the job should have been left to the Reserve Bank. The tables published in the Appendix leave much to be desired, as the categories are nowhere precisely defined. Considering the differences from bank to bank in these matters, of practice and procedure, this is not an unimportant detail. But even so, students of foreign exchange problems should be grateful to the Committee for letting out some information on a subject which has been largely a closed book to them so far. Table II gives a commodity wise breakdown of export bills and Table III gives the breakdown by destination of exports.

In the absence of a clear indication, one cannot be sure whether the figures in Table I are those of the percentage of different types of bills of total bills routed through the banks, or they are percentage of total of only those bills which were negotiated by the banks. If the former interpretation is correct, then doubt arises about the correctness of the estimate made by the Committee about the value of exports not covered under letters of credit. Exports covered under letters of credit form only 40 per cent of the total export business passing through the six exchange banks included in Table I. Even this average would be on the high side, as the very high figure of the Comptoir National (which does not belong to the Big Five among the Exchange Banks) appears to have inflated the average figure of the group. The average for the six Indian banks stands at 33 per cent only.

On the basis of such data, how did the Committee come to "believe" that export worth only Rs 250 crores were not covered under letters of credit? If the experience of the dozen banks is any guide, the value of such exports should be placed above Rs 350 crores and not at Rs 250 crores.

If, however, the figures in Table I are those of the percentages of various types of bills, not to total bills handled by the banks but to total bills negotiated by them, the table does not help us to judge the correctness of the estimate made by the Committee about the value of exports not covered under letters of credit.

The table, however, discloses a very interesting feature. D A Bills (obviously not under letters of credit) form 23 per cent of total bills (or negotiated bills?) routed through the six exchange banks whereas in the case of the six Indian Banks who entered exchange business only lately, such bills form 26 per cent of the total bills (or negotiated bills?). May we deduce from this that the Indian banks, though new in the field, are helping the exporters to offer better terms of credit to their overseas buyers than the exchange banks? Such a deduction, damaging if true, however, is not warranted in the absence of more precise detailed and reliable data.

Doubt regarding the correctness of these figures are strengthened when the figures of the Chartered Bank of India, Australia and China are compared with those of the National Bank of India Ltd. The Chartered Bank is shown to have 50 per cent of total bills (or negotiated bills?) covered under letters of credit while in the case of the National Bank only, 20 per cent of total bills (or negotiated bills?) are on D A terms. Of course, types of business and clientele differ from bank to bank but competition surely brings about a certain measure of similarity, particularly among the top ones.

Is it not possible that this wide disparity has arisen because different banks have interpreted the questions asked by the Committee differently? It will be readily admitted that too large a scope was left for individual interpretation in the inquiries in the questionnaire. Different accounting systems among the banks may also have contributed to this disparity and marred the value of the Committee's findings.

TABLE I

Proportion of Goods Sold to Foreign Buyers on the Basis of :

	L|C	CAD (Sight)	D|P bills	D|A bills
	%	%	%	%
Exchange Banks :				
The Eastern Bank Ltd, Bombay	30	15	20	35
Comptoir National D'escompte de Paris (French Bank), Bombay	75	—	15	10
Grindlay's Bank Ltd, Bombay	35	50	5	10
Chartered Bank Ltd, Bombay	50	25	15	10
National Bank of India Ltd, Bombay	20	40	10	30
Netherlands Trading Society Ltd, Bombay	30	15	15	40
Indian Banks :				
Bank of India Ltd, Bombay	10	25	25	40
Bank of Baroda Ltd, Bombay	25	20	25	30
Union Bank of India Ltd, Bombay	25	25	25	25
Central Bank of India Ltd, Jamnagar	40	20	30	10
Punjab National Bank Ltd, (all ports)	50	—	25	25
Imperial Bank (State Bank of India), Calcutta	50	4	23	23

TABLE II

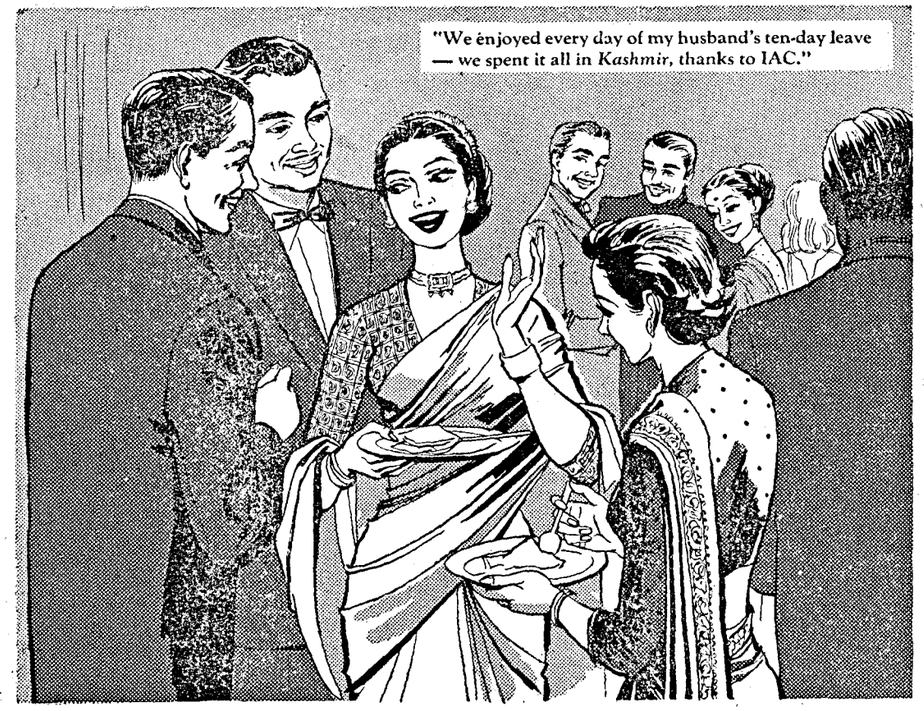
Proportion of Exports on the Basis of:

	L|C	CAD	D|P	D|A
	%	%	%	%
Raw Cotton	75–90	—	5–25	—
Cotton piecegoods & cotton yarn	25	—	25	50
Jute Manufactures	60–90	—	5	5
Tea and Coffee (consignment sales mostly)	25	—	80 (usually D|A)	
Shellac	95	—	5	—
Hemp	95	—	5	—
Goat Hair	95	—	5	—
Oilseeds & Oils	60	—	20	20
Oilcakes	75	—	25	—
Sandal oil	50–80	—	30–50	—
Lemongrass oil	95	—	5	—
Chillies, Onions, and lunghies (from Madras)	—	—	—	100
Hides and skins	70	—	30	D|P & D|A
Timber	50	—	50	—
Pepper (Bombay & Cochin-Mangalore)	50	—	50	—
Coir and Coir mattings	100	—	—	—
Spices (Ginger, Turmeric, Cardamom)	50	—	25	25
Myroboiums	50	—	50	—
Mica	100	—	—	—
Iron ore and manganese	80	20	—	—
Exposed cinema films	100	—	—	—
Manufactured drugs	100	—	—	—
Leather manufactures, including footwear	95	—	5	—
	50	—	50	—

TABLE III

Percentage of shipments made on the basis of:

	L|C	other than L|C
Eastern countries	100	—
Australia	75	25
Europe	50	50
Africa	75	25
America	75	25



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Developments in Nepali Currency and Exchange

Y P Pant

ON April 16, 1956 the Finance Ministry of the Nepal Government announced that Nepali currency would be accepted at all Government treasuries in the Tarai districts where hitherto it had not been accepted even for the payment of land revenue. The exchange rate was fixed at 128 Nepali for 100 Indian rupees. Indian rupees, however, would continue to be accepted in Government treasuries. The communique added:

"The falling rate of Nepali rupee is being improved both by short-term and long-term measures, which are directed to the general economic development of the country, for the last few months. But even then, results obtained not being so much satisfactory, the Government has decided the implementation of the following measures immediately." The measures which followed were—acceptance of the Nepali currency in payment of land revenue, fees, fines, market tax, customs, wireless and telephone charges, railway-fare, postage and so on.

After 10 days of this announcement, on April 26, the State Bank was inaugurated by the King of Nepal. In his inaugural speech, the King expressed the hope that the State Bank would coordinate the economic activities and help, in general, in building up a sound economy. The Bank has taken over the issue and management of currency from the Ministry of Finance. Its other important functions as laid down in the Bank Act are as follows:

1) To act as the Government's banker, agent and financial adviser,
2) To mobilise savings and capital and manage Government loans,
3) To act as the controller of foreign exchange, and
4) To promote the expansion of the banking system as a whole in the country.

The State Bank was to have separate Issue and Banking Departments.

To develop banking habit among the mass of people in Nepal, which had so far only one commercial bank worth the name is a difficult task. Absence of transport and communication, illiteracy and a primitive system of production both in agriculture and industry are hard enough obstacles; added to these, the complicated system of monetary circulation and issue hitherto prevalent in the country made the development of a proper banking system almost impossible. Whatever the monetary reform the State Bank may undertake, however, will have to be one of gradual change. Hence there is not much scope for any radical measures or hopes of overnight developments.

The steps taken by the State Bank for the stabilisation of the exchange rate deserve some notice. The State Bank was scheduled to open immediately after its establishment, about 21 depots (exchange offices) at different centres in the Tarai for exchanging Indian rupees for Nepali rupees at the rate of 128 Nepali for 100 Indian rupees. At these depots, Indian rupees are purchased from the public at the official rate, but Indian rupees are not given in exchange for Nepali rupees. This one way conversion, needless to say, did not help to stabilise the rate of exchange. The official rate being so far below the free market rate, there has naturally been no rush to convert Indian rupees into Nepali rupees at this rate. Though about 10 depots have been opened by the State Bank so far at different places in the Tarai, transactions at these depots have hardly exceeded Rs. 1,000.

It appears to me that the very basis of this policy is defective. On the one hand depots have been opened without taking necessary action for banning the activities of private money changers who fix the real exchange rate, which is always higher than the official rate; on the other hand, nothing has been done to push the circulation of Nepali rupees in Tarai. Why should any body buy Nepali rupees from Government depots at an unprofitable rate when they can get them freely in the open market at a much more favourable rate? Another reason for the unsatisfactory outcome of this policy is that it was announced at a time when 75 per cent or more of the land revenue of the year had been already paid by the people to the Government. Consequently nobody, in fact, wanted Nepali rupees in the Tarai.

Subsequently the State Bank raised its official rate, particularly in the Kathamandu valley and other Nepali currency using areas, from 128 to 145 Nepali for 100 Indian rupees. The Government has also assumed the responsibility of supplying Indian rupees at its official rate for 'essential' imports. Some 12 commodities eg stationery goods, petrol, clothes etc have been listed as essential. It is reported that for the implementation of this policy, the Government of Nepal has shelled out about 50 lakhs of rupees so far. The open market rate, however, has not come down to any substantial extent, the market rate at the time of writing being 153 Nepali rupees for 100 Indian rupees.

The steps taken by the State Bank have not been able to bring about any improvement in the exchange rate, or in the Nepali currency system. The present policy, which may be conveniently described as one of 'a system of multiple exchange rates', has been helpful in one direction in that for the last few months, the exchange rate has stabilised at around 155, but the maintenance of this rate has cost the treasury about 50 lakhs of rupees. The free market rate has varied during the last few months between 165 and 145 ie even at its lowest, it has been 5 points above the official rate. Therefore, what we want today for Nepal is a more coordinated and better thought out policy, rather than haphazard measures which fail in practice.

The problem of stabilization of its currency that Nepal has to face is is complicated by the fact that both the Nepali and Indian rupees continue to circulate in the country, with an exchange rate varying from time to time and place to place. Therefore ad hoc measures like the extension of the system of multiple exchange rates, together with its readiness to provide Indian currency for essential imports, ban on unessential imports etc introduced by the Government in April 1955, however, cannot quite solve the problem. Indian currency is interwoven with Nepal's fiscal arrangements, its commercial transactions and, in fact, the very life of the people. The composition of the monetary circulation and minting arrangements are just as important for controlling

exchange fluctuation, since currency devaluation has its bearing, to a considerable extent, on the minting arrangements and the supply of currency, both coins and paper.

System of Coinage

Nepali coins are of various denominations—rupee, 'mohur' (50 pice), suki (a quarter rupee), a pachanli (20 pice), 10-pice piece, 5-pice piece, 2-pice piece and pice. The minting arrangements are primitive, and the public are not in the know of the basis for putting coins in circulation. As late as 1943, Nepali coins had 80 per cent silver content. The content of silver was progressively reduced to 70 per cent in 1947, 60 per cent in 1948 and 33 per cent from 1949. On February 18, 1954, on the occasion of the National Day, cupro-nickel coins were issued and in the words of the then Prime Minister, "the inauguration of minting a new set of coins ushers in the era of effective economy and fruitful use of our foreign resources." Thus for more than a year, the coinage has had no silver content. The coins with 80 per cent silver content were melted and sold in the Bombay bullion market during the war years. Some of these coins have also been hoarded and some have been melted by the Government mint and used for minting coins with a lower silver content. The issue of coins from the mint may be estimated as follows:

Year.		Rs lakhs
1949-50	..	87
1950-51	..	84
1951-52	..	1,07
1952-53	..	98
1953-54	..	45
1954-55	..	43
1955-56 (to date)	..	4
Total	..	4,68

There are no official statistics of coinage; the above figures have been computed from estimates made by the authorities and knowledgeable people. These figures indicate the volume of coins currently in circulation. How much of the coins minted in the period from 1949-50 to the present was in replacement of coins withdrawn from circulation and how much was a net addition to the coinage, it is not possible to say. However, the amounts shown in the budgets as revenue from the mint (Rs 59 lakhs and Rs 61 lakhs in 1951-52 and 1952-53 respectively) confirm the above estimates. Thus only a little over half of the coins minted from 1950-51 to 1952-53 represented revenue to the Government.

Paper Money

Paper money in 100-rupee, 10-rupee, 5-rupee, and 1-rupee notes is issued by the Central Treasury. It was first issued after the outbreak of the Second World War, presumably to replace in part the loss due to melting of silver coins. There was no formal backing of currency notes until recently. Statutory reserves have now to be held against note issue, 50 per cent in gold or silver and 50 per cent in Nepali or other Government securities.

Notes Issued

Year	Rs lakhs
1945-51 ..	1,15
1951-52 ..	60
1952-53 ..	100
1953-54 ..	94
1954-55 ..	80
Total ..	4,49

These are figures of additions to paper currency year by year. It is reported that damaged notes of about Rs 20 lakhs have been exchanged at the Treasury for new ones. The notes in circulation may therefore be estimated at about Rs 4.29 crores.

The total Nepali currency in circulation is thus about Rs 4,68 lakhs in coins and Rs 4,29 lakhs in paper, or Rs 8,97 lakhs in all.* It is not possible to make a similar estimate of the volume of Indian currency, which circulates freely in the Tarai and other parts, covering more than half of Nepal. The Indian rupee is accepted as legal tender and the bulk of Government revenues is paid in it. Because of the higher rate of economic activity in the Tarai, it may be safely assumed that the volume of Indian currency in circulation must be at least equal to that of Nepali currency.

Nepal seems to have been surprisingly indifferent about one of the most cherished prerogatives of sovereignty, viz. of putting its own currency into circulation. If she wants to do it today, she must begin with unification of the currency and end forthwith the present system of dual circulation. The authority entrusted with this task should undertake the responsibility of adjusting the money supply so as to serve the fundamental ends of economic policy, viz.:

1) expansion of domestic output, employment and income,
2) maintaining a high and stable level of production and employment, and
3) maintaining equilibrium in the balance of payments.

It is quite impossible for the Government to meet budgetary deficits (which exceed on an average Rs one crore annually in a budget of about Rs 5 crores) by issuing paper notes, without inviting disastrous consequences. The establishment of the State Bank can be a landmark in Nepal's currency history, if the Bank takes up and discharges the above functions of a proper currency authority.

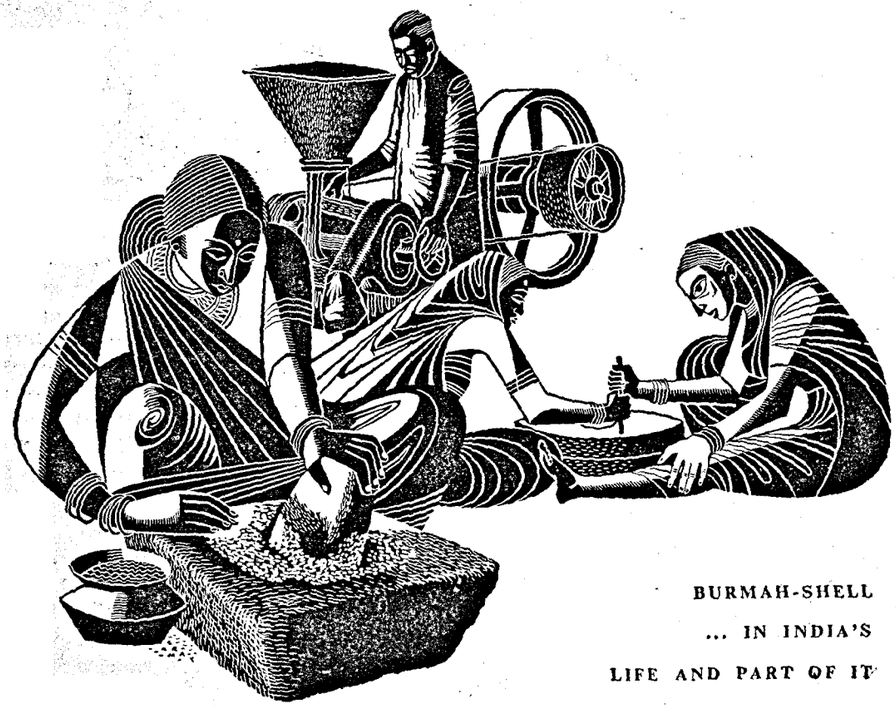
*Taking Nepal's population,



The Power to do work

Energy means the power to do work, and India needs all the energy she can get if the targets of the Second Five Year Plan are to be fulfilled. The proportion of *commercial* energy—that is to say, coal, electricity and oil—to the whole energy system is still extremely low in India. Nevertheless, it is beginning to have its impact on traditional methods and ways of life, even in remote rural areas.

The contribution made by oil in the commercial energy pattern in India has increased by 100% since 1948. Oil is the most flexible source of energy available... it is, in fact, 'packaged power' in an easily handled form. It is our job to maintain and extend a distribution organization which will ensure that *energy from oil* flows to all parts of the country cheaply, efficiently and in sufficient quantities.



BURMAH-SHELL

... IN INDIA'S

LIFE AND PART OF IT

From the Chair

Jay Engineering Works Limited

Sir Shri Ram Reviews All-Round Progress

THE following is the text of the speech delivered by Sir Shri Ram, Kt., Chairman of The Jay Engineering Works Ltd., at the Annual General Meeting of the Shareholders of the Company held at Calcutta on the 14th September, 1956:—

Gentlemen,

With your permission I will take the Balance Sheet and Profit & Loss Account and the Directors' Report as read.

We are meeting almost after a year, and I am glad to say that the past year has been of continued greater success and greater service, which is evident from the figures given below:—

Particulars	Year ending 31st. March, 1955	Year ending 31st. March, 1956
Sales	Rs 2,23,95,049/-	Rs 3,05,31,764/-
Profits	Rs 18,78,517/-	Rs 27,26,497/-
Payment to Labour	Rs 54,27,552/-	Rs 63,52,919/-
Number of Workers,	2639	2934
Number of Usha Embroidery and Tailoring Schools AND Students	120 8000	150 11000

Rising Production

The average of monthly production last year of Sewing Machines was 9026 Nos and the highest in one month was 12,012 Nos as compared to the monthly average of 6,476 Nos in the previous year and the highest of 9241 Nos in a particular month. The average production of Electric Fans last year was 6939 Nos as compared to 4478 Nos in the previous year.

During this year the Directors decided to discontinue the manufacture of Hurricane Lanterns. The building and most of the machines have been utilised for other purposes.

The Bhela Enamel factory has been shifted to Chhindwara and has started working there.

I told you last year that the definition of Section 23A of the Indian Income Tax Act was so modified, as to create serious difficulties, in paying back our loans even to the Industrial Finance Corporation of India. We had applied for exemption. So far no decision has been arrived at.

Last year I said that we intend to produce a Table Fan and sell it for about Rs 60/-. I am glad that these Fans have been put on the market. We hope within the next few months to put a 36" Ceiling Fan on the market for about Rs 100/-.

Expansion of Plant Capacity

I am glad to say that we have acquired about 75 Bighas of land at a distance of about 3 miles from our present site, at a cost of roughly about Rs 4 lacs. We have already built the necessary roads, boundary wall, and a bridge, and covered an area of about 1¾ lac sq ft. The machinery is being shifted there, and it is hoped that by the end of December we will be making there about 6,000 Fans per month, in addition to about 8,000 Fans in the existing factory. The Fan Section will be completely shifted to the new site by next year, when we hope to be making about 25,000 Fans a month.

During the year the Government of India have been good enough to give us licence for expansion of the Fan Factory capacity from 10,000 to 26,500 Fans per month and of the Sewing Machine factory from 10,000 a month to 25,000 a month.

For the expansion of these factories more finance was required, and the Industrial Finance Corporation of India have kindly sanctioned another loan of Rs 30 lacs.

Orders have already been placed for machinery for the expansion of the Fan Factory, and the balancing of the existing Sewing Machine Factory.

The Needle Plant has been shipped from Europe and we hope that before the end of this financial year it will be in full swing.

A four storied building has been put up for housing the Tool Room, Design Office, Development and Research Dept and Training School, etc.

Although due to increase in the price of various raw materials the cost of raw-materials of Sewing Machines has gone up by over 20% and of Fans by over 10%, we are however selling these at the old prices and have not increased the rates.

Pig Iron and Hard-coke

I have to point out that very great difficulty is being experienced since sometime on account of very poor and unstable quality of the Pig Iron and of Hard-Coke.

The Government of India recently announced its policy about uniformity in the prices of Steel & Pig Iron of both Indian and imported. While this has helped the industries which are away from port towns and is welcome, but so far as the exports are concerned, I would suggest that on the engineering goods exported, the prices of raw-materials, whether Pig Iron or Steel, should be charged on the basis of the indigenous prices. While the difference in cost to the Pool will be negligible it will be a great help towards export of these goods.

While the Government of India have been good enough to accept the principle of a draw-back of customs duty on goods exported, but the procedure is so complicated and so difficult that it is almost impossible to get any refund. It entails a lot of work for the Government without doing any good to the industry. I, therefore, suggest that it should not be very difficult to devise on an ad hoc basis the amount of draw-back duty paid on such articles as are exported, whether they are Fans, Sewing Machines or Oil Engines or any other items. This would very considerably reduce the complicated procedure, which is being followed now, and make it possible for the industry to get the Drawback-Duty amount.

Export of Engineering Goods

We, Industrialists, owe a duty to our country in helping it to secure as much foreign exchange as can be possible. I feel that there is room

for considerable increase in the export of general engineering goods. The markets should be explored for proper assessment and every effort made to increase the exports.

Like various other countries, it would be a good thing if the Government of India called a Conference of Railways, Industry, Trade, Labour, etc., to seriously consider as to how exports could be encouraged and helped. I do hope that the authorities will give the suggestion of mine due thought.

I am conscious of the small contribution at present of the general engineering industry to our export trade, but I am sure that in our national drive to conserve and augment our foreign exchange resources, we cannot afford to neglect even a small contribution, and I am equally certain that there is very great scope for proper encouragement and for the export of engineering goods.

Employment Policy

The earnings of our workers are steadily going up, and for the last year they received in the shape of Puja Bonus & Profit Sharing an amount equal to 5½ months wages, which is the highest in India.

A few years back we started giving work to poor families and Refugees outside the factory. It helped them in making a good living. In other places men skilled or unskilled find employment, and the number of such people has greatly increased and may be in the neighbourhood of about 1500 working outside our factory premises.

We are also going ahead with our policy for recruiting educated people. In the previous year we had 358 Matriculates and now on 31st August, 1956 we have 600. We think the scheme has been very successful.

In the end, I have pleasure in conveying my thanks to and my appreciation of the work done by all my colleagues.

After the speech of the Chairman, the Audited Accounts of the Company for the year ended the 31st. March, 1956, were passed. A dividend of 10% per cent, free of Income-tax was declared in respect of the equity or ordinary shares of the Company.

Thereafter the following resolutions were passed unanimously.

I. As Ordinary Resolutions:

(a) Mr L P Singhania and Mr M G Bhagat, who retired by rotation, were re-elected as Directors of the Company.

(b) M/s. H P Khandelwal & Co., Chartered Accountants, were re-appointed Auditors of the Company for the year 1956-57 at a remuneration of Rs 20,000/-

(c) Declaring that the age-limit prescribed in section 280 of the Companies Act, 1956, shall not apply to Shri D N Sen.

(d) Approving and consenting to the renewal of the agreements and/or appointments of 146 Sole Selling Agents in India and abroad, a list whereof was included in the notice to the shareholders;

(e) Consenting to the Board of Directors contributing and/or subscribing amounts to any national, political, charitable, benevolent, public, general and other funds, not directly relating to the business of the Company or the Welfare of its employees, the aggregate whereof in any financial year may exceed Rs 25,000 or 5% of the average of the Company's net profits during the immediately preceeding three financial years, whichever is greater; and

Providing that various books, registers and documents of the Company shall be kept open for inspection by shareholders and others during certain hours.

2. As Special Resolutions:

(a) Electing and appointing Mr M G Bhagat a Director of the Company and approving the appointment of Mr D N Sen, Shri K L Poddar and Shri B K Rohatgi as Directors of the Company, and providing that the said gentlemen do continue as Directors until they retire.

(b) Authorising the Managing Agents and the associates of the Managing Agents to retain commission and other remunerations, etc., in terms of section 359 of the Companies Act, 1956; and

(c) Approving the contracts which are or may be entered into between the Company and India Electric Works Limited, for supply of goods by the latter under Section 360 of the Companies Act, 1956.

1955

A Year of Phenomenal Progress

PREMIUM INCOME ... RS. 4,97,49,834
TOTAL FUNDS ... ... RS. 6,89,07,478
TOTAL ASSETS ... ... RS. 12,16,64,382

SECURITY • SERVICE • STRENGTH



THE NEW INDIA ASSURANCE COMPANY LIMITED

Mahatma Gandhi Road, Bombay.

India's Largest General Insurance Company

NI. 3868

Around Calcutta Markets

Quiet But Steady

Wednesday Evening

TOWARDS the close of last week, equities were trying to resume the upward trend. Under the lead of Indian Iron, speculative scrips were firming up. There was evidence of interested buying in Indian Iron. Reports were current that influential parties were accumulating Indian Iron because of the near approach of the right issue. According to plans, this Company proposes to issue right shares any time after November, 1956. So, investors were trying to buy Indian Iron as cheap as possible so as to make the purchase worthwhile despite the obligation to pay a premium of Rs 3½ per share for acquiring right shares. But the spurt was short-lived. Indian Iron has fallen during this week. Equities in general have also developed a downward trend.

Many explanations are being offered for the easy trend in equities. One is that speculators are trimming their accounts because of the near approach of the Puja holidays. Recent fluctuations in Indian Iron indicate a heavy "bull" position. Some weak "bulls" have liquidated their holdings. In consequence, the technical situation is now healthier. Technical reasons may have accentuated the recent set-back. But the longer period of the next settlement is a favourable technical development. In any case, there is still a long time before the Puja holidays start. So argument that the recent set-back is due to pre-holiday liquidation does not seem to be convincing.

Kerb Trading

There have been some psychological repercussions from the Government's decision to appoint inspectors to discourage illegal futures trading. This affects mainly "fatka" in jute goods and raw jute. There is kerb trading in shares also. But the elimination of kerb trading need not necessarily be a "bearish" factor for equities. It will help the Government's revenues. But it is arguable that, simultaneously, it will discourage speculative activity. This is a possibility. But this raises the wider problem of tax evasion. On this ground alone, there is a case for a stricter attitude to illegal futures trading.

This tax evasion argument is applicable to kerb trading as well as to "fatka" business. But there are other valid reasons for checking illegal futures trading in raw jute and jute goods. For too long, the Government has denied legal futures trading facilities to the jute trade. There is extensive futures trading in both raw jute and jute goods. Mills use these unofficial trading facilities fully. There can, therefore, be no sense or logic in not legalising futures trading in raw jute and jute goods. Many expert committees have recommended such trading facilities. It will be a desirable development if the stricter check or illegal futures trading compels the Government to legalise futures trading in raw jute and jute goods.

Suez Crisis

It will not be denied that the developing Suez Canal crisis has had repercussions on Lyons Range. Equities moved up as the crisis deepened. Relative steadiness in equities during the major part of last week was due to the aggravation of the crisis. Rising insurance and freight rates are likely to have chain consequences which may have "bullish" impacts on stock markets. It is possible that this week's set-back is partly due to the growing realisation that the Suez Canal crisis may not be allowed to lead to war. Even so, it would be unwise to ignore the repercussions of the rising trend in insurance and freight rates.

Taxation fears continue to disturb stock markets. TTK unnerved stock markets by raising cloth excise duties. Fears that excise duties may be exploited further to check consumption are impeding stock market activity. There were hopes that the slightly downward trend in food prices will lower production costs. But the rising trend in cloth prices may falsify these hopes. Without any decline in living costs, industry's payments for dearness allowances must continue to be high. This is a background factor which may have depeened equities in the last few days.

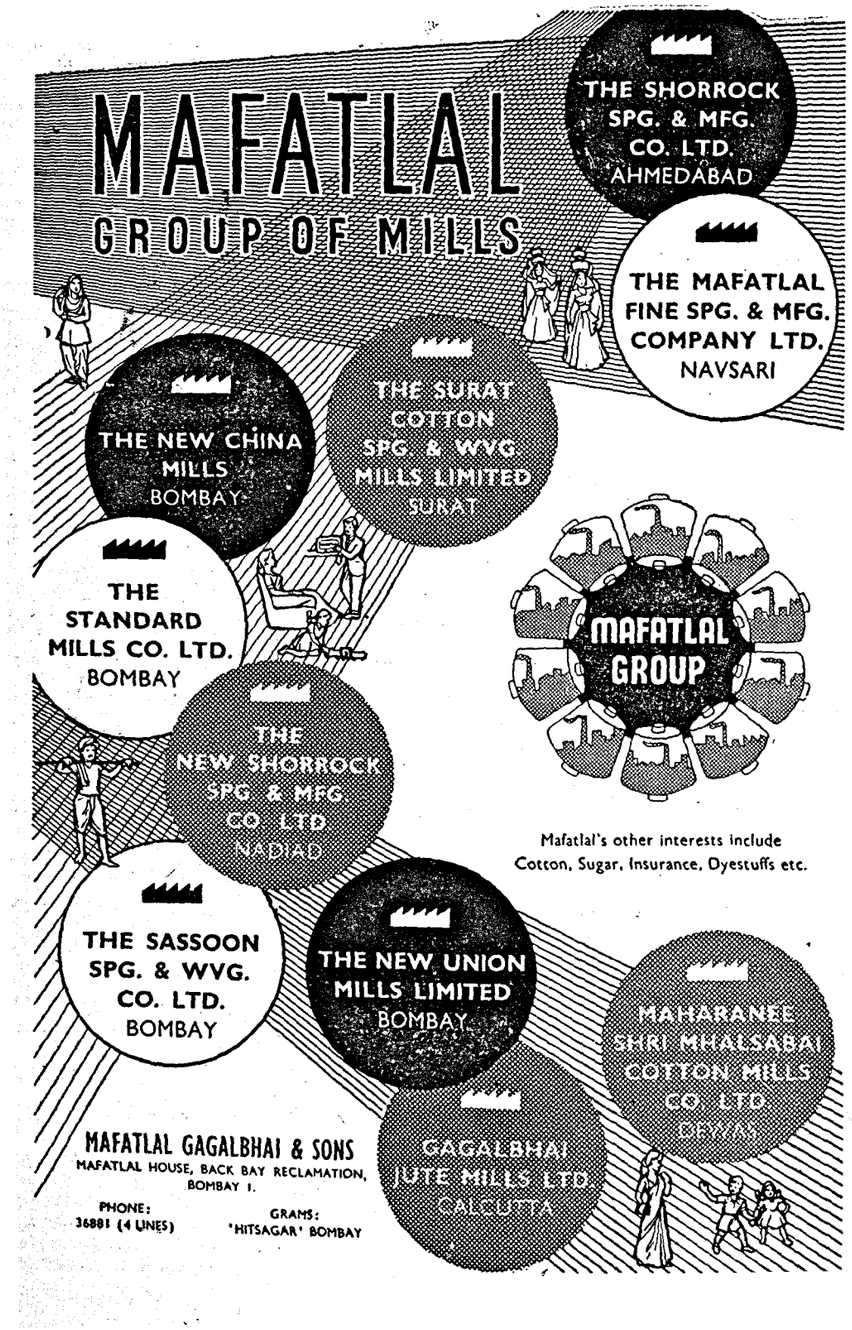
Jute Shares

Despite the falling trend in equities in general, Jute shares remain relatively steady. There was a further spurt in jute goods in the last few days. It was partly due to reports of foreign enquiries and to the increase in burlap consumption in America in the last month. Rising insurance and freight rates were automatically reflected in higher prices for jute goods. But, on second thoughts, it was realised that foreign buyers might not be interested to buy Indian Jute goods at too high prices. This had the effect of halting the uptrend in the goods. But another recent disturbing development is the revival of the upward trend in raw jute. Inspite of lower consumption, and of prospects of a further decrease in consumption, raw jute remains firm. This is an adverse development for Jute shares.

Tea shares have been irregular. Recent auction prices have been satisfactory. Quality tea is fetching good prices. Average export auction prices have also been crawling up. But good auction results are not encouraging buying of tea shares. For one reason, the Northern Indian crop is too heavy. This is the main factor which is causing apprehensions that auction prices may not be maintained. There are also fears that the tea industry's prospects may be damaged if the Plantation Enquiry Commission's recommendations are implemented. Speculators remain aloof from this counter. Investors lack courage to add to their commitments.

Coal Strike

The coal strike has had a disturbing effect on not only Engineering shares as a whole, but on industry in this City. Industry in Eastern India, including Calcutta, is coal-based. That is why the coal strike is having an adverse effect on industrial production in and around Calcutta. Not only is output being affected, but industry's production costs are rising. This is one of the reasons for this week's set-back in shares. After today's settlement, equities seem to have steadied down at the lower levels. Technical considerations are unfavourable. And, in the absence of any further deterioration in the Suez Canal situation, equities may remain steady till the closure of the market for the Puja Holdays.



Handloom Industry and Powerlooms

(Contributed)

PROBLEMS of the handloom industry tend to thrust themselves on public attention time and again and recent rises in cloth prices and the proposal of the Union Government gradually to replace handlooms by powerlooms have once again brought them to the forefront. While the rise in cloth prices brings into focus the role of the handloom industry in the textile economy of the country, the proposal to introduce powerlooms has roused the handloom interests to furious protest, including threats of non-co-operation by non-official members of the All-India Handloom Board.

The problem has to be considered in the context of the admitted need to expand cloth production not only to meet the growing demands of a growing population for cloth but also for export. These two objectives are inter-related, because a rising standard of living necessarily means a larger per capita consumption of cloth, and makes it imperative that cloth production should be increased and that simultaneously the export trade should be kept up. Both these have to be achieved, of course, without adversely affecting the interests of those engaged in working about 7,50,000 handlooms in different States and their dependents. Fundamental to the solution is the need to avoid unemployment among handloom weavers.

The Official Policy

These diverse considerations necessarily influenced the official policy. The principal elements in that policy were:

(i) freezing of cloth production in the mill sector at 5,000 million yards during the next five years, any additional spindlage to the mills being permitted only to produce cloth for export and to meet the potential demand for larger supplies of yarn;

(ii) encouragement of the handloom industry by allocating to it the production of an additional 1,700 million yards of cloth;

(iii) introduction of powerlooms in the decentralised sector to facilitate fulfilling the demand for additional production made on them; and

(iv) utilisation of the **Ambar Charkha** to produce the larger quantities of yarn required for handlooms.

Thus the Second Five Year Plan assigned to the handloom industry an important task, the successful accomplishment of which calls for vast organisational effort to bring idle looms into use, working for a larger number of days in the year, raising the output per loom and improving side by side the texture and quality of handloom products. From the point of view of the handloom weavers, a significant proposal made by the Kanungo Committee, and blessed by the Planning Commission and woven into the Union Government' policy, was that Government should take appropriate measures to ensure that every weaver was supplied enough yarn of the counts needed to employ himself gainfully for at least 300 days in the year, instead of the average of 200 days that is possible with the yarn supplies available to handlooms at present.

Opposition to Powerlooms

It is in the implementation of the recommendation of the Kanungo Committee regarding the introduction of powerlooms that Government's policy is encountering opposition from handloom interests. The proposal is an important aspect of the policy for rationalising and rehabilitating the handloom industry on a permanent basis instead of as at present, feeding it continuously on the artificial diet of rebates on sale of handloom cloth and collection of cess on the production of mill cloth, from which the rebate is largely paid.

The possibility that introduction of powerlooms would result in the displacement of handloom weavers and in unemployment among them was indeed envisaged by the Government. The Kanungo Committee, for instance, estimated that the displacement would be of the order of 1,25,000 looms in six years or about 20,000 looms every year; but the Committee had felt that it would not be difficult to absorb the displaced weavers in the expanded programmes for handlooms themselves or in allied employments and trade, which would come up under the Second Plan. The Committee did anticipate, although not in specific terms, a time when the cess collections would either stop or begin to yield progressivey diminishing returns, reducing the funds available for subsidising handloom cloth.

The apprehension that the policy of substituting powerlooms for handlooms would bring about unemployment among weavers cannot be dismissed as altogether baseless. In the immediate future, this is almost a certainty. This is because handloom weavers, as a class, are not accustomed to any other work and cannot readily adapt themselves to other vocations. The replacement would ,therefore, be so phased or would have to be so phased that it would not cause undue hardship to the weavers and would take into account the essential need to absorb the displaced or unemployed weavers in suitable alternative employment. In any case, it would be a process which has to be spread over a number of years and State Governments would have to be consulted at every stage in order to ensure that the policy was implemented smoothly.

Relief and Assistance

Side by side, the Second Five Year Plan provides for a number of other measures intended to bring relief and assistance to the handloom weavers. These measures include arrangements to ensure regular and increased supplies of yarn to the handlooms, the continuance of rebate on the sales of handloom cloth, and assistance to weavers to increase production per day from the present average of 4 yards to about 6 to 8 yards per day.

True, these benefits would be available mainly to weavers who have joined handloom weavers' co-operatives; but then, it is an integral part of Government's policy to encourage co-operatives which, ultimately, would be highly advantageous to the weavers themselves. In fact, it is proposed to increase the number of handlooms in the co-operative sector from one million to 1.45 million. Weavers' co-operatives have already amply justified their existence by enabling them to secure adequate supplies of yarn. They have been playing a conspicuous and successful part in the marketing and sale of handloom cloth and in regulating production according to the consumers' preference for particular varieties and styles.

Change over to Powerloom

Two other important considerations are involved in the immediate problem confronting the Government and the handloom interests at pre-

sent. Firstly, the handloom industry, accustomed for generations to operating on a non-mechanical basis and to the use of a particular kind of equipment, cannot indeed change over to mechanical processes without a period of preparation and training. But provided adequate safeguards are provided and steps taken to prevent the hazards implicit in the transition from the existing to a new kind of technique and to cushion upsets likely to occur in the way of life of the weaving community, there can be no justification for opposition to the change over. In the next few years, rural electrification schemes, for instance, would be stepped up and power would be available to large rural areas. The question is: would it be desirable to prevent the handloom industry and the weavers from taking advantage of the benefits that power facilities bring in their train?

Secondly, the whole basis and justification for the proposal gradually to replace handlooms by powerlooms is that it is a measure for the permanent rehabilitation of the industry, as a long-term policy. Government's policy of helping the handloom industry during the last few years, and particularly since the crisis through which the industry passed some years ago, has been one way or the other at the expense of the mill industry—and indirectly also at the expense of the consumer of mill cloth—which has had to bear the burden of the cess.

Long Term Programme

The collection of the cess cannot be a permanent feature of the fiscal system; in any case the proceeds from the cess cannot go on increasing indefinitely when mill production cannot expand beyond a point prescribed by the Government. This would automatically limit the yield of the cess for subsidising the sale of handloom cloth and prices of handloom cloth are likely to go up unless, in the meantime, handloom or powerloom production in the decentralised sector expands correspondingly and consumers get the varieties of handloom product which they want. From these points of view it would be a shortsighted policy for handloom interests to attempt to stall measures for rationalisation and rehabilitation of the handloom industry.

On the other hand, it is the policy of the Union Government not to force the pace of introduction of powerlooms or to compel State Governments to accept the quota of powerlooms allotted to them. There is every likelihood that if some of the States oppose the introduction of powerlooms their quota would be taken over by some others. The result will be that while handloom production would inevitably be unequally distributed, there would be nothing to prevent the sale of the additional handloom production in the State which does not accept the powerlooms.

The potential threat to weavers' interests implicit in the proposed introduction of powerlooms and the counter-threat of disassociation by representatives of those interests from official bodies established to safeguard handloom interests, are creating an unpleasant situation. But in between, there is the threat of cloth prices continuing to spiral upwards to the detriment of the consumer. A clear assurance seems called for from both the parties concerned—the Government and the representatives of weavers that nothing would be done which would be prejudicial to consumer interests and everything to insure fair prices of cloth. The Madras Government, for instance, have already proferred the assurance that, so far as that state is concerned, if it was found that the interests of the weavers were jeopardised by the introduction of powerlooms, they would not hesitate to withdraw the scheme.

Concessional Return Tickets During Dussera Holidays - 1956

During the period from October 1 to October 14 1956 concessional return tickets for first, second and third classes at 1 ¼ (one and three-fourths) single journey fares will be issued in local and through booking with all railways between two stations situated at a chargeable distance of 150 miles apart or more. Concessional return tickets will also be issued between stations less than 150 miles apart, as for a distance of 150 miles, provided the concession return fares as for 150 miles are lower than 2 single journey fares.

The return tickets will be available for completion of the return journey within 15 days including the date of issue or date of commencement of the journey in the case of return tickets issued in advance. **No break of journey will be allowed on the return journey. Passengers are requested to present the return half of the ticket at the booking office before commencement of the return journey for dating the actual date of the commencement of return journey.** Passengers, if found travelling on the return journey without having their tickets so dated, or found breaking their journey on return trip will be treated as travelling without tickets.

Tickets will be issued according to rules and conditions in force. Full particulars can be obtained from the Station Masters concerned.

CENTRAL AND WESTERN RAILWAYS

Around Bombay Markets

Getting Over Jitters

Thursday, Morning

AFTER last week's jitters, the market naturally opened weak and on an uncertain note. Even the most active of market leaders were completely neglected and there was hardly any activity on the opening day (Thursday). As it was, prospects were not inviting for the operators; the Finance Minister's sabre-rattling while dilating on possible official action (to check rising cloth prices by taking profits?) did not help to make them any better.

However, as the week progressed, the market showed some signs of slowly getting over its jitters. It is bound to be a long drawn process. By judicious and selective support, operators managed to tone up an otherwise anaemic market. Of course, the climate of investment also underwent a perceptible change when evidence became available of the prospects of an immediate change in New Delhi's cloth policy. It is not that wisdom has dawned all of a sudden that the simplest and the most effective means of checking rising cloth prices is to increase the output of cloth. The market has been left guessing, TTK delights in this sort of game; he is now changing his line. The Karve Committee's recommendation of freezing cloth production at 5,000 million yards has been thrown overboard and the authorities are now inclined to give a sympathetic hearing to the cotton mill interests' repeated protests against the official ceiling on cloth production. Official blessing to expansion of mill production may follow in due course. All that the market has now to consider seriously is the time lag between a decision to expand mill output and its actual implementation.

It may be recalled that according to the new textile policy enunciated by Shri T T Krishnamachari at a Press Conference in Delhi last June, loomage remained to be allotted for 150 million yards. It was stated at that time that the allottment would be made in the light of the consumption trend of cloth.

Expansion of capacity is such a bull point for cotton textiles that the latter can take in their stride the Commerce Ministry's efforts in the direction of educating the public on fair prices of cloth. When the Union Minister for Revenue and Defence Expenditure met the Committee of Bengal Millowners to discuss the question of supplying cloth at reasonable prices, the latter pointed out prices were neither economic nor correct. This is for the first time that the cloth trade or industry has challenged the validity of the fair prices advertised by the Government. We are sure to hear more about it—this only the first round.

Sentiment in the textile section was also helped by rumours to the effect that the authorities would consider granting rebate on excise duty to mills working a third shift.

All these bullish potentialities, however, are too far in the future. The stock market has not yet reacted to them, equities in general continued to display hesitancy and trading remained restricted throughout the week. It may be reasonably expected, however, that fuller appreciation of these factors would be evident in the course of the next few weeks and the resulting improvement will not be confined to textiles, there should be an all round improvement.

Stock Exchange List

Orissa Cement: The old shares of this company have been entered on the cash list of the Bombay Stock Exchange. Business in these shares will now be done in lots of 100.

Adoni Spinning and Weaving: The ordinary and preference shares of this company have also been entered on the cash list. Dealings will be in lots of 100 shares.

Jaypur Udyog Ltd.: The management of this company has applied to the stock exchange for enlisting their shares.

Ajamjahi and Oosmanshahi Mills: The shares of these two companies have been entered on the forward section of the stock exchange, and business will be done in lots of five shares.

Cotton

Mills are Eager Buyers

THE cotton futures market, which had only an abridged version of the normal week's trading, due to intervention of holidays, reflected a firm trend. The Jarilla contract was specially prominent and moved up from the opening day's quotation of Rs 688-8-0 to Rs 695, the highest level for the week, on Saturday and closed at Rs 691-8.

In the spot market at Sewri, trading was brisk and prices tended to firm up. Mills were keen buyers of the new crop and quite a scramble was noticed on Friday and Saturday when quality cotton were eagerly sought after by mills and traders at high levels. As a result of this sustained mill demand, bases of such styles as new crop Berar, Khandesh and Vijay firmed up perceptibly. The eagerness on the part of mills to cash in on the prevailing price trend

MARKET LEADERS DURING THE WEEK

	19—9—56	Week's Range High	Low	12—9—56
Steel Shares:				
Tata Ordinary ..	195- 0	197- 8	194- 8	196- 8
Indian Iron ..	35- 2½	35-12	34-14½	35- 9
Textile Shares:				
Bombay Dyeing ..	631-14	652- 8	628-12	637- 8
Central India ..	151- 0	153- 0	149- 0	153- 0
Century ..	547- 8	560- 0	547- 8 x.d.	557- 8
Kohinoor ..	368- 0	371- 0	362- 8	361- 0
Swadeshi ..	252- 8	254- 8	248- 0	251- 8
Simplex ..	204- 0	208- 8	203- 8	207- 8
Miscellaneous Shares:				
Associated Cement ..	201- 8	203-12	201- 8	203- 4
Belapur ..	248- 0	249- 8	245- 0	249- 8
Burma Old ..	743-12	757- 8	731- 4	742- 8
Premier Const. ..	216- 8	220- 0	213- 8	220- 0
National Rayon ..	264- 8	266- 4	260- 0	261- 8
Scindia ..	19- 1½	19- 6	18-14	19- 7
New India Ins. ..	45- ½	46- 8	45- 8	46- 8

and meet all their requirements was so keen that some mills even made purchases 'on the lines', as a result of which prices at up-country centres also hardened.

Statistics of cotton exports, which are now available for the whole of the 1955-56 cotton season, make interesting reading:

	(In bales of 400 lbs)	
Destination	1955-56	1954-55
Japan ..	223,484	143,541
Continent ..	81,927	76,490
U K ..	58,095	46,821
China ..	57,484	14,979
Hong Kong ..	30,094	25,239
U S A ..	3,755	18,960
Others ..	2,514	2,762
Total ..	457,353	328,692

It will be seen from the above table that there has been a phenomenal improvement in raw cotton exports during the last season. In fact, the aggregate exports at 457,353 bales was the highest in any year since Partition. Again, for the first time since Partition, India became a net exporter of cotton. This was due to the realistic export policy pursued by the Government throughout the season.

Some of the features of the exports during the 1955-56 season may be noted here. First, the volume of exports increased by more than a lakh bales. Secondly, Japan topped the list, accounting for an offtake of nearly half of the total at 223,484 bales, as against 143,541 bales in the previous season. In this connection, it is good to remember that Japan is the country which has threatened and continues to threaten India's hold on her traditional markets for cotton textiles. The considerable decline in the export of Indian cotton to US which is burdened with a surplus of cotton explains itself.

Oilseeds

A Smaller Crop

THE statistical position of groundnut continues to impart firmness. According to latest trade estimates, the groundnut crop has been revised downwards from about 28 lakh tons to 24 lakh tons. Apart from the prospects of a smaller crop, the recent rise in groundnut futures has also been due to bear covering and bull buying. Besides, even in exports, there has been good progress.

The price trend of castor and its oil remained very steady throughout the week. Despite lack of enquiry from overseas for Indian oil, castor ready and oil displayed steadiness, mainly on the strength of their statistical position.

Tenders issued against the castor September contract todate aggregate 14,500 candies. They have been readily absorbed by millers and shippers. According to market gossip, longs have made arrangement to absorb orders up to 20,000 candies against their contracts. Scared by such talks, bears covered, and the contract closed firm.

A notable development in the oilseeds market during the week under review was the resumption of forward trading in groundnuts in Adoni after a lapse of 13 years.

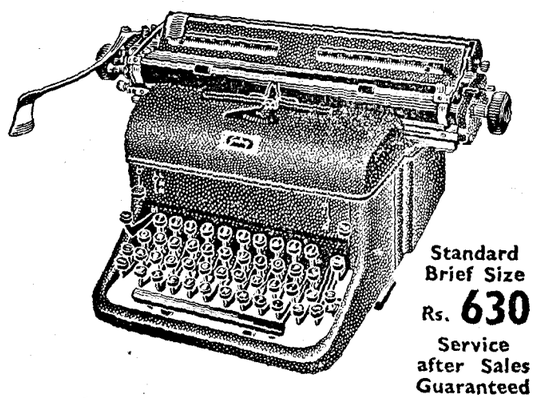


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Our Delhi Letter

Reorganisation of Services

LITTLE known to the public, a departmental committee has been set up to go into the question of the reorganisation of the services. The members of the committee are the Departmental Secretaries at the Centre and a Bihar ICS has been named the Secretary. The terms of reference are seemingly unexceptionable—to study and report on the reorganisation of services. The problem is not exactly new nor has it been apprehended for the first time. Passing references to it may be found in many places. In fact, no discussion on administrative reforms has failed to refer to the problem. But hardly any serious study has ever been made. Why, then, this sudden urgency to tackle the problem? Thereby hangs a tale.

The problem is not new, but the solution may not please some of the topnotchers in the services. The status quo is to their benefit; they brought it about. And this may well have made them averse to a study of the problem. The result was that the allied question of procedural reform monopolised the attention of the Government, experts and the public alike. Even the Appleby report skirts round this problem and concentrates its fire on procedural reform and the method of recruitment of personnel. And this probably would have continued, but for Sardar Panikkar.

As a member of the States Reorganisation Commission, Sardar Panikkar had to look into the position of linguistic minorities in the States. This probably led him to the question of the services. There is nothing unusual in this. Here was a man interested in the study of the administrative system from the point of view of the minorities and he was naturally struck by the discrimination against minorities in the matter of recruitment to the services. Being the thorough-going man that he is, Sardar Panikkar put together his observations and suggestions in a note and submitted it to Pandit Nehru. This note was duly forwarded to Shri Pant who shelved it and set up the Secretaries' Committee to suggest measures for the reorganisation of services.

In order to appreciate the issue involved and judge the competence of this committee to tackle them, it is necessary to recapitulate what Panikkar has to say on the subject. Federal Government is essentially a government at two levels, the federal Centre and the federating units. The jurisdictions of the Centre and units are different, their spheres of activities and the subject they have to deal with are clearly demarcated (except in relation to the concurrent list) and one does not interfere with the other. Administrative methods and requirements at the two levels are thus different.

This difference has been further accentuated by the new emphasis on welfare and economic activities. The administrator today must be a specialist. Specialisation in administrative jobs has become as necessary as in the field of science and technology. Indiscriminate transfers from the Centre to the States or from the latter to the former do not help widen experience nor do they make for efficiency.

This is not to suggest that all transfers are to be stopped. On the contrary, Sardar Panikkar suggests planned transfers. Specialisation in one branch of administration presupposes some experience in the other field. The experience gained in the States provides a better basis for work at the Centre, and conversely, experience of the Central administration widens one's views and equips one with an all-India outlook. If for nothing else, at least for facilitating such transfers, the recruitment and general training of the administrative services have to be the same for the Centre and the States.

Such uniformity in the recruitment and general training will raise the standard of State services, and parity in the administrative efficiency of the different States will be ensured. Besides, this will end once for all a most odious form of 'caste' distinction in the services. Rigid stratification and lack of mobility that characterise the services today will make room for flexibility and mobility so much needed in a country wedded to democracy and rapid development.

These, in short, are the issues involved. How could the Secretaries be expected to bring an unbiased mind to bear on them? They have too many interests to protect, too many friends to oblige, too many social ties to respect. Will it be very unexpected if they succumb to these pressures? As a matter of fact, it is apprehended in some quarters that the whole thing may result in increasing the quota of men in the State services to be promoted to the all-India services. The need for rapid expansion of the services dictated by ever expanding Government activities will provide a good opportunity for pushing such a solution. And all that the committee will then do may be to upgrade some officers in the State services and larger representation of members from linguistic groups which are in a minority will only lead to a lowering of the efficiency of the all-India services. If this forecast comes true, non-specialisation will continue, efficiency go down and 'caste' distinctions persist.

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CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1432.45	1440.18	1445.44	1293.35
2. Rupee Coin	117.08	116.03	113.77	110.30
3. *Deposits*				
a) Central Government's	73.41	58.86	53.72	61.96
b) Banks'	53.72	56.16	53.44	52.89
c) Other Governments'	19.54	16.73	5.58	13.4
d) Others'	14.89	18.01	11.92	16.57
4. Foreign Securities	596.74	596.74	606.68	671.82
5. Balances held abroad	33.14	34.22	34.39	48.23
6. Rupee Securities	703.65	703.65	708.62	493.92
7. Investments	52.19	51.81	50.12	49.24
8. Loans and advances to Governments	5.07	5.32	7.30	0.65
Scheduled Banks				
1. Demand liabilities (net)	629.67	637.71	623.64	590.75
2. Time Liabilities	459.04	461.32	459.67	413.25
3. Cash on hand	35.51	37.58	35.52	33.67
4. Borrowings from Reserve Bank	52.25	30.99	44.58	16.33
of which against Usance Bills	24.40	22.00	33.94	12.32
5. Advances and Bills discounted	711.88	689.27	692.59	567.63
of which State Bank's	133.93	124.22	127.14	105.27
6. Invst. in Govt. Sec.	366.38	361.42	361.43	380.97
of which State Bank's	106.29	106.18	106.29	108.09
Cheque Clearance	141.05	170.33	101.85	155.74

†For Reserve Bank and Cheque Clearance week ended 14-9-56. Scheduled Banks week ended 7-9-56.

Bombay Money Rates	14-9-56	7-9-56	17-8-56	16-9-55
Inter-Bank Call Rate	3¼	3 3/16	3½	2⅞
3 months deposits	3⅜	3⅜	3⅜	2⅞
6 months deposits	3⅜	3⅜	3⅜	3 1/16

Bombay Bullion — In Rupees and Annas

	20-9-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	103-1	103-8	103-13	95-5
Forward	102-13	102-8	103-14	†
Silver (per 100 tolas)				
Spot	172-12	173-1	172-13	166-12
Forward	172-8	173-9	172-4	†

† no trading

SUEZ CANAL TRAFFIC IN 1955

Nationality	No. of transits	Net tonnage ('000 tons)	% of total tonnage
EUROPE			
British	4,358	32,789	28.23
Norwegian	1,835	15,594	13.47
French	1,217	10,826	9.35
Italian	1,376	9,220	8.00
Dutch	687	4,774	4.12
Swedish	483	3,822	3.30
Danish	379	2,897	2.50
German	377	2,458	2.12
Greek	273	1,387	1.20
Russian	171	0,901	0.78
Portuguese	101	0,757	0.65
Polish	102	0,607	0.52
AMERICA			
Panamian	904	8,074	7. 0
U S	380	3,134	2.71
Costa Rican	83	0,283	0.24
Honduranean	38	0,420	0.36
AFRO-ASIA			
Japanese	147	0,998	0.86
Indian	120	0,616	0.53
Pakistani	26	0,107	0.09
Saudi Arabian	19	0,243	0.21
Liberian	1096	14,030	12.12
Egyptian	101	0,198	0.17
TOTAL (incl others)	*14,666*	*115.8*	*100*

Source : Suez Canal—Annual Returns of Shipping and Tonnage.

British Share in Suez Canal Traffic.

	1955	1954	1953
Total ('000 tons)	115,756	102,494	92,905
British ('000 tons)	32,790	32,908	31,262
„ % of total	28.3	32.1	33.6

Source : U K Chamber of Commerce

Movement of Cargo ('000 *tons*)

North–South	20,082	22,370	22,001
South–North	87,426	74,511	61,447
TOTAL	107,508	96,882	83,448

Source : Suez Canal Company's Monthly Bulletin

***Cargo moved* in 1955**

		Difference over 1954
I NORTH-SOUTH		
Wrought metals	2,731	2,165 + 566
Cement	2,683	1,990 + 693
Fertilizers	2,454	2,089 + 365
Petrol & petroleum products	1,905	6,084 —4,179
Machinery	1,028	1,024 + 24
Sugar	996	1,563 — 567
Paper and pulp	611	568 + 43
Chemical products	556	479 + 77
Other goods	7188	6,498 + 690
TOTAL	20,082	22,370 —2,288
II SOUTH-NORTH		
Petrol & petroleum products	69,893	59,978 +9,915
Minerals and metals	5,300	4,552 + 748
Cereals	2,488	2,189 + 299
Oilseeds	1,803	1,765 + 38
Textile materials & fibres	1,744	1,629 + 115
Rubber	1,349	1,217 + 132
Sugar	964	1,046 — 82
Fruits	618	553 + 65
Others	6,267	4,582 +1,685
TOTAL	87,426	+12,915

Source : National Bank of Egypt.

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August *1939 = 100*)

Group and Sub-Group	Week Ended 1-9-56	Week Ago 25-8-56	Month Ago 4-8-56	Year Ago 3-9-56
I **Food Articles:**	**395.9**	**397.9**	**391.5**	**318.2**
Cereals	511	509	502	385
Pulses	396	406	385	273
Others	251	255	253	235
II **Industrial Raw Materials:**	**510.7**	**505.6**	**493.7**	**393.1**
Fibres	484	477	470	397
Oilseeds	580	581	549	375
Minerals	528	513	518	415
Others	424	423	424	418
II Semi **Manufactures:**	**410.3**	**411.1**	**400.4**	**325.5**
Leather	374	372	387	338
Mineral *Oils*	208	208	208	202
Vegetable Oils	605	615	565	371
Cotton Yarn	504	503	483	406
Metals	329	329	329	258
Oilcakes	479	487	462	335
Others	361	361	361	330
IV **Manufactures:**	**391.2**	**389.8**	**385.7**	**368.6**
Textiles	427	425	419	403
Jute	419	407	383	397
Cotton	432	432	430	402
Rayon & Silk	470	470	470	474
Woollen	266	266	266	278
Metal Products	388	388	388	352
Others	294	294	291	286
V **Miscellaneous:**	**564.8**	**565.0**	**563.7**	**561.8**
All Commodities:	**421.5**	**421.0**	**413.9**	**354.7**

EXPORTS OF COTTON PIECE GOODS MILL MADE

By Sea and Air (in 000 yds.)

Destination	June '56	Jan—June '56	June '55	Jan—June '55
U K ..	7,774	48,061	5,643	53,036
Sudan ..	7,405	42,926	5,926	41,620
Nigeria ..	2,951	18,943	5,978	25,958
Tanganyika	2,192	11,543	4,102	15,064
Kenya ..	3,076	17,986	3,250	13,792
Kuwait ..	352	2,295	547	2,804
Aden ..	3,300	16,588	4,477	25,122
Iraq ..	839	2,644	807	5,232
Afghanistan	821	8,210	291	7,895
West Pakistan	543	1,157	330	4,679
Ceylon ..	2,332	10,137	2,455	10,546
Burma ..	569	10,182	170	6,930
Singapore	1,359	14,129	1,357	13,015
Malaya ..	496	4,631	700	5,766
Australia	3,252	20,058	5,033	21,972
Other Countries	18,853	111,525	20,284	115,858
TOTAL ..	56,114	341,213	61,350	361,933

Source: Department of Commercial Intelligence and Statistics.

INDUSTRIAL PRODUCTION

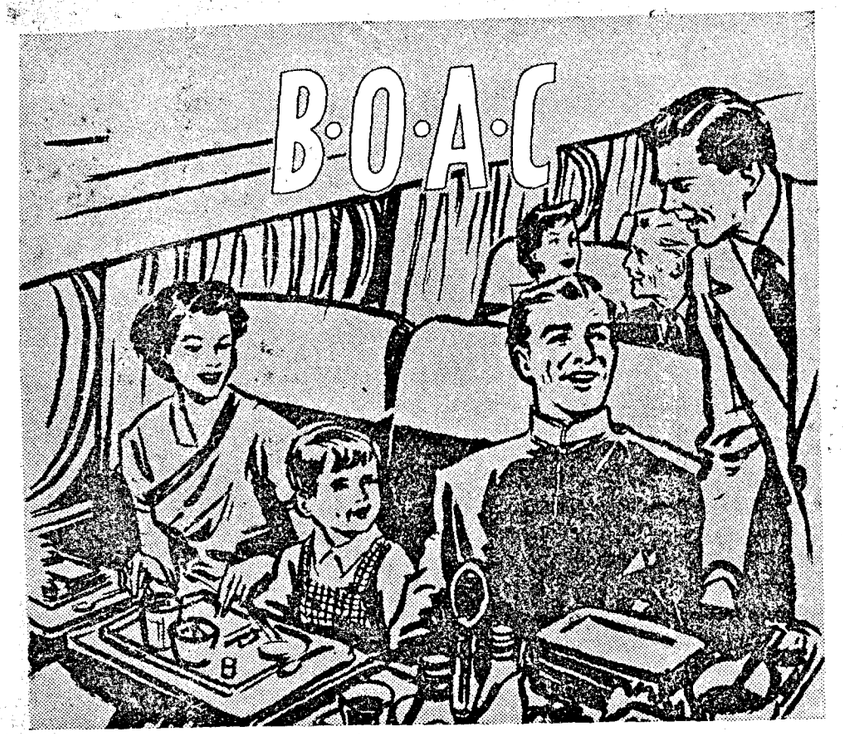
	Units	1956 June	May	April	Mar	Feb	Jan	Monthly Average 1955	1954	1953
I Consumer goods										
1) Cotton Textiles	crore yds	..	45.27	42.50	41.60	41.40	43.00	42.44	41.65	40.65
2) Woollen and Worsted fabrics	*lakh yds*	..	11.53	10.83	12.53	11.94	12.34	11.63	11.46	..
3) Matches	000 cases	49.7	..	46.0	46.2	49.8	49.2	51.3	44.1	51.5
4) Sewing Machines	Nos	10,150	..	10,367	10,674	10,008	10,422	8,456	6,683	5,202
5) Vegetable *Oil products*	000 tons	..	21.32	23.30	24.82	23.60	24.90	21,732	19,229	15,971
II Raw Materials or Intermediate goods										
1) Cement	000 *tons*	422.5	419.3	395.0	430.5	394.3	401.1	373.9	366.5	315.0
2) Chemicals:										
a) Sulphuric Acid	„	..	..	11.97	14.68	14.24	14.27	13.85	12.57	9.09
b) Caustic Soda	„	..	..	2.95	2.92	3.22	3.55	2.85	2.44	1.90
c) Soda Ash	„	..	..	6.47	7.52	7.05	7.48	6.43	4.02	4.75
3) Coal	lakh tons	..	38.36	38.13	39.11	38.13	35.86	31.84	30.64	29.87
4) Cotton yarn	crore lbs	..	13.54	13.10	13.10	13.30	13.20	13.62	13.01	12.55
5) Jute Manufactures	000 tons	98.9	101.7	93.9	99.3	92.8	88.9	85.6	77.3	72.4
6) Non-ferrous Metals:										
a) Copper (Virgin)	tons	594.0	645.0	662.0	710.0	685.0	394.0	606.8	596.8	410.0
b) Aluminium	„	..	646.8	481.2	397.4	621.1	664.8	602.1	497.2	313.2
c) Lead (Virgin)	„	207.3	179.1	233.3	169.0	160.7	178.0	186.2	149.0	141.2
d) Antimony	„	55.0	55.0	75.0	56.0	18.0	7.5	42.0	44.9	10.9
7) Paints & Varnishes	000 tons	..	3.82	3.08	3.39	3.90	3.10	3.25	3.06	2.67
8) Paper and Paper Boards	„	..	16.47	15.50	16.19	14.81	15.97	15.40	12.94	11.64
9) Iron and Steel:										
a) Pig Iron	„	134.7	145.6	146.6	158.3	152.3	163.3	146.4	149.4	137.9
b) Steel ingots and Castings	„	134.4	140.4	141.5	154.0	144.2	155.2	142.0	140.4	125.6
c) Semi-finished Steel	„	105.8	121.7	121.3	131.9	124.5	131.4	121.4	121.0	102.5
d) Finished Steel	„	100.4	109.4	105.8	115.3	110.8	107.7	105.0	103.6	85.3
III Capital goods										
1) Machine Tools	000 Rs.	..	..	755.2	654.8	611.2	695.2	620.0	416.9	367.3
2) Diesel Engines	Nos	..	..	959	949	864	929	852	721	310
3) Electric Motors	000 HP	29.7	28.4	26.4	28.1	27.1	20.6	21.0	15.6	13.5
4) Power Transformers	000 KVA	79.0	75.5	62.4	68.8	63.0	51.9	47.1	33.3	25.7
IV Transport Equipment										
Bicycles	000 Nos	62.69	54.74	51.72	46.85	43.12	30.15	40.93	31.03	22.01
Automobiles	Nos	..	2,941	2,206	2,618	2,625	2,302	1,924	1,205	1,160

Note: .. = not available.

Sources: *Figures upto May*
Directorate of Industrial Statistics, and Central Statistical Organisation.
For June figures:
Department of Commercial Intelligence and Statistics

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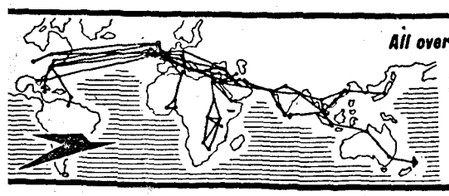


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United Nations on Trial

MOVES and counter-moves relating to the Suez Canal are so bewildering as to create confusion. Each side has lodged complaints with the Security Council against the other. While the issue is under reference to the Security Council, the belief spreads that the war threat has been averted. Time may yet reveal that such hopes are premature. Pandit Nehru was too optimistic in interpreting the Anglo-French move to refer the issue to the United Nations as a "turn away from war". Cairo's prompt appeal to the Security Council to consider "actions against Egypt by some Powers, particularly France and the United Kingdom, which constitute a danger to international peace and security" is a clever counter-move. Not only the Powers directly concerned in referring the Suez Canal issue to the Security Council, but all member-States will keenly watch the developments within the United Nations. Because the Security Council is seized of the problem, it is optimistic to hope that the danger of war has been averted. Never since its inception, has the United Nations faced a graver crisis. Nor has the world, since the second world war.

Certain facts emerge clearly from developments since the beginning of the Suez Canal crisis. There never has been, nor is there now, unanimity between America and her Western allies on this issue. Britain and France have always been, and still are, determined to use force unless Egypt accepts a dictated solution of the crisis. There is no disagreement between America, Britain and France about the solution of the crisis. All want international control over the Suez Canal. But America is opposed to the use of force, while Britain and France are united that a solution by force may be inevitable under certain circumstances. It would be premature to conclude that Britain and France have agreed to the American recipe of forcing a solution of the Suez crisis through economic pressure only. For once, Mr Dulles has shown himself to be an accomplished diplomat. It was at America's firm insistence that Sir Anthony Eden had to abandon the original Anglo-French manoeuvre to use the plan for a Canal Users' Association as a provocation designed to create a **casus belli** against Egypt.

Though the Canal Users' Association was a plan originally mooted by Mr Dulles as a face-saving formula, which would also prepare the ground for an Anglo-French appeal to the Security Council, both Britain and France made an initial blunder in jumping to the conclusion that America had been reconciled to the bellicose Anglo-French policy to Egypt. As Britain and France realised their mistake, the original provocative plan for the Users' Association was modified substantially during the second Suez Conference in London. This was as much a triumph for Mr Dulles as for those among the participating users in the second London Conference who were for a peaceful solution of the crisis through negotiation with Egypt. But it would be wrong to assume that there was any disunity about the ultimate aims and functions of the Canal Users' Association. America endorses the Anglo-French demand that this Association, and not Egypt alone, must replace the former Universal Suez Canal Company as the authority which will be responsible in future for the operation, maintenance and development of the Canal.

Because Sir Anthony has fulfilled his commitment to the House of Commons that he would refer the Suez Canal issue to the Security Council under certain circumstances, it does not follow that Britain or France has abandoned the policy of a forceful solution of the crisis. On the contrary, the manner in which the British Prime Minister made his concession in the House of Commons debate to the Opposition demand for reference of the issue to the United Nations would seem liable to the interpretation that such a reference would certainly be made when the time would be opportune for the use of force in Egypt. There are indications that Britain and France may have decided to refer the Suez problem to the Security Council as a prelude to the use of force. Mr Dulles's statement on his return to America after the second Suez Conference in London lends weight to such a pessimistic interpretation of the Anglo-French complaint to the Security Council against nationalisation of the Canal by Egypt.

America prefers a policy of economic boycott of the Canal to force Egypt ultimately to accept the Western Powers' solution of the Suez Crisis. Britain and France are only too eager to pursue a policy of economic sanctions to compel Egypt to accept their terms as well as to provoke the latter to some action which may justify their going to war. Though Mr Dulles has succeeded in exercising a restraining influence on Britain and France, the latter seem to have wrested a concession from America which is not only a constant threat to world peace, but may endanger the existence of the United Nations. From the very beginning of the Suez crisis, Britain and France have repeatedly insisted that circumstances may arise which may justify resort to force by some Powers or by some combination of Powers. Not only the Labour Opposition in Britain, but some Canal users and most of the member-States are vehemently opposed to any such use of force as an instrument of policy. So is, apparently, Washington. But Mr Dulles concedes that one "cannot always count on nations not using force unless there is some alternative which conforms to international law and justice".

Neither Britain nor France has ever recognised Egypt's right to nationalise the Suez Canal Company. America does not like the way the Canal Company has been nationalised, but she does not openly deny Egypt's sovereign right to nationalise the Canal Company. Only on one vital aspect of the Canal crisis, that of international control over the Canal, is America in agreement with the Anglo-French policy to Egypt. Sir Anthony's speech before the House of Commons, after the recall of Parliament to debate the Suez crisis, makes it clear that Britain's basic attitude to the Canal crisis is that Egypt has sought to disown the international character of the Canal by nationalising the Canal Company. Britain is firmly opposed to such an act of "de-internationalisation" by Egypt. So is France. Both Britain and France have made it clear that the Canal issue is a "test case" for the United Nations. Both have referred the problem to the Security Council mainly for its verdict on the issue of nationalisation of the Canal Company by Egypt. Britain's Foreign Minister has openly declared that Britain and France have referred the Suez crisis to the Security Council in order to test whether the United Nations have the will and the power to uphold justice and international obligations. What Britain and France want is quite clear. They expect the United Nations to give a verdict that nationalisation of the Suez Canal Company is an unjustifiable unilateral action by Egypt. But if the verdict of the United Nations is different, Britain and France will resort to force on the excuse that such a verdict creates circumstances which justify use of force by some Powers. "Unless there is a just system", Mr Dulles seems to endorse the Anglo-French tactics, "I do not think you can go on for ever asking people not to resort to force".

These are dangerous doctrines with sinister implications. Member-States will anxiously await the deliberations of the Security Council to find out whether the United Nations will stoop down to the dictates of Britain and France to ensure the survival of this world organisation. It may even then continue to exist, but without any moral influence or prestige. This is the major issue at stake. Implications of the Anglo-French policy are obvious. If the Anglo-French policy is endorsed by the Security Council, the United Nations will cease to function as an organisation for world peace. This is not the only reason why Indonesia's call for greater co-operation among the Afro-Asian member-States will be supported. There is another implication of the Western Powers' policy to the Suez Canal which is no less sinister. "It is", to quote the **New Statesman and Nation**, "that where resources regarded by the Western Powers as vital to their continued military or economic supremacy are developed by Western Capital, the assets resulting may never be taken into the ownership and operating control of the nation in whose territory they lie". As under-developed countries, all Asian and African nations must feel concerned about such a policy of the Western Powers. Increasingly it becomes obvious that the Anglo-French reference of the Suez crisis to the Security Council has not averted the danger of war. Threats to world peace and to the United Nations persist.

Britain and France mean war. America has been brow-beaten into conniving at the Anglo-French policy without actual participation in war. Within the next few days it will be known whether the time has come to bury the United Nations. That possibility, unfortunately, cannot be dismissed altogether any longer.

Why Not Free Transport?

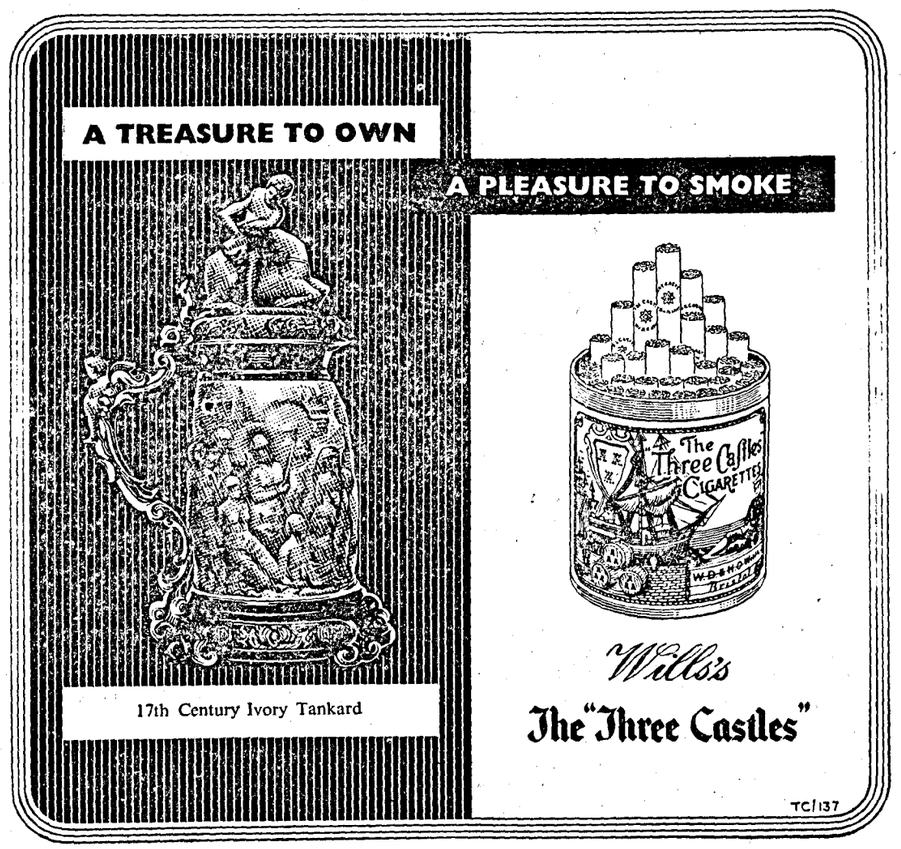
FOR some time past Delhi has been toying with the idea of equalising coal prices in order to remove the disadvantages of areas situated at a distance from the main coal producing belt which is still in Bengal and Bihar. This was first suggested by the Railway Equipment Committee which reported last May. The Committee was concerned with the question of the development of the additional capacity for the manufacture of railway equipment. It found that with the exception of grey iron foundries, engineering capacity in the country was fully booked, and whatever idle capacity existed, mainly due to inadequate and irregular supply of raw materials like steel, pig iron and hard coke. The biggest single factor which prevented the rapid growth of engineering industry the Committee was convinced, was the shortage of steel and pig iron and it therefore recommended a substantial increase of imports of both as also adequate stocking at "dumps" at suitable places in the country, in order to ensure steady supply of these raw materials.

But this was not all. The Committee went further. It recommended uniform prices for basic raw materials in order to encourage "equitable industrial development in the country". The Committee presumably was not unaware, however, that equity would be expensive and that Government might not be willing or able to go so far. It therefore suggested something corresponding to trading estates, viz that at least one centre in every State should be declared to be a "port" where steel, pig iron, coal and coke would be made available at "uniform price".

The purpose of the Committee, it may be recalled, was to report how India best could achieve expansion of manufacturing capacity for railway equipment. It interpreted its terms of reference somewhat more widely so as to include self-sufficiency. It did not accept the reduced financial allocation to railways in the Second Plan as final and advised that the programme should be devised with the original demand of the railways as the target in view. There was no harm in this because the Committee felt that while planning expansion, it was not desirable to be circumscribed so narrowly and it also took the possibility of India some day developing exports of railway equipment into its reckoning.

Soon after this, the Estimates Committee, examining the Coal Commissioner's Organisation and State Collieries in the Ministry of Production, reported in June that it considered that "rail freight rates for coal should be the same by freight adjustments, whatever be the distances of the consuming centres from the colliery". Coal being vital for the development of industry, the present "pricing policy of differential freight rates on coal places the distant localities at a disadvantage". One may be puzzled at the use of the word 'differential' in this particular context; but the idea is clear enough: freight rates on coal should not differ, whatever the distance the coal is carried and whatever the cost of carrying the coal. The Committee recommended "that this handicap should be removed by freight adjustment and a pooled rate should be worked out for coal, chargeable to all consumers equally wherever located". If there was difficulty in giving effect to so simple a recommendation, the Committee was prepared to offer an alternative solution. What could be more simple than to levy a surcharge on freight rates on coal for short distances, in order that the benefit accruing to areas nearer to the colliery is minimised to that extent, receipts from the surcharge being utilised to subsidise freight rates by sea which are substantially higher. This, the Estimates Committee felt, "would also have the additional benefit of diverting coal movement which the rail authorities are finding it so difficult to fully undertake at present".

The possibility of moving more coal by coastal ships by modifying the present structure of freight rates is being examined at an expert level. Shipping interests have always maintained that railway freights on coal



are uneconomic; that they contain an element of subsidy and that the rates will be higher if they are based on a proper assessment of cost. This has also been the view of the Railway Board. In a case of joint cost as in railway transport, it is difficult to apportion costs to particular categories of traffic; and the question cannot be answered definitely one way or the other.

From "adjustment of rates" which are bound to be minor compared to what is now under contemplation, to uniform prices of coal at all rail heads, is a very big jump indeed. The Railway Equipment Committee was not a very high powered committee; its recommendation of uniform prices did not attract much serious attention. The Estimates Committee, however, is politically more influential. It does not always know its own mind; it can be easily led and is sometimes briefed by particular interests within the Government. But if it takes something into its head seriously, it can make its influence felt. There is reason to believe that the Estimates Committee has been actively pushing his idea for Shri K C Reddy, the Minister for Production, stated in Rajya Sabha on August 30 in reply to a question that "the proposal to have a uniform price for coal all over the country was being examined by Government". If there can be postage rates for cement and steel, why not one for coal.

The engineering industries of East India are still recoiling from the blow that postage stamp rates as applied to steel has dealt them. To quote so well informed an observer as Shri D C Driver—". . . this raised the price of steel per ton for Bengal factories by Rs 25, whereas it reduced the price of steel for Kanpur and Amritsar by Rs 35 per ton. Thus with one stroke Delhi has neutralised the natural advantages of West Bengal in Engineering industry, devitalised the industry, disabled its chances for further advancement and damned its exports to the competitive markets—South Asian countries. But frustrated Bengal has raised no cry".

While every country in the world has tried to reduce transport costs, none has yet thought of eliminating it altogether. This can be easily done, with untold benefit to all the under-developed areas of this not so under-developed country, provided this cost is transferred to the State. On a high plane of abstruse theory, the hypothesis may be considered, how the resulting increase in the gross national product will compare with the transport bill, when this bill is transferred to society. The only snag is the frequent complaint that railways are not able to carry all the traffic that is offered for transport. True, the demands on transport may further expand, if transport is provided free, but it cannot be all one way. For if the handicaps for the more developed areas and more favourably located industries are adjusted properly, the latter should have much less demand to make on transport. The brighter idea, however, is not tax-cum-subsidy but to transfer the whole of the cost to the State. After all, present goods traffice does not fetch much more than Rs 150 crores. Even the sales tax brings nearly half as much. A mere Rs 150 crores of additional taxes for so great a benefit as free transport might be worth experimenting with. The timing of the experiment, however, should be done carefully. No cost transport may be announced right now; but taxation to meet the transport bill need not be discussed until after the elections!

Weekly Notes

Financial Know-how for Nepal

THE latest issue of the United Nations Weekly News Letter published by the U N Information Centre, New Delhi, still refers to the State Bank of Nepal as one which, "soon to be launched, is being patterned on that of India". Only last week, Prof Y P Pant, our Kathmandu Correspondent, wrote in these columns that the State Bank was inaugurated by the King of Nepal on April 26. It could not, therefore, be still "to be launched", soon or late, when this news letter was issued viz September 21. According to this news letter, the Government of Nepal intends to establish a single currency in the country, which would mean putting an end to the circulation of Indian and Nepali rupees side by side, though primarily in different parts of the State, which has gone on for centuries. It is doubtful if this can be done without putting up a customs cordon around the State, strict vigilance on the movements of goods, and what is even more difficult, on remittances of all sorts including movements of capital. To enforce all this in the Terai which is both geographically and economically a part of the Gangetic plain, is bound to be vexatious in the extreme and not worth the candle, unless the people of Nepal feel that their national pride demands a national currency, different from the currency of her Indian neighbours.

The same issue of the News Letter further reports that Mr F W Gray, a Britisher from the U N Technical Assistance Administration is coming to advise the Ministry of Finance, Government of Nepal, on banking and currency and it is in connection with this particular assignment that the paper refers to the Government's intention of establishing a single currency. The purpose behind the UN programme of technical assistance is certainly unexceptionable and laudable indeed, but in actual execution one sometimes comes across such odd assignments that one cannot help wondering if the funds spent on such assistance could not be utilised to better purpose in helping the development of underdeveloped countries. The allocation of resources on technical assistance is rarely optional and in this particular instance, it is as unfortunate as any that one can think of. The expert who is being called to advise Nepal on her banking problems was the Treasurer of International Monetary Fund from 1950 to 1953. Is there anything very special about Nepal's currency which could not be set right by a banker of the ordinary or garden variety or by some economist available in Nepal, if he were given the chance to do it? Mr Grey, however, is not coming alone. His "assignment is an integral part of a United Nations Survey Team which will serve in Nepal during the same period and will include experts in the general economic field, banking, public administration, public finance and possibly in other fields. The Economic Adviser, already in Nepal, will act as the coordinator of the Team".

To fire a cannon in order to kill a mosquito is not a particularly elevating example of sensible utilisation of scarce resources!

Between Millstones

TATAS now advertise their soap as "100% INDIAN — Capital, Management, Labour." Thereby hangs a tale. What attitude would the soap factories now take, sandwitched between the two layers of the industry—one pressing from above and the other from below? They would, to begin with, welcome not only the introduction but genuine implementation of minimum wages in the cottage sector of the industry. They would also welcome the particular slant in the Government's cottage soap industry programme of using non-edible oils as raw material which the All India Khadi and Village Industries Board has taken up during the current financial year. These are the high lights of the programme of Central assistance:

Wholetime employment to 4,000 workers in the cottage soap industry, using non-edible oils. The programme will also provide employment to a lakh of workers for two months.

Financial assistance amounting to Rs. 46.41 lakhs by the Union Ministry of Production to the All India Khadi and Village Industries Board for implementing the programme during the current financial year.

165 compact oil-crushing and soap-making units of three different sizes. This is in addition to 67 units, which were sanctioned in the last two financial years. Some of these have started production while others are under construction.

Of the 165 units, fifteen will have four oil crushing centres each, 30 units two oil-crushing centres each, and the rest one oil-crushing centre each. Each unit will also have a soap-making centre. The units will be set up by statutory State Boards, cooperative societies and registered bodies, who will receive from the All India Board loans and grants for meeting the capital cost. They will also be given loans for providing working capital for the units.

A loan of rupees five lakhs has been sanctioned to the Board for being disbursed to existing soap-making and oil-crushing centres as against rupees four lakhs in the last financial year. The new loan will be given to the existing centres, which had repaid earlier loans advanced to them within the stipulated period, for expansion of works or for collection of non-edible oil-bearing seeds etc.

A production subsidy on neem and other non-edible oils at the rate of one anna per seer is to be given and a sum of Rs. 2,23,000 as grant has been sanctioned for the purpose.

This is the third year in which large sums are being sanctioned for the development of soap making as

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RUBBER was first planted commercially in India in 1902. Today Indian rubber plantations, concentrated in Travancore-Cochin and Malabar, produce 20,000 tons of rubber every year, valued at four and a half crores of rupees. More than 250 Indian factories depend on this output for their production of finished goods.



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a cottage industry. But it is not clear from the hand out on the subject whether or not and to what extent financial assistance is earmarked for making soap from non-edible oils, nor is it possible to judge what results have already derived from past investment in this field. It is possible that a programme of development scattered over many States will not have anything tangible to show within the space of a year or two, which enables an assessment of the returns against the expenditure incurred. But something more concrete than vague promises and expression of aspirations are necessary before one can fairly judge how worthwhile expenditure has been and is likely to be in a particular field. This is necessary, not merely to avoid waste, but above all as a guide, providing a criterion for planning development in a sphere in which lack of concentration and ready results make the choice of alternatives more than ordinarily difficult.

Giving away is good but surely it is better to give for a productive purpose and one that is productive of greater good should certainly get the priority?

European Railways Wagon Pool

THE most telling argument against centralisation, since the days of Kropotkin, has been the international post and the operation of European railways. The argument still holds for the railways of Western Europe: through trains still run traversing many national frontiers, rolling stock and locomotives are returned to the respective countries and are accounted for accurately through a central clearing house without any central authority. The argument has been strengthened a great deal by the recent developments of pooling and 'hire purchase' of wagons through the EUROFIMA, a joint stock company owned by the nationalised or Government controlled railways of the countries of Western Europe and financed by a number of European banks.

The economic recovery of Western Europe from the ravages of war has been complete except in one respect: railway transport. Rehabilitation of rolling stock is still a pressing and an intractable problem, because railways, badly worsted in the competition from road transport, do not earn enough to pay for replacement, not to speak of expansion. Yet expansion of production and substantial increase of intra-European trade since 1950 have been making heavy demands on railways which have heavier load to carry, with steam locomotives and wagons which are largely over-age and whose replacement has been long overdue.

In the case of locomotives, however, the change over to diesel and electrical locomotives somewhat complicates the situation and makes a straightforward comparison in terms of over-age locomotives difficult. The number of steam locomotives has been progressively decreasing, with an increase in other types of motive power. Even so, "the relatively high proportion of over-age steam locomotives was, at least in part, attributable in several countries to a projected change over to other forms of traction, making it undesirable to replace locomotives about to become redundant because of the introduction of electric or diesel traction. In Switzerland, the steam locomotive stock which was 100 per cent over age was used on the few remaining non-electrified lines; it also served as an emergency reserve, to make good temporary shortages of electric units"—ECE, Annual Bulletin of Transport Statistics for Europe, 1954.

Generally speaking, however, there is no longer any serious shortage of motive power. As steam locomotives are replaced by diesel or electric or by rail motors, the total horse power required for a given volume of traffic is smaller, because electric or diesel units require less time out of operation for servicing than do steam units.

It is in wagons that shortage has been crippling. A survey carried out by the International Union of Railways in 1954 showed that out of a total of 940,000 wagons, 140,000 or 15 per cent were more than 45 years old, and 390,000 or 42 per cent were more than 35 years old. As freight wagons have a normal life of 35-40 years, nearly half the wagons on Western Europe's railways were due for replacement. The state of passenger cars was no better. Rehabilitation was, therefore, a major problem.

The short term solution lay in fuller utilisation of wagons. In 1953, the railway administration of ten western European countries agreed as an emergency measure to form a pool of railway freight stock for common use. By the "Europ-agreement", 160,000 wagons were pooled for use wherever required within the contracting countries. This eliminated the return of empties to the country of origin and freight haulage increased considerably. The arrangement worked smoothly, but old wagons wore out faster and the problem of renewal became even more acute!

Trucks on Hire Purchase

IN October 1955, 14 European countries, Germany, France, Italy, Belgium, Switzerland, Holland, Sweden, Spain, Luxemburg, Yugoslavia, Portugal, Austria, Denmark and Norway agreed to form a joint stock company to be called the European Company for the financing of railway rolling stock (EUROFIMA). Its first object is to renew the 160,000 wagons used under the Europ-agreement. Eurofima is a brain child of the French State railways which had proposed in 1951 that all the railway administrations of Europe should cooperate in financing the purchase of new rolling stock jointly. But, Switzerland excepted, none of the countries could provide the necessary capital for it.

At a meeting of the representatives of the railways concerned held at Brussels in 1952, a plan was put up for forming an "Equipment Trust" along the lines existing in the US. The plan was submitted for examination to a Study Group (1953) which included the representatives of ten great European banks, besides the representatives of seven railway administrations. The latter recommended that a joint stock company should be formed with ample resources "to place orders with the truck building industries for the construction of new rolling stock, that the member railways of the group would be able to buy on the hire purchase system". The member railways are to pay an annual rent for the use of rolling stock supplied, plus a charge to cover depreciation. This will pay for the rolling stock in twenty years after which it will pass into the ownership of the railway concerned. The Eurofima has been constituted on these lines. It is to be registered in Switzerland with headquarters at Basle—Switzerland has offered fiscal concessions to avoid multiple taxation.

The life of Eurofima has been fixed by statute at 50 years. The share capital of the company will be Sw Fr 50,000,000. The shares, which have to be fully paid up, are of two kinds, those paid for in cash and those in the form of wagons contributed to the pool. The cash assets of Eurofima will be Sw Fr 127 mn while the assets in rolling stock will be equivalent to Sw Fr 37 mn in value. At the outset, Eurofima is to use its own capital amounting to SW Fr 127 mn. Later, a programme will be drawn up periodically fixing in advance the volume of orders to be placed for wagons. The orders, it has been estimated, will come to Sw Fr 100 mn per year. This amount will be raised through long term loans, mostly in Switzerland.

The scheme is expected to work smoothly enough, but it will not go far enough. To replace 4,000 wagons every year, it would cost Sw Fr 100 mn. Even at this rate, replacement of 160,000 wagons used under the Europ-agreement would take 40 years. Of the 940,000 wagons in Western Europe in 1954, nearly half needed urgent replacement. "The scarcity of investment capital in Europe", the Swiss Bank Corporation points out, "prevents the renewal of old trucks being made any quicker", and concludes somewhat plaintively that "It does not seem to be possible for the time being in Europe to mobilise more investment capital than this yearly for this purpose."

A Neglected Exchange Earner

JUTE manufactures, tea and cotton textiles are our major export earners. But there are others also which bring in a substantial amount of foreign exchange. Lac is one such; 95 per cent of the lac produced in the country being exported. Our main buyers are the UK, USA and Germany. Together these three markets take up about one-half of the production in the form of seed lac, shellac (including button lac) kiri lac and refuse-lac. In 1955-56, 5.69 lakh cwt of lac, worth Rs 11.71 crores, were exported. The highest export so far, in terms of quantities, was in 1936-37, 8.34 lakh cwt. In terms of value the peak was reached in 1951-52: Rs 15 crores. The variations of quantity are generally less than those of value eg in 1939-40 although 7.55 lakh cwt were exported their value was only Rs 1.73 crores! Since 1946, however, the value of exports has always been above Rs 6.5 crores.

Shellac is used in a number of industries, but in relatively small quantities. The demand for it is elastic, and synthetic substitutes constantly threaten to displace it more and more. Lately Thai lac (which used to be imported into India for re-export) has established direct contacts with markets in the USA, UK etc. This has seriously affected India's virtual monopoly in this commodity. The position is worsened by the speculative 'fatka', market, in which prices offered fluctuate widely. Although all forward contracts of seed lac and shellac, except those on non-transferable specific delivery basis, have been prohibited by Government since 1954, the Minister of Agriculture still considers it "necessary that this control over speculation should be rigidly exercised in future as well".

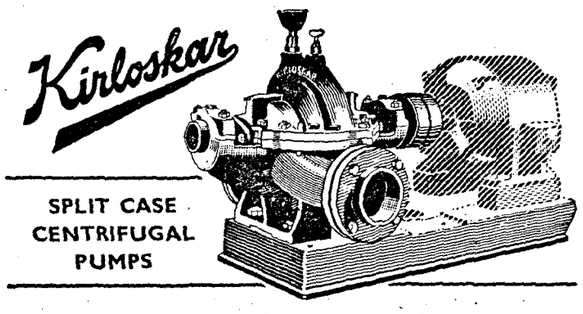
The Bihar Shellac Enquiry Committee suggested some time ago that in order to foster internal production and export demand, the maximum and minimum prices, of both seedlac and shellac, should be fixed periodically at the export stage. The Committee assumed that prices at the manufacturing and cultivation levels would adjust themselves to the two sets of regulated prices at Calcutta, viz the selling price for delivery to shippers and the export price for shipments. But the demand for the product is elastic and largely foreign, and it has been questioned if any attempt to regulate prices could succeed unless Government were prepared to build up a reserve stock and operate on it to regulate prices. Nothing, however, has been done as yet.

Lac is produced in Bihar, Madhya Pradesh, Assam and West Bengal, mostly by Adivasis or 'backward classes'. It requires altogether about two months' work in the field in the whole year, at separate periods. It is a first-rate source of subsidiary income, but there is hardly any incentive to produce. At present the primary producer gets less than his due share due to a multiplicity of intermediate transactions. Unlike oher agricultural crops, the output of lac is only 3 to 4 times the seed (brood lac) used. Production is dependent on both the host plant and the insect, and the full exploitation of both without detriment to either calls for substantially improved methods, as well as dispersal of scientific knowledge. There is also a shortage of brood lac due, among other causes to the premature cutting of the crop for fear of theft. Despite an adequate demand for it, these difficulties have brought about a decline in its production, especially of kusmi lac, which is one of the best qualities of lac.

Development Programme for Lac

TO remove these difficulties and to increase the production of lac from the present 14.2 lakh cwt to 21.7 lakh cwt in 1961, a provision for expenditure of Rs 31.81 lakhs has been made. The measures to be undertaken are:

(1) To set up 50 brood farms of which 20 would be in Bihar, 10 in Madhya Pradesh, 4 each in U P, Vindhya Pradesh, Orissa, West Bengal and Assam. These Farms would supply brood lac to cultiva-



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tors at concessional rates. They are also to serve as demonstration centres for improved methods of cultivation. These Farms are expected to pay their way from the sale of brood lac.

(2) The Vikas Mandals (Co-operative purchase and sales societies) to be formed under the programme. Community Projects in the lac growing areas will also undertake the purchase and sale of stick-lac. At important sticklac marketing centres, however, separate co-operative societies will be formed, exclusively for lac, along with warehousing facilities. Two air-conditioned godowns are to be constructed for storage of seedlac and shellac.

(3) Agmark and an Export Promotion Council for Shellac will be responsible for the regulation of quality.

There is scope for developing lac, provided plastics do not push it out from wider commercial exploitation. At home, lac is used for a variety of purposes. Besides bangles and sealing wax, it is used for manufacturing paints and varnish etc. If these industries could be dissuaded from using synthetic substitutes in favour of indigeneous lac, much will have been achieved. Another bulk purchaser of lac is the Government. Dr P S Deshmukh has urged "Railway authorities, transport organisations, Defence services establishments to use shellac in as many of their requirements as possible". The appeal will be heeded, only if technology and research also help to devise the means of substituting lac and lac products for synthetics and demonstrate its superiority.

Freedom Comes to Ghana

SIX months hence, the Gold Coast will emerge as the first free nation in the Dark Continent. Ghana will be an inspiration to all African countries to demand freedom from colonial domination; it is the beginning of the end of colonialism in Africa. Not only colonial Africa, but free Asia will doubly rejoice at the independence of Ghana. Both the continents will hope that Ghana will also be the beginning of the end of racialism. Racialism has never plagued the Gold Coast, but it is a menace to the whole of Africa. There have never been European settlers in the Gold Coast. This has hastened the independence of the Gold Coast. But it would be uncharitable not to acknowledge the leadership of Dr Nkrumah. He and his Convention People's Party have forged the battle for freedom with purposive determination.

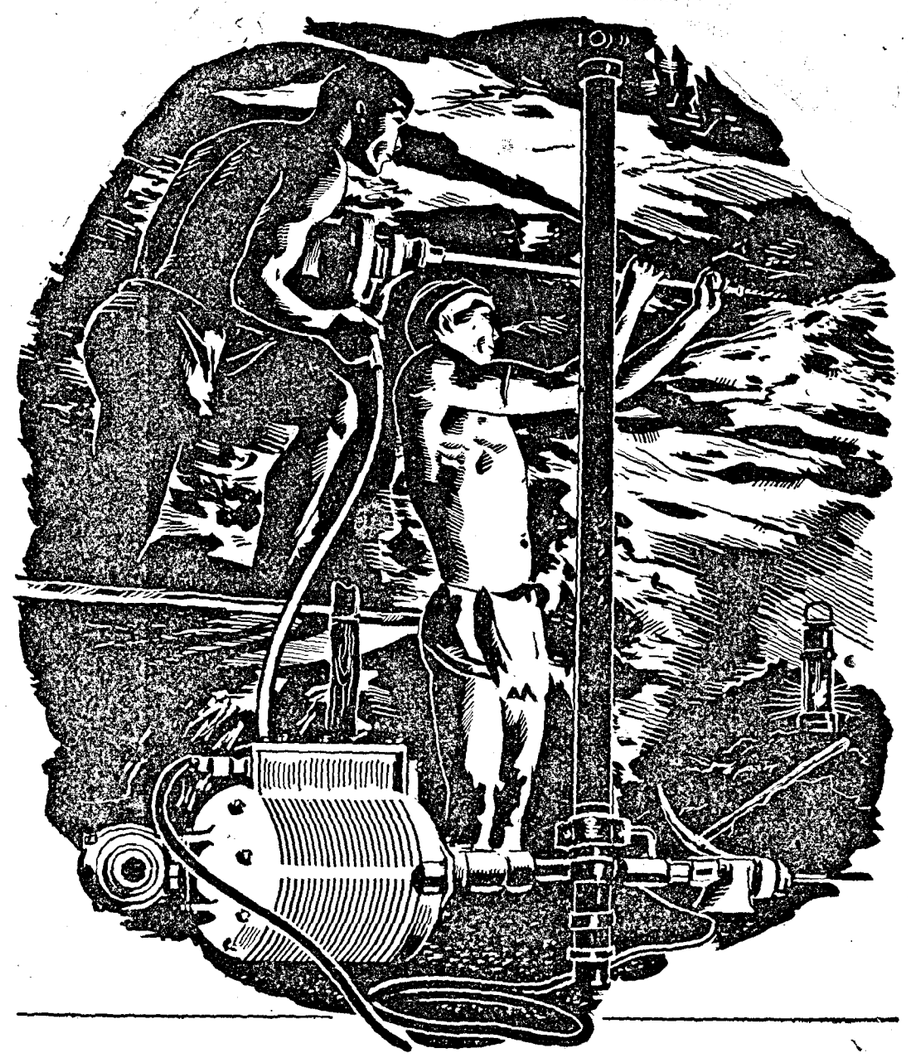
Ghana will be the first "Black Dominion" within the Commonwealth. Since 1947, the racial composition of the Commonwealth has changed. With the entry of Ghana as a member, the Commonwealth will be a symbol of full racial equality. Cynics will insinuate that the British policy of "creative abdication" in the Gold Coast has been influenced by ulterior economic motives. Ghana will be a valuable dollar-earner for Britain and the Commonwealth. It is a large producer of cocoa. It has rich deposits of gold, manganese and bauxite. Simultaneously, the sterling link will help Ghana's trade and economy. Britain has promised financial assistance for the Volta project, Ghana's DVC. Not only Britain, but the whole Commonwealth has an obligation to aid and to encourage economic development in Ghana, as also in Malaya, so that the Commonwealth link can be mutually beneficial.

Dr Nkrumah's achievements are spectacular. Within less than ten years, he and his associate "Prison Graduates" have won freedom for their country. But Ghana's political leaders have much more to achieve. They owe a responsibility to the people of the Gold Coast to ensure good Government and economic prosperity. Dr Nkrumah is a popular leader. It is a tribute to his democratic leanings that an active Opposition functions. There are two issues on which his political opponents differ. Dr Nkrumah is for a unitary type of Government, while the Opposition demands a federal constitution. On this issue, he has the support of the "Black House of Commons". It is good news that he has promised co-operation and prior consultation with the Opposition on the issue of the future Constitution of Ghana. No less significant is the other political issue in dispute. He, his party and Administration have been widely accused of nepotism and corruption. Dr Nkrumah has lessons to learn from the fate of the political parties which won independence for Ceylon and Pakistan. Well-wishers of the people of Ghana will hope that Dr Nkrumah will learn his lessons quickly.

The Campaign Starts

PANDIT NEHRU may be "something more than a Prime Minister". But even he has to talk politics on occasions. Pandit Nehru is no longer the Congress President. But he knows that he is the Congress. He is no less aware that, as in the last general elections, he will have to do the major campaigning for Congress this time also. On the eve of his departure for Saudi Arabia, he started his election campaign for the Congress. He knows what to say when. Recently, there have been communal outbursts in some parts of the country. Some other types of incidents and disturbances have caused worry to New Delhi. Pandit Nehru is too clever a party politician to miss the opportunity. In his address at the Ramlila Grounds—Bombay's Chaupatty or Calcutta's Maidan—he warned the people of the threats by communalists and communists. He did not say so openly, but he implied that a vote for them is to invite chaos.

Many others will endorse his views. But only a few will support his opinion on electoral alliances or adjustments without mental reservations. He does not see any logic in any united front. He welcomes a strong Opposition. But he is critical of the PSP's flirtations with parties of the Left. He is ingenuous in stating that the Congress is not opposed to enter into some electoral arrangements with the PSP. But he is aware of the possibility of electoral adjustments between the PSP and the CPI in some States. He is conscious such an electoral combination can be a formidable threat to the Congress in some States. So, he warns the PSP of the futility of basing its policy on a negation. Jayaprakash will reply that he is in favour of an electoral arrangement with the Communists as he has lost faith in the proposed socialistic aims of the Congress. This does not mean that the PSP has an ideological affinity with the CPI. But how can the PSP hope to gain power or form a strong Opposition without any electoral arrangement with the CPI? In a democracy, such electoral adjustments are inevitable in the efforts of political parties to gain power. There is nothing negative in such a policy.



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The Future of Eden

THE passing of the Suez crisis into the "Suez question" may now very well anger a crisis in the career of Sir Anthony Eden and his Government. The outcome of the second Suez Conference is certainly the greatest of possible rebuffs which any British Government has had to take from the hands of its closest ally. This alone is serious enough. More serious is the manner in which the rebuff was made. In the Commons debate the Prime Minister expounded the nature of the intended Users' Association which at about the same time was being denied by Mr Dulles in Washington. Further, the mobilisation of a vast British war machine in the Mediterranean has now turned, at least in Middle Eastern eyes, to have been a bluff—a meaningless demonstration, the result of the pursuit by Eden of a wholly personal policy.

There has been a lot of talk about a serious split in the Cabinet. It appears that the group most prominent in demanding a quick military solution was led by Mr Macmillan and Lord Salisbury. Their pressure and their influence predominated in the opening phases of the Suez crisis and there was then a real danger of war. On the other side stood Mr Butler and Sir Walter Monckton (the Minister for Defence) who believing that the world had changed over the past 50 years, suggested solutions in terms of the United Nations and negotiation. Eden himself favoured the militarists and their approach but was concerned how far he could carry the Americans with him. He certainly now knows the answer to this. But his problems have become more complex and both wings in his Cabinet and his Party have lost their full confidence in him.

It would appear that the Macmillan wing (now that the vague and virtually meaningless Users' Association has been formed) are charging the Prime Minister with vacillation. Had he acted in the first instance when the Labour Party was far from clear on a solution, the whole country would have become united in what would have been publicized as a "patriotic war". The Butler group also believe that Eden is a weak Prime Minister—his vacillation has led to a considerable loss of British prestige. Had he adopted a liberal solution he would have had a united country behind him and the whole of the Western world supporting any British case before the United Nations. They charge him with sabre-rattling and with a military mobilisation which frightened Britain's allies (instead of Nasser) and made virtually the whole of the non-European world antagonistic to Britain.

Apart from contending with these opposing but influential factions in his Cabinet, Eden will necessarily make an honest appraisal of his own worth as a First Minister. He placed his government in a position of unprecedented rigidity. He declared more than once that the United Kingdom will never allow the Suez Canal to be subject to the policy of one nation. Even when this approach first seemed to stand in jeopardy because Mr Dulles had a different idea of a Users' Association, he tried and did give the idea a content which to the world at large seemed to be a means of confirming the British stand. And now when all seems over, when no mention is made of "pilots" in the Charter of the Association or for that matter of the Associaion receiving "the payment of all dues", the British policy is completely destroyed.

So far as the question of leadership is concerned, he will come to understand that the absence of a united government is the result of two possible factors: the lack of a clear sustained policy commanding the support of broad sections of the country and, secondly, of weak leadership. He will see that these failings are serious enough where they concern questions of internal policy. Where the issues are of international significance, such failings are disastrous. There can be no question that Britain has suffered greatly in status and prestige. The Prime Minister will certainly realise the gravity of the consequences to his personal position.

Many serious commentators are examining the chances for alternative candidates to the Prime Minister's office. The choice is invariably being placed on Mr Macmillan and Mr Butler. Mr Macmillan has the support of the vocal "Suez group" of Tories and this is construed to be a matter of some importance. But Mr Macmillan, to clinch his reputation, has yet to solve the critical problems of the British economy. Mr Butler, in contrast, has been under a cloud for some time: he is yet to live down his 1955 "election" budget and some in his Party have charged him with "treachery" for having held up a military solution when the moment was most opportune. It is certain that Mr Butler has less support in the Conservative Party than Mr Macmillan. And as J P Mallalieu puts it in the New Statesman, "Eden remains". It has been suggested that the Suez setback will bring in its train a cruel reaction on the part of the Government and the Tory Party. They may now stiffen their policy in Cyprus and court open battle with the TUC. Whatever the reaction, Sir Anthony Eden faces a grave personal crisis.

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Official Papers

Post-war Currency Experience

International Monetary Fund, Annual Report of the Executive Directors for the Fiscal Year ended April 30, 1956.

Reviewed by **R A Jahangirdar**

THE world has moved a long way since March 1947, when the International Monetary Fund started working, from exchange restrictions, but has not come anywhere near the goal of the Fund. The Fund Agreement (Act XIV) provided that three years after it started working, the Fund was to report on exchange restrictions still prevalent and after five years, it was to assume active jurisdiction over exchange control of member countries. It is now four years that the transition period of five years ended but the Fund has not trodden on the authority of national governments.

In its Report for the year ended April 30, 1956, released early this week, the Fund presents a picture of international payments situation with many bright spots, but one which hardly approximates its ideal. Productive activity in most of the countries has by now recovered from the dislocation caused by the war, and the world payments position as a result has improved. World industrial output, outside the Soviet area, rose by 10 per cent in 1955; in 1954, it had shown no rise over 1953. The rate of increase in output in the United States was 11 per cent over 1954, while in the United Kingdom it was only 5 per cent. In the United States it was a recovery from the 1953-54 recession; in the United Kingdom the 1955 rate of increase was lower than the 1954 rate—5 against 7 per cent; and the rising production in 1955 of most West European countries came on top of an unprecedented growth in 1954. As a result, the U S recovering from the recession of 1953-54 experienced little supply difficulties while Western Europe came up against limitations of productive capacity.

Employment and wages increased in these circumstances but not prices. In fact the United Kingdom experienced labour shortage and because its rate of increase in 1955 was less than in 1954, the rising spiral of wages tended to push up cost of living. Sweden shared this experience with the U K. In West Germany unemployment fell below the safe limit of 3 per cent, thus no longer providing "a cushion preventing further expansion of demand from being translated into price increases".

Trends in Trade

This high level of economic activity had its effect on international trade. In the case of industrial countries the volume of imports rose by 12½ per cent—more than in proportion to industrial production. In the U S A, because a large part of increased demand was taken up internally and demand for foodstuffs rose slowly, imports rose by 10½ per cent while in the O E E C countries, as a result of high demand pressure and relaxation of import restrictions, the rise in imports was higher at above 14 per cent.

As regads composition of trade, two trends are to be noted. First, imports of manufactures rose more sharply than those of other commodities—this is explained by rising production and incomes. Even in the U S A the volume of imports of manufactures increased by 20 per cent, of semi-manufactures by 11 per cent and of foodstuffs by only 4 per cent. Secondly, the industrial countries exhibited a tendency to trade among themselves even in semi-manufactures and foodstuffs—a tendency also confirmed by the G A T T Report on International Trade of 1955.

Share of Primary Producing Countries Reduced

The combined effect of these two trends was to reduce the proportionate share of primary producing countries in world trade. Further, such factors as declining importance of food in aggregate consumption, increasing agricultural production in industrial countries by State support, and the substitution of synthetic for natural raw materials have also contributed to the continuous decline since 1950 of share of primary producing countries in world trade. The impact of this development has, of course, differed with the different categories of these countries—those exporting foodstuffs suffering more than those exporting oil and exporters of rubber and non-ferrous metal actually faring better than most of the industrial countries.

Another significant development of the year was the increase of the trade of U S S R and associate countries with the rest of the world consequent upon the relaxation of the cold war. Most of this increase was confined to trade with industrial countries; Soviet trade offensive with less developed countries may come later.

Does Dollar Problem Persist?

Did the dollar problem persist in 1955? There are certain factors which point that it did, though not in the same severe degree of early postwar years. First, as the Report points out (p 16), the rise in gold and dollar reserves of non-dollar countries was more due to higher current production of gold, private dishoarding and sales from international organisations than to the rest of the world's surplus account with the U S A. In fact there has been continuous decline in the payments surplus of the rest of the world with the U S A since 1953, partly because of greater increase in incomes in the rest of the world. Secondly, the U S A itself in 1955 provided to the rest of the world by way of grants and loans nearly $ 2.6 billion which was more than the increase of $ 1.2 billion in the gold and dollar holdings of the other countries. It may be assumed that there will be no sudden interruption of such U S aid in the near future; but no government can base its foreign trade policy on such an uncertain assumption. Under these circumstances, discriminatory exchange restrictions against dollar are not likely to be speedily dismantled.

There is on the other hand another pointer which belies fears that slackening U S economic activity may upset the economies of other countries—particularly of those in Europe. The U S recession of 1953-54 did not have any significant adverse effect on other economies. Those who had apprehended that a recession in the U S would impede recovery in Europe had also maintained that one great service the



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U S could do to the rest of the world was to keep its production at an even level. In practice, however, U S imports have in recent years remained stable irrespective of the level of U S economic activity.

Shortage of Foreign Exchange

Broadly speaking it has been a period of shortage of foreign exchange rather than of dollar. The shortage has widened from the particular to the general, which makes the situation amenable to internal corrective measures. The key to convertibility is the convertibility of sterling and it was precisely sterling which showed signs of weakness during 1955. Sterling was repeatedly subjected to pressures, not only on account of trade deficits but also on account of speculative flights. Adequate reserves are needed for protection against such pressures for two reasons: to tide smoothly over periods of strain and to discourage speculative movements.

From the Charters of the Fund and the Bank, one can see that capital movements were expected to play an equilibriating role. "The experience of 1955", however, reports the I M F, "is not very encouraging", to such hopes. The U K and Canadian experiments of dear money showed that exchange risk, rather than profitability, continue to determine the course of capital movements.

Corrective Measures

The early postwar prejudice against financial measures has by this time considerably weakened. No longer do countries resort to commercial or exchange restrictions as soon as a slight disequilibrium is noticed in the balance of payments. The difference between the prewar and the postwar situations is now better appreciated. The I M F reports that preference continues to be given to internal and external financial measures over commercial and exchange restrictions. The emphasis on monetary policy, especially during 1955, was prompted by two reasons. First was the belief that inflationary pressures were coming from private expenditure financed by credit expansion. Secondly, these pressures were expected to be temporary, and monetary policy, being flexible, was regarded as the best instrument to deal with them.

The experience of the United Kingdom showed that these pressures were not so short-lived. The bank rate was raised in U K from 3 per cent to 4½ per cent early 1955 and again to 5½ per cent early 1956. Since this was ineffective in preventing the decline in gold and dollar reserve, several other steps had to be taken, eg increased taxes (Autumn Budget), limitations on public borrowing, persuasion of banks to limit their advances and restrictions upon hire purchase. Other countries in the Sterling Area like Australia, New Zealand and the Union of South Africa also followed monetary and fiscal policies to restrict credit and restrain demand. On the continent, Scandinavian countries and West Germany took restrictive monetary measures, Austria tightened control on credit institutions, and France and Italy, because their increase in money supply was matched by increase in production, took no important restrictive measures. In Japan, the Central Bank had been able in the past to exercise control by varying the terms of rediscounting by commercial banks; this proved inadequate and a new technique of selling government bonds to the Banks was introduced. Both the U S A and Canada adopted similar measures of raising bank rate and restricting bank credit.

Less developed Countries

The less developed countries could not rely upon disinflationary measures to achieve external balance. Nevertheless, there was also no eagerness to use import restrictions. Rather, they relied upon adjustments in exchange structures or in export-import duties, sometimes supplemented by monetary measures. Some countries like Australia, Burma and New Zealand, however, did use import restrictions. Argentina and Pakistan devalued their currencies while Chile introduced a system of flexible exchange rates. India provided an example where a developing country, not too much dependent upon foreign trade, could finance large development expenditure without giving rise to undue inflationary pressures. The year 1955-56 marking the end of the First Plan showed no signs of inflation or balance of payments deficit. Current trends indicate, however, that we are likely to run into both difficulties during the Second Plan.

An assessment of these developments leads the IMF to belive that prospects for 1956 are bright. If Europe can keep inflation in check and expansion continues in the USA for which there is scope, the payments position of the European countries may continue to improve. But other factors must be borne in mind before one can generalise: First, the recent improvement has been made possible by U S Government expenditure abroad. These expenditures have helped other countries in two ways—they have made possible increased dollar purchases and strengthening of reserves. Export earnings of primary producing countries continue to be subject to severe fluctuations and, therefore, these countries must maintain strong reserves to protect the external value of their currency. On the other hand, they must use an increasing part of their foreign exchange for imports of machinery and even foodstuffs and raw materials for an accelerated economic development. The U S policy of disposal of agricultural surplus will vitally affect the export earnings of countries which export agricultural produce, and some of which are burdened with similar surpluses.

Failure of the Fund?

The persistence of multiple exchange rates and exchange restrictions more than a decade after World War II and the still far away goal of convertibility are apparently not a convincing advertisement of the success of the I M F. True, the I M F can say that it has not failed; the conditions of success were denied to it. It came into existence in a world of sovereign states which were unwilling to share their authority in the matter of external payments. Nationally planned economies would not and could not concede jurisdiction to extra-national authority. Secondly, no attempt was made at rationalising the structure of world exchange rates, partly because national governments would have resisted such an attempt. There was, thirdly, a reluctance on the part of governments to use internal financial measures to correct external payments disequilibria. Still inhibited by the pre-war memories of depression, they failed to realise that the postwar situation was one of internal inflation rather than that of potential deflation. As a result commercial restrictions were freely used to guard the balance of payments which brings us to the fourth reason why the Fund failed. The ideals of the Fund were linked with those of I T O which was still-born. Relaxation of exchange controls can have no meaning in the context of restrictive trade practices. Finally, the reserves of the Fund have always been hopelessly inadequate

to cope with a convertibility experiment.

The Fund has relaxed terms of its loans to member countries. The latter, however, have not availed of these liberal terms. The volume of loans and grants extended outside the I M F clearly shows the insufficiency of the Fund pool; the Fund can make its resources available, at best, for overcoming temporary balance of payments difficulties.

These observations should not lead one to conclude that the prospects of international payments are bleak. There have been in recent years encouraging developments such as high level of economic activity in most countries, progressive relaxation of exchange and trade restrictions, the arrangements made under the auspices of G A T T for tariff reduction, and greater supply of gold and convertible currencies. Though convertibility of world currencies remains still far off, more and more of its essential features are being introduced in the world payments situation, but along lines not contemplated in the I M F Charter.

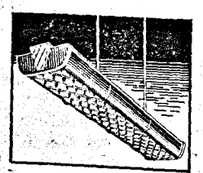


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Farnborough and Indian Airlines

K W Newell

QUITE different problems need to be considered with an internal air transport network from those of long haul passenger and freight services. Long distance transport is necessarily coupled with questions of prestige, currency restrictions and the need to have a pool of large distance aircraft, and the technical staff to maintain and fly them, for strategic purposes in an emergency.

In the past decade there has been a popular misconception that this type of airline is in direct competition with other transport services by road and rail. This has however been conveniently and finally exploded and today's transport operators agree that a healthy and efficient air service caters for and encourages a new type of travel and develops a freight service in commodities which previously had a restricted or no outlet. In the early stages airlines catered to the market for luxury goods such as cray fish from Australasia to America or the year round supply of rare fruit and flowers but now these experimental stages have passed with the advent of cheap and regular scheduled flights. Although it may necessary for short periods to run a service uneconomically to develop an area or a trade there is no justification in continuing a total network which cannot pay its way.

India, with its large centres 500 to 1000 miles apart is geographically fitted for an efficient and widespread internal service, if suitable planes for its conditions were available. To be efficient and economically viable these planes must have certain characteristics which are already quite clearly defined.

They can be considered under five different headings: Speed, punctuality, cost of operation, engine efficiency and comfort.

There are various types of aircrafts already in production with speeds ranging from 250 mph to 550 mph. But the efficiency of an aircraft decreases as speeds increase. The speed suitable for an Indian service appears to be one sufficient for a businessman or executive to be able to travel between countries and yet have sufficient time to make contacts in the same day. This speed range would be in the 350-450 mph group.

Flexibility is probably the most important single factor. Although the cost per ton mile or passenger mile is important for economic running, costs are even more dependent upon utilisation, that is, how many hours per day the aircraft is used and how much fuel is consumed per flight in passengers and freight. At present it has been necessary to use special aircraft for passengers which cannot be easily converted to freight or which have not the extra airframe capacity to carry sufficient freight if the passenger load is low. This is wasteful and inefficient and results in night flights or off-peak periods being run at a loss. A suitable airframe would be one which could accommodate up to 100 passengers and yet at off peak periods could hold sufficient freight to be 80 per cent to 100 per cent utilised.

Cheapness in operation must be mainly a comparison with both aircraft projected or at present in service and surface transport cost. At present it appears that they should be under 1½ d per passenger mile (against a little above As 3 per mile charged on Indian Airlines) with an 80 per cent utilisation.

The revolution in power units for aircraft has passed with very little public appreciation. The concept of reciprocating engines was suitable for experiment in the early days of aviation but at no time were they considered efficient and basically sound. Now that the gas turbine has passed from the drawing board into regular operation there seems little justification for further investment in power units of a past age.

Comfort must also be considered. However it should no longer be necessary to tempt people into the air with food and seats which are unnecessairly lavish and which are wasteful in space and weight. Aircrafts must be pressurised if they are flying at heights above the level for comfort; noise and vibration must be cut to a minimum but let this be the type of comfort demanded and not sleeping berths and individual windows.

In the light of these five factors what sort of a plan is required for trunk services in India? It must be an aircraft capable of cruising at 350-450 miles with 500 to 1500 miles as the efficient stage distance. It must be capable of holding up to 100 passengers in tourist class seating at peak periods and yet the airframe must be large enough to hold sufficient freight to reach 80 per cent utilisation in the evening, night or off-peak flights without requiring any major change or adaptation. It must have gas turbine engines which have been proved in operation to be efficient and easy to service and maintain.

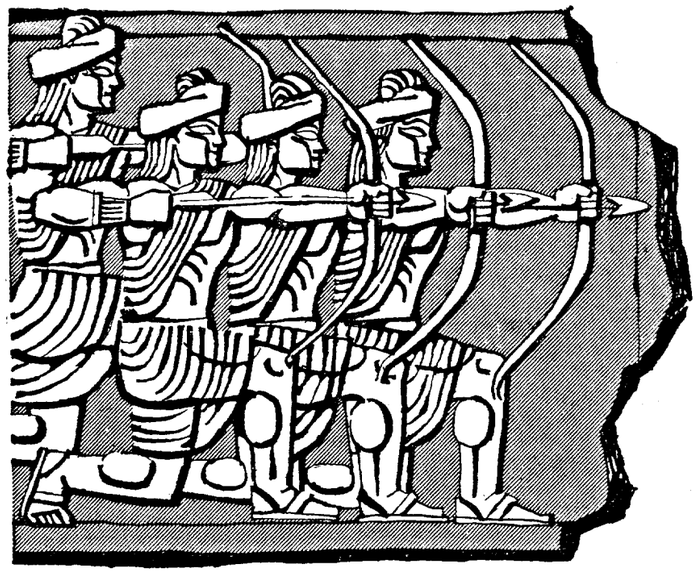
Examining the selection of airframes and engines on show in Farnborough this year with this specification in mind, one is forced to conclude that so far Britain has not produced an aircraft which is in any way suitable. Although in many ways this exhibition appears to be but little in advance of previous years however there are a number of designs this year which need to be carefully considered and not just noted as interesting experimental advances.

It appears that Britain is the only country at present producing as standard equipment gas turbine engines of proved efficiency and economy through all the power ranges. The only two airframes designed for gas turbines are the Bristol Britannia and the Vickers Vis-count. Both have disadvantages as they are basically passenger and not passenger-freight aircraft. The Britannia is designed for larger distances than India would require. The Viscount is too small. Specifications are available for the Vickers Vanguard which is a larger plane than the Viscount with a 'double-bubble" fuselege, capable of carrying freight or up to 115 passengers. The first Vanguard is not scheduled to fly until 1958 but it appears to fit in quite closely in airframe and power units for the requirements of Indian internal air traffic. But picking up a plane from a drawing board is a bad policy.

Although it is disappointing that it was not possible to see in the air an airframe that would be suitable, it is clear that engines for the internal services must be British gas turbines. Until some country can produce a suitable airframe it seems necessary to gain experience locally in the operation of aeroplanes powered with these engines and the most efficient and tried aeroplanes of this type available at present is the Vickers Viscount.

Surprise at Thermopylae

When Xerxes, the mighty Persian emperor, invaded Greece in 480 B.C. he had with him a company of Indian archers. These Indian archers used a new weapon—a steel-tipped arrow which had been brought all the way from India. History records that the Greek army was surprised by the superior arms of Xerxes and was defeated in the battle of Thermopylae.



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Labour Cost and Economic Growth

Amartya Kumar Sen

ON what principles should the cost of labour be estimated for a developing economy, is by no means an easy question to answer. It is, however, a very vital question for economic development, as a lot of decisions, e g, the choice of techniques of production, depends on the costs of labour.

The Concept of Cost

The theory of factor-costing which enjoys most prestige today in the economic literature is that of opportunity costs. Labour, according to this theory, should be valued at the alternative use to which it might have been put to. In an underdeveloped economy with large-scale disguised unemployment, e g, in India, the opportunity cost of labour is nil, though the wages have to be equal at least to the level of subsistence. That is why no less an authority on growth and planning than Prof W A Lewis argues for valuing labour at less than its wage cost in economies with surplus labour. "Special care has to be taken in those countries which have a large surplus of unskilled labour, for in such circumstances money wages will not reflect the real social cost of using labour. In these circumstances capital is not productive if it is used to do what labour could do equally well; given the level of wages such investments may be highly profitable to capitalists, but they are unprofitable to the community as a whole since they add to unemployment but not to output" (The Theory of Economic Growth, p 386). "It is then (when there is surplus labour) arguable that the real cost of using labour in cottage industry is zero, whereas factory production uses scarce capital and supervisory skills." (Op cit p 140).

Prof A E Kahn makes the same point in connection with his "Social Marginal Productivity" criterion for tackling the problem of choosing between techniques (Investment Criteria in Development Programs, Quarterly Journal of Economics, Feb 1951, see specially p 24). Labour should be valued, according to him, at its opportunity cost, and in areas where it is nil, labour should be treated as cost-less whatever the wage rate.

It can easily be realised that if labour is valued at its opportunity cost, we get a good idea of the changes in total output. If however, we are interested in the rate of growth of the economy, given by the rate of surplus of production over immediate consumption, labour has to be valued at the additional consumption which an additional unit of industrial employment induces. Thus the problem of valuation of labour turns out to be another way of looking at the old controversy about the rate of income and the rate of growth of income.[1] When we are interested in growth, labour should be valued at the increase in consumption due to additional employment, even if the opportunity cost of labour is nil. This necessitates considerable change in the economic recommendations (eg of Prof Lewis, Op cit specially p 207 and p 386) based on the opportunity-cost-valuation of labour.

Mr Hollis B Chenery in his article on "The Application of Investment Criteria" (Quarterly Journal of Economics, February 1953) confuses the problem. His theory is basically one of Social Marginal Productivity with a 'welfare function' embracing 'effect on national income' (along with effects on balance-of-payments and income-distribution). Now, when one is interested in total national income (as with the Social Marginal Productivity criterion) one should value labour at its opportunity cost. Instead he values labour (equations 4 and 5) at the 'increase in consumption' (pp 82-3). "The effect on national income, Y, can be aproximated, by applying a set of correctives to the businessman's calculation of the annual **rate of profit.**" (p 24, emphasis mine). This is a confusion between the rate of surplus and the rate of net income flow. There is no reason whatsoever why in national income measurement the increase in the consumption of wage earners should not be included. The concept of opportunity cost is legitimate for income calculation but not for calculating the rate of growth; the concept of surplus of production over consumption is legitimate for the latter but not for the former. To save confusion, the distinction has to be appreciated.

Measure of Cost

The relevant question for growth then, is what determines the increase in consumption due to the transfer. Should it be equal to the full wage rate? The normal tendency seems to be to answer the question in the negative. The increase in consumption, it is argued, will surely be given by the difference between the industrial wage rate and the average rural consumption of the labour transferred from rural disguised unemployment to industrial employment.[2] Armed with this piece of theory, Prof Vakil and Brahmanand have developed their thesis of the "Consumption Multiplier", given by $\left(\frac{W}{W-d}\right)$, where 'W' is the industrial wage rate and 'd' the average consumption of the disguised unemployed.[3] If d = ¦W, an investment made with Rs 1,000 worth of wage goods, leads to that transfer of labour from disguised unemployment to industrial employment as to release Rs 500 worth of consumer goods previously consumed by the transferred labour force. That when invested releases Rs 250, and so on. So total investment that can be made with Rs 1000 worth of initial wage goods is Rs 2000 and the "multiplier" is 2. All these are based on the assumption that while the newly employed labourers spend all their **new** wages, the amounts which they were consuming previously are now saved.

This is a questionable assumption. In all probability, as an individual leaves the village for industrial employment, without affecting the output there—this is so by definition, as marginal product has been assumed to be **nil** in rural areas his relatives will be only too glad to eat his pancakes. In a country like India, where the rural income when

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[1] For an account of the "old controversy" referred to above, see W Galenson and H Leibenstein, "Investment Criteria, Productivity and Economic Development", Quarterly Journal of Economics, August 1955, and K N Raj, Economic Weekly, April 7 and 14, 1956.

[2] To use Dr A K Das Gupta's nomenclature, the difference between the "wage unit" and the rural "consumption unit", "Disguised Unemployment and Economic Development", Economic Weekly, August 25, 1956.

[3] Vakil and Brahmanand, "Planning for an Expanding Economy", Vora & Co., 1956. See specially, pages 262-3 and 215-6. "Assuming that the money value of the wage-goods consumed by the disguised unemployed is Rs 200, and that the level of real wage is Rs 400, the money value of the wage-goods necessary to increase employment in investment by an additional worker is Rs 200." (p 215)

divided by the rural population even after some considerable town-ward *drifts, would remain* far below a comfortable figure it would not be wise to assume that the rural population would start practising thrift as they waved their handkerchieves at their town bound relatives. The position can be illustrated with a simple example. Let us assume that a rural family of five has an income of Rs 100, ie of Rs 20 per head. One of the five leaves for the town, where he gets say Rs 30. The result is a rise in the total income of the family from Rs 100 to Rs 130, and as, with low income groups all over the world, this would mean a rise in the consumption expenditure almost equal to Rs 30, the marginal propensity to consume being very near one. Thus from the point of view of growth, the relevant cost of labour (in terme of increase in consumption) is approximated by the wage rate, and not by the difference between the wage rate and the average consumption of the man in disguised unemployment. This fact makes the foundation of the Vakil Brahmanand thesis of the "Consumption Multiplier" rather dubious.

Recovery and its Implication

It may now be asked what happens if the previous consumption of the newcomer to the industry is taxed away as he moves out of disguised unemployment. It is of course likely to affect his movement, if he has any sense, since the movement which is worth doing for an extra Rs 30 for the family, may hardly be so for an extra Rs 10 (Rs 30 minus Rs 20). But if he still does move, the relevant cost of labour would be less. This would have some interesting results. The more complete this is, the stronger would be the case for substituting less capital-intensive techniques for more, as the effective cost of labour to society would be less.

If p is the net product per unit of labour,
w is the wage rate "
and C is the capital cost "
the rate of surplus is given by

$$r = \frac{p - w}{C},$$

where there is no recovery of previous consumption.

If k is his previous rural consumption and q the proportion of it recovered,[4] the new rate of surplus becomes

$$r = \frac{p - w + k.q}{C} = \frac{p - w\,(1 - f)}{C},$$

putting $f = \frac{k.q}{w}$.

Combinations of a lower p and a lower C may now become relatively preferable as a result of this fall in the effective labour cost. This can be illustrated with a numerical example:—

	(Figs except % are of Rs) Technique I	Technique II
C	100	300
p	10	20
w	5	5
r	5%	5%
k	4	4
p	½	½
r'	7%	5.7%

With the recovery, technique I (less intensive) becomes superior. Thus a strong policy of "compulsory delivery", or taxation, linked with the exodus from the rural area should make the urban industries less capital-intensive, if such a choice existed.

Conclusions

The conclusions reached at the various stages of this paper could be summarised as follows:—

1) The relevant industrial cost of labour from the point of view of development and growth is given by the increase in consumption due to the transfer from disguised unemployment to gainful occupations, where the disguised unemployment is the main source of labour supply. The opportunity cost of labour is a valid guide only when we are interested in the immediate rate of income and not in the rate of growth of income.

2) The increase in consumption as a result of the transfer is not approximated by the difference between the industrial wage and the rural average consumption, but by the full industrial wage (unless the State intervenes with taxation, or with other income-leakage-mechanisms). This reveals the basic weakness of theories like the one of the "Consumption Multiplier" of Prof Vakil and Brahmanand.

3) The more successful the State is in siphoning off the previous rural consumption of the new labourers, through taxation or other means, the less becomes the relevant labour cost, and hence, the less is the degree of capital-intensity, that is best for economic growth, if a choice of techniques exists. A practical conclusion from this, I suppose, is that the technological plans and the fiscal policies must be co-ordinated.

[4] Vakil and Brahmanand deal with the limiting case where q=1, and that is somehow brought about without the help of any means like taxation.

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Fertility Pattern of Women

In some Rural Centres of West Bengal

Jyotirmoy Roy

THE present study is about the fertility pattern of some village women in West Bengal. The population covered is very small, namely 140, nor can the writer claim a representative character for the population studied. But as the expectant mothers come from all walks of life and belong to different age groups, the results may reasonably be expected to indicate at least a rough trend. The author did not have the resources and the time for enlarging the scope of the study; some resourceful individuals or organisation should now enter this hitherto unexplored field of investigation.

The data were obtained from the three centres Belakoba, Panikauri and Shikarpur of the Samaj Kalyan Parsat in Jalpaiguri district in West Bengal. But for the kind co-operation of Dr S K Ray, Medical Officer and of Miss Chatterjee, Organiser of these centres, this study would not have been possible and I must acknowledge my indebtedness to them at the very outset.

As the data were obtained from the registers of the centres by the author himself, a high degree of reliability can be claimed for them. This is not to say that there were no inaccuracies in the data. Some obvious inaccuracies were detected, but for this analysis, they were left uncorrected. For example, the age of a mother who was confined for the tenth time was recorded as 25 years, which appeared highly improbable. With little difficulty, the correct age of the mother was ascertained by a reference to the present age of her first born. But for this analysis, the entry, as recorded in the register, was not altered. As elsewhere, women tend to under-state their age in India. In view of this universal practice, it matters little if one corrects one or two cases from one's personal knowledge.

One important difference from past experience in reporting ages was noticed in course of the investigation. It is usual for villagers to report their ages in 5s and 0s; but no such tendency was noticed in the present enquiry and records of ages 17, 18, 19, etc. were not infrequent. None, however, went beyond 40, though in certain cases under-estimation was apparent.

Pregnancy was found to cluster round the age gronp 20-26. Table shows the number of pregnancies reported in different age groups.

Table I—No of Pregnancies by Age Groups

Centre	Below 20	20-25	26-30	31-40	Above 40	Unspecified
Belakoba	15	38	14	6	—	1
Panikauri	4	7	4	3	—	—
Shikarpur	8	30	4	4	—	2
Total	27	75	22	13	—	3

Age of the mother at the time of her marriage could not be ascertained in the absence of any relevant information with the Samaj Kalyan Parsat. But it appeared that inspite of the Sarda Act, early marriage was pretty common in view of the reported confinements at the age of 14 and 15. The same conclusion is further confirmed by the occurrence of 5th to 10th pregnancies in the age group of 20-25. None of the mothers in the age group 31-40 was confined less than five times.

Table II—No of Child births by Age Groups

Below 20		20-25		26-30		31-40	
m	c	m	c	m	c	m	c
		12	1st	3	2nd	3	5th
18	1st	29	2nd	4	3rd	1	6th
		13	3rd	2	4th	4	7th
9	2nd	14	4th	7	5th	2	8th
		5	5th	4	6th	1	9th
		1	7th	1	8th	1	11th
		1	10th	1	10th	1	13th

m=No of mothers c=Confinement.

No mothers reported their age above 40. There were three mothers of unspecified age; in their case, number of confinement was also unspecified.

From Table II it is clear that villagers bother very little about family planning; in fact, the very idea is hardly familiar to an average villager. The data recorded above are mostly of uneducated and semi-educated section of the people and therefore may give no indication how the insignificant number of educated families residing in the villages may behave under similar circumstances. Even if they behave differently, one can hardly feel complacent when it is remembered that they do not form a significant part of the population of rural India.

No of Births and Income

Some correlation could be established between the number of births in a family and its standard of living, if the latter is meant to signify income. It contradicts the prevalent belief that with an increase in the standard of living, the number of births tends to diminish. Before proceeding any further, however, the concept of income of the villagers as referred to above needs some clarification.

Income of the parents as entered in the registers was taken as the guide in the absence of any other source of reliable information. For obvious reasons, no attempt was made at these centres to verify it. As the primary object of the Samaj Kalyan Parsat is to render assistances, it may be apprehended that the income recorded was deliberately under-stated. But as under-estimation must have been common in all cases, the relative position of different families in the income scale was not probably affected by it.

Perverse Correlation

It is commonly acknowledged that an enormous increase in the standard of living in some western countries has brought in its wake the baffling problem of decreasing population. But here the situation was different. In course of this investigation, it became evident that those in the higher income group have more children than their less fortunate neighbours. It must, however, be conceded that the result of an inquiry based on a small population like the present one can lay no claim to universality. The true picture of the income-fertility relations in rural India can only be gauged by undertaking wider inquiries covering the rural population.

In all, there were only 3 still-births, 2 abortions and an isolated

case of post-natal death. This does not show that infant and maternity deaths in our villages are high. The expectant mother registers herself under the care of the Welfare Board with a three months' pregnancy and continues to remain under its care till her new-born baby attains the age of six months. The data in the register are, therefore, comprehensive and record in detail the condition of health of both the mother and the child for a pretty long time. As this low rate of mortality was obtained during the first few months of the inception of the Samaj Kalyan Parsat, it is naturally to be expected that the mortality rate will further decline as time passes, with the activities of the Samaj. A good number of women who could not afford medicines and nutritive diet during their pregnancy and lactation were provided with both these items free of any cost. These free aids would be further extended in the near future to all those who might be in need of them. When this materialises our villages will see more healthy babies.

The number of barren parents could not be known from the data under reference because by hypothesis, the Parsat had dealings only with fertile women. One interesting thing, however, deserves mention here. Altogether three cases of pregnancies—two in the age group of 26-30 and one in 20-25—were reported which on examination by the medical officer of the Parsat were found to be fake. The mothers concerned had previous confinements and hence it appeared rather curious that they should fail to ascertain the particular state of their health. According to the medical officer, however, such cases were not uncommon and he had himself come across similar cases in the course of his private practice.

Need for Family Planning

The rate of fertility is alarmingly high in the villages covered in this study. Table II indicates that the average number of children to mothers in the age group 31-40 is more than 7.5. On the other hand, the rate of post-natal mortality is satisfactorily low. With the spread of education and extension of social welfare activities, the death rate will go down still lower. No nation can thrive when its productive resources are increasingly being surpassed by its population. All our efforts and endeavours are bound to be futile if we cannot tackle our population problem right at the beginning. All our acivities in this direction have so long been confined to the cities and towns where the population was already showing reluctance to be over-burdened with babies.

With increasing persuasion and vehement propaganda from the Government, villagers are adjusting themselves to the march of time. Nobody now grumbles to send his daughter to school or to get his family inoculated. Yet both met with utmost resistance when they were first introduced. There can, therefore, be no reason why villagers should dislike planned parenthood when its benefits are explained to them and they are not asked to spend much for the purpose. Of course, mere propaganda alone would not do. Simultaneously with it, scientific contraceptive materials have to be made available in the villages at a nominal price even if the danger of abuse of contraceptives may lurk behind such a move.

Public opinion should also be aroused against parents who bring too many children to the earth. Shri Gopalaswami's plea for the reduction of improvident maternity in India to three deserves wide support, at least for the time being.

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Around Bombay Markets

Ceiling on Mill Stocks

Thursday, Morning

IF the first blow directed against the textile industry, namely, the imposition of the increased excise duties, generated a nervous breakdown in the textile shares followed by other scrips in the market, the second blow, namely the imposition of certain ceilings in respect of stocks of cloth which can be held by mills and wholesale dealers resulted in no less panic. We are also, it seems, soon to witness a varied and rich fare of controversy over this latest official move towards squeezing the textile industry.

Already opinion is sharply divided as to how Government proposes to realise its objective by this blanket ban on stocks beyond a certain level. Such sudden administrative decisions are bound to have serious repercussions on the textile industry in particular, and on other sectors of the economy as well. At least in the days of control, prior consultation had been held between the Government and the trade which had been singled out for 'special treatment'! If the interests affected do not join hands now and take some action, it is not improbable for the authorities to spring newer and brighter ideas of controlling the industry,

The order that a mill should not stock more than the average production of one month will have practically no effect at all—according to knowledgeable circles. For, mills having a large number of retail depots could easily distribute the stock to thwart the Government's intention. In the case of wholesale dealers, the blanket ban seems to have been put with a view to wreaking vengeance. Already their capacity to keep sizeable stocks has been considerably reduced following the credit curbs imposed by the Reserve Bank of India. In the circumstances, they feel aggrieved that they should have been singled out for this double punishment.

It is relevant to note that even in regard to sharing the additional excise burden with the consumers, the trade and the industry have yet to find a common ground, The trade is naturally not at all disposed to bear even a part of the additional burden of excise duty. Thus, a resolution passed by the Bombay Piece-goods Merchants' Association states categorically that they cannot bear any part of the excise levy, and further that if the mills are not agreeable to bear the levy in full, they must be permitted to cancel their orders placed with the mills.

Following the restriction on mill stocks of cloth, the stock market—which seemed to have assumed a sombre course of trading—once again succumbed to uncertainty and apprehensions. The textile shares were of course the worst hit by the official order.

Textile shares which fell earlier, recovered later on technical considerations. Leaders in this section closed higher over the week, But Kohinoor, Swadeshi, Simplex and other issues in the cash section ended with a subdued note.

In the steel section, Tata Ordinary opened the week around Rs 195 and after fluctuating around that level and touching the highest of Rs 199-4, closed the week at Rs 199. In the case of Indian Iron, sentiment was adversely affected at the commencement due to reports that a higher dividend was not forthcoming and that a decision in this behalf would be taken only a week hence. However, they improved towards the close at Rs 36.

Cotton

Futures Trading on Trial

THE pattern of trading in the cotton futures market during the week has been rather puzzling. Even those who are not strangers to the whims and fancies of this market are intrigued at its behaviour, which failed to reflect the true statistical position of cotton. In sharp contrast, the spot market reported brisk activity giving ample testimony, in the process, of the scarcity of quality cotton.

Shrewd market observers explain that the reasons why futures trading in cotton seems to be on the leash are not far to seek. In the first place, they point out, traders and operators have become rather uneasy, and are watching with concern and anxiety the growing inroads made by the authorities in respect of regulating the trade. The excise duty on cloth, the latest measure to pull up recalcitrant mills which hold more than a fixed quantum of cloth stocks, and other regulatory threats expressed off and on are all pointers to the tendency of Government to control the market. In the circumstances, it is natural for operators—who have not forgotten the crisis of last December—to be almost scared of 'doing' anything for fear of giving room to the authorities to pull them up for 'overdoing'.

It might be asked whether there are not enough bearish factors to keep the market so depressed. It is true there have been reports of favourable weather in the cotton growing belts promising an increased supply. The credit curb imposed by the Reserve Bank is also there.

MARKET LEADERS DURING THE WEEK

	26—9—56	Week's Ranges High	Low	19-9-56
Steel Shares :				
Tata Ordinary ..	199- 0	199- 4	194-12	195- 0
Indian Iron ..	36- 0	36- 2½	35- 2	35- 2½
Textile Shares :				
Bombay Dyeing ..	645- 0	647- 8	632- 8	631-14
Central India ..	156- 0	156- 8	151- 8	151- 0
Century ..	559- 0	560- 8	549- 0	547- 8
Kohinoor ..	367- 4	372- 0	363- 0	368- 0
Swadeshi ..	257- 0	259- 0	254- 0	252- 8
Simplex ..	204- 8	205- 8	202- 8	204- 0
Miscellaneous Shares :				
Associated Cement ..	203- 0	203- 8	201- 8	201- 8
Belapur ..	253- 0	255- 0	247- 0	248- 0
Burma Old ..	756- 4	757- 8	743-12	743-12
Premier Const. ..	216- 0	217- 8	213-12	216- 8
National Rayon ..	271- 4	273- 8	264- 8	264- 8
Scindia ..	19- 6	19- 6½	19- 2	19- 1½
New India Ins. ..	45-12	45-12	44- 8	45- 8

Over and above these, of course, is the announcement limiting the stocks of cloth in the hands of mills. These show which way the wind is likely to blow. But, as against these, there are also pronounced bullish factors that outweighed the adverse influences. Thus, even the estimated increase of the crop to 52 lakh bales falls far short of the required volume of production to keep pace with the steadily rising tempo of consumption. Further, the chances are that consumption would increase in the coming months if the ceiling on mill production of cloth is relaxed. It is the combination of these factors that prompted the Indian Central Cotton Committee to call for a higher target for raw cotton.

It appears, therefore, that the bull factors outweigh the bears. Yet the futures market failed to reflect this. The critics may ask—Why? There could be only one answer. It is, as stated at the outset, the fear, suspicion, or call it what you may—of Government intervention in the market. If only the authorities would indicate, directly or indirectly, that they would not take recourse to extreme steps, the market would receive the tonic to lift itself up from its present state.

The spot market at Sewri tells an entirely different tale. Sustained buying support at the hands of mills has become a regular feature. Mills are, evidently, keen on accumulating stocks to be prepared for a possible removal of the ban on mill production. The daily turnover in the market was put around 5 to 6,000 bales. With the keen interest evinced by some South Indian mills, the ready delivery contracts, the bases of which improved by ten to fifteen points per candy, also displayed a distinctly bullish trend. Activity was no less brisk in the export section. China and Japan were reported to have enquired for sizeable volumes of Indian cotton.

In the import section, however, a stalemate has been created in respect of the import of US cotton. Some business was done by local Spinners in Peruvian, Sudan, BP 52 and Tanganyika, cottons. Ahmedabad mills were also in the picture.

Oilseeds

Maturing Contract

Sentiment in the oilseeds market continued to be rather depressed throughout the week. As a result of weak advices from the ready section, consequent on heavy and timely rains in the interior, and also of the issue of more notices against the maturing castor contract, the bearish trend of the market was particularly evident. In fact, both the bulls and the bears seemed engaged in a stiff tug-of-war, as always happens at the time a maturing contract is closed. A notable event during the week was the abolition of export duty of Rs 250 per ton on linseed oil. While the immediate reaction was a sharp rise in the price of linseed oil in the local market, this proved only nominal as foreign prices, particularly those in the U K, were immediately brought down following the abolition of the export duty. In the event, prices came down.

Groundnut prices ruled easy following favourable weather report.

Dunlop Expansion

THE Dunlop Rubber Co. (India) Ltd. have announced important extensions to their manufacturing facilities in India.

The existing factory at Sahaganj near Calcutta is being expanded to give increased output of truck and bus tyres, cycle tyres, cycle rims, general rubber goods and Dunlopillo.

An entirely new plant is to be established in South India, probably near Madras where sites are at present being surveyed. It is planned to manufacture truck, bus and cycle tyres there, principally for the needs of the South Indian market. The factory is expected to be in operation in about two years' time.

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Company Note

Tata Electric Companies

AFTER providing for taxation—Rs 10.5 lakhs, depreciation—Rs 6.2 lakhs and managing agent's commission—Rs 8.8 lakhs and other expenses, Tata Hydro Electric made a net profit of Rs 27.9 lakhs in the year ending June 1956. Last year net profits amounted to Rs 25 lakhs.

From the net profits of this year the directors have made these important appropriations:—

Rs 2.4 lakhs to Contingency Reserve,

Rs 1.0 lakh to Deferred Taxation Reserve,

Rs 3.25 lakhs to General Reserve,

Rs 1.35 lakhs to Gratuities Reserve, and

Rs 11.54 lakhs to the Dividend Reserve.

The Company paid interim dividends on preference and ordinary shares up to December 1955, at 7 and 3 per cent per annum respectively, which absorbed Rs 10.32 lakhs. The Directors have now recommended the payment of a final dividend on preference shares for the half year to June 1956 at the rate of 7 per cent, and on Ordinary shares at the rate of 4½ per cent (making 7½ per cent for the whole year. These will absorb Rs 11.52 lakhs.

The total sales of energy during 1955-56 amounted to 271.3 mn units as compared to 253.7 mn units last year, and the revenue earned amounted to Rs 84.3 lakhs (Rs 75.7 lakhs in the previous year). Expenses were higher by Rs 7.8 lakhs, largely accounted for by the increase in the cost of thermal power purchased, and interest on short-term loans.

In line with the Company's expansion plans, the 100KV overhead lines from Trombay to Sewree Fort were completed. The work of laying two 100 KV underground cables, each 4.75 miles in length, between Sewree and Carnac Receiving station site, will be completed and connected by the end of 1956.

To keep pace with the rapid industrial development in the Bombay-Poona region, and the consequent higher load demands expected with the Commissioning of the Trombay Thermal Station, various measures have been taken to build up the transmission and distribution capacities.

The Andhra Valley Power Supply Co, Ltd, after providing Rs 17.9 lakhs for taxation, Rs 12.9 lakhs for managing agents remuneration and other expenses, and Rs 9.6 lakhs for depreciation, made a net profit of Rs 34.3 lakhs in the year ending June 1956, as against 28.8 lakhs in the previous year.

From these net profits, Rs 3.1 lakhs have been provided for contingencies reserve, Rs 2.0 lakhs taken to Deferred taxation reserve, Rs 5.0 lakhs to general reserve, Rs 1.9 lakhs to gratuities reserves and Rs 11.8 lakhs to Dividend Reserve.

The Company paid interim dividends on Preference and Ordinary shares at 7 and 3 per cent per annum respectively for the half year ending December 1955. These absorbed Rs 10.8 lakhs.

The directors have now recommended the payment of a final dividend of 7 per cent on Preference Shares and 4½ per cent on Ordinary Shares for the half year ending June 1956. These will absorb Rs 11.8 lakhs.

The total sales of energy during the year was 408 mn units, as against 365 mn units in the previous year. The revenue derived from such sales amounted to Rs 126.8 lakhs as compared to Rs 108.9 lakhs in the previous year.

The progress on the construction of the first 50-62 MW Unit at Trombay has been satisfactory, and it is expected that the first unit will go into commercial operation in November 1956, to be followed by the second unit in April 1957.

The Tata Power Co, Ltd, after providing Rs 22.1 lakhs for taxation, Rs 30 lakhs for managing agents remuneration and other expenses, and Rs 16.6 lakhs for depreciation, made a net profit of Rs 65.1 lakhs for the year ending June 1956.

The Directors have taken Rs 3 lakhs to Contingencies Reserves, Rs 2 lakhs to Deferred Taxation Reserve, Rs 6 lakhs to General Reserve, Rs 16 lakhs to Reserves for special repairs and Rs 2.6 lakhs for Gratuities Reserves.

The Company paid interim dividend on Preference and Ordinary shares at the rates of 7½ and 3 per cent per annum respectively for the half year ending December 1955, which absorbed Rs 18.7 lakhs.

Directors have now recommended the payment of a final dividend on Preference shares at 7½ per cent and on Ordinary shares at 4½ per cent for the half year ending June 1956. These will absorb Rs 20.5 lakhs.

The sales of energy during 1954-55 and 1955-56 amounted to 644 and 715 mn units respectively and the revenue earned in the two years were Rs 192 and Rs 222 lakhs respectively.

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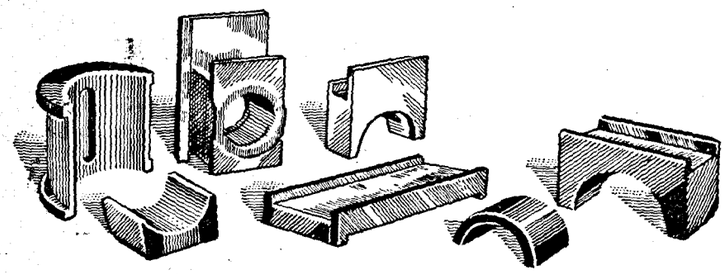
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Around Calcutta Markets

Irregular Trend

Wednesday Evening

LYONS RANGE is behaving true to type. As the Puja holidays approach, the Calcutta Stock Exchange develops an uncertain trend every year. This year has been no exception. Even when the primary market trend is "bullish", Lyons Range develops a quieter trend. Weak "bulls" square-up their accounts before the holidays commence. So do weak "bears". This is understandable. There has been some pre-holiday liquidation in the last few days. But it is rather strange that liquidation has started so early this year. Lyons Range will be open up to October 9. There is, therefore, enough time for "bulls" or "bears" to square-up their accounts.

Some other factors have intervened this year to accentuate the uncertain trend in equities. Lyons Range's weakness is being aggravated by the downward trend in Dalal Street. Ever since the imposition of higher cloth excise duties, Dalal Street has been depressed. Cotton mill shares have declined considerably in the last few days. With a downward trend in cotton mill shares, Dalal Street can never succeed in remaining steady. Consistently lower Bombay advices have had an adverse effect on Lyons Range in the last few weeks.

Retention Prices

A few days ago, Dalal Street seemed to be influenced by speculation about steel retention prices. This is a factor which will certainly influence fluctuations in Steel shares. Expectations are that steel retention prices will be raised. Strange as it may seem, Calcutta did not seem to be as much interested as Bombay in steel retention prices. Not that Calcutta is pessimistic about retention prices. But other developments have overshadowed the question of steel retention prices.

Calcutta is more interested in certain allied issues. It will welcome a rise in pig iron prices. Engineering industries in and around Calcutta are more interested in securing a rebate on exports of engineering goods by way of compensation against uniform steel prices. These industries are also interested in securing freight concessions on long-distance movements of their products, now that the price advantage they enjoyed no longer exists. There are problems which are worrying Calcutta's engineering industries. Engineering shares have remained subdued ever since the Government's decision to have uniform steel prices throughout the country.

Indian Iron Dividend

While Bombay shows interest in steel retention prices, Lyons Range is immediately concerned with the forthcoming Indian Iron dividend. Since Friday last, the market had been thick with rumours that the Indian Iron dividend would be announced within a few days. In the current week, these expectations have influenced fluctuations in Indian Iron. According to reports, the board of directors met on Wednesday, but no decision was taken about the dividend. In any case, the dividend announcement is due shortly. Indian Iron have weakened slightly as market expectations about the dividend declaration has not materialised.

Toward the end of last week, reports were current that the Indian Iron dividend would be stepped-up. According to reports, the dividend would be maintained at rupee one, but the Company would declare a bonus of four annas. If the dividend, including bonus, does not exceed a rupee, the chances are that Indian Iron may develop a downward trend. It does not require any imagination to forecast that Indian Iron will move up if current market expectations about the higher dividend materialises.

Right Issue

Production at the Burnpur Works for the year to March last has been quite satisfactory. Contrary to warnings issued both by the Government and the Company that output might be affected because of machinery re-adjustments, production has not suffered. Also, the Company has had the benefit of higher retention prices. But the question is whether the Company can use the higher earnings, as a sequel to higher retention prices, to distribute higher dividends.

Tata Steel Company did not distribute higher dividend. So, pessimists argue, that Indian Iron also will not be allowed to pay a higher dividend. But some argue that there are some special factors so far as the Indian Iron dividend is concerned. Since the announcement of the right issue a few months ago, Indian Iron have been irregularly lower. So, the Company may be allowed to raise dividend disbursements so as to facilitate the proposed right issue. There is something in this argument. But it is doubtful whether the Indian Iron dividend would be stepped-up.

Spinner's Margin

Jute shares are not falling, but the upward trend seems to have been halted. In recent days, jute goods have developed an easier trend. This is partly due to uncertainties about the Suez Canal crisis. Higher freight and insurance rates should have had a "bullish" effect on jute goods. But there are fears that foreign buyers may not be interested in buying Indian jute goods at unduly higher prices. There is something in this argument. But the fall in jute goods in recent days cannot be explained away by these factors.

Along with the set-back in jute goods, raw jute prices have also declined. This is not an unfavourable development. Despite the weakness in jute goods, the spinner's margin continues to be favourable. If this trend continues, Jute shares are not likely to suffer. It is likely that the present hesitancy in Jute shares is a reflection of the quieter trend in equities in general. By the end of this month, the output of jute goods will fall further. Mill stocks of jute goods are also likely to decline further. There are possible events which should have a sustaining effect on Jute shares.

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Economic Alignment

TO look at international economic relations from the stand point of India one has to travel along several different planes all at the same time. And these are not planes of competing abstraction either, but different facets of reality, which cannot be reconciled at sight. Judging from the currency, trade and financial policies which we have been pursuing or from the activities of our various delegations and representations abroad it does not seem that we are consciously attempting to reconcile or seriously bothered about it. Nevertheless, a pattern is evolving which is interesting to watch and it is filling up the gaps, bringing in its wake organisational and institutional changes.

The immediate occasion for these reflections are India's participation at the annual meeting of the International Monetary Fund and the World Bank and the talks in Washington at the end of this meeting of the Commonwealth Representatives at which Britain's Chancellor of Exchequer, Mr Harold McMillan, submitted the proposal for a closer association of the Commonwealth countries with an European Common Market. Details are lacking but official reports suggest that the Commonwealth reaction to this proposal has not been unfavourable. The idea of a free trade zone for Western Europe has often been discussed in the past but Britain has kept out from it all long in order not to risk her Commonwealth ties, in the shape of imperial preference which, though much attenuated, is still in operation. As exporter of raw materials, India has nothing to lose from a West European Customs Union; how her manufactured exports will fare in such an union cannot be surmised off hand. But whatever may be her position, eventually India has not been either the prime mover nor has she been interested in working for a free trade zone in West Europe. The urgency behind the move which Britain had resisted so far on the ground of her Commonwealth ties must obviously be to forestall trade expansion of the West German Republic which may well oust Britain from the West European markets if she keeps aloof. Another motive behind the move is also equally obvious, viz to counter the rouble drive.

As a member of the I M F which, never very active, has now become completely ineffectual, India subscribes to the aim of multilateral convertibility, which I M F was supposed to foster as also to the Gatt which aims at freer world trade. While disavowing bilateralism, India has also entered into a series of trade agreements with a number of countries and in keeping with her policy of neutrality, some of these agreements have been made with communist countries. But these agreements, particularly with the communist countries, have brought us so little trade, partly because of the difficulty of bringing the gap between state trading at one hand and private trading at the other, that the newly formed State Trading Corporation has been pressed into service. The Corporation has struck some spectacular deals such as securing a contract from Soviet Russia for the supply of shoes worth a crore of rupees and purchase of a ship from Yugoslavia and selling handicrafts to Soviet Russia. At the moment, it is engaged in negotiating the sale of a million tons of iron ore to the Japanese Industrial Mission, which will be in addition to normal exports through usual trade channels. This sale is being negotiated against imports of steel and machinery from Japan.

These are, then, the several planes along which we are trying to travel simultaneously, one international and multilateral, the secon

Commonwealth and Imperial Preference which is now sought to be widened to bring in some countries of Western Europe into the common market, and a third which is trading between the two worlds, for it includes not only the Soviet Union and the communist countries of South Eastern Europe but also China. There is also a fourth one arising from India's eagerness and obligation to cultivate closer economic ties with her neighbouring countries in South East Asia. The Bandung spirit has already found a reflection in our new shipping programme. This is as it should be. For India is a firm believer in and an active member of the United Nations. She remains a member of the Commonwealth, she is one of the Colombo Powers. The economic implications of neutrality are just as important as are the political implications. Also, it must not be forgotten that India was one of the *sponsors* if not the sponsor of the Bandung Conference.

But while keeping her gaze firmly fixed on free world trade and free convertibility of currencies, she has also to pursue a programme of planned development, earn foreign exchange and diversify her trade, which has led her, not very reluctantly either, to protective and restrictive trade practices on the one hand and bilateral trading on the other.

The brochure on India's Trade Agreements recently published by the Ministry of Commerce and Industry which gives the texts of the bilateral agreements, entered into by India with twenty countries, as in force on December 31, 1955 helps to picture the situation. Eight of these countries are from the Communist orbit, five are from Europe outside the Curtain and the remainder are, with the exception of Egypt, all Asian, including such close neighbours as Burma, Ceylon and Pakistan. Agreements with the Communist countries provide for settlement of accounts in rupees or sterling; in the case of others, net payments are to be made in sterling alone. Czechoslovakia and Finland are specifically placed in the soft currency area for the purposes of import regulation. With the exception of Asian countries, the general pattern of trade envisaged is the export of Indian raw materials in exchange for manufactures, particularly machinery. In the case of Asian countries and Egypt, however, the roles are reversed, India being the exporter of manufactured consumer goods, including light engineering goods, and importing raw materials and/or foodgrains, e g, Ceylon is to export tobacco to India in return for bidis; Burma would exchange rice and timber for gunnies, cloth and, under the latest amendment, engineering products for the first time.

The text of such Agreements is usually a model of diplomatic protocol—and in most cases, unfortunately, nothing more than a declaration of commercial friendship and willingness to trade. Only the agreements with Austria, Burma, Pakistan and West Germany can be described as workable covenants of trade for they alone lay down the physical or value targets for either exports or imports or both. The lists of exports and imports appended to the other agreements are, by comparison, long and detailed and though they include, for instance, prospective export of goose and duck feathers from China, there is no mention of physical quantities or value. In the event, these agreements are at best no more than permissive; they give little idea of possible availability of the listed goods on either side. The other notable omissions are: (i) the absence of any reference to the organisational aspects of creating new channels of trade between countries which have hardly ever dealt directly with each other before, and (ii) the absence of provision for shipping. While no one will question the need to diversify the composition and destination or source of our foreign trade, arranging the movement of goods is considerably less easy than the movement of trade, financial cultural delegations. Importing machinery, for example, involves the problems of specifications and performance, guarantees of service and spare parts, delivery and credit terms, the reputation and past contacts of the parties concerned, bank facilities, freight and insurance terms, and relative price quotations, to mention only the major items. Even the entry of the State Trading Corporation at our end cannot overcome all of these problems.

The broader problem of bilateral vs multilateral trade remains. What do we stand to gain from bilateralism? That question has been raised off and on but never satisfactorily answered. Leaving aside the usual arguments against bilateralism, it has to be noted first of all, that there is nothing like an organised rouble area comparable to the sterling area or the dollar area or the EPU, with the result that in trading with Communist countries we are likely to be in for more or less strict bilateral balancing of accounts, which may not be a convenient state of affairs, particularly since our sterling resources are under severe strain. While we know how a short term unfavourable balance of payment is met under present conditions, we do not know how the Communist countries would, either individually or as a whole, like to settle accounts. Secondly, if the possibility of an unfavourable balance is avoided by resort to barter or specific deals, shall we always be able to get competitive terms? Thirdly, in view of the fact that these agreements hold good for only a few years, what would be done to assure a modicum of stability of reciprocal demand? True, trade under private auspices also fluctuates a lot but trade with countries which have a fully planned economy can fluctuate from zero to near infinity. Fourthly, there is the crucial question of the availability, regularity, and economies of operation, of shipping.

On the credit side, most of the above arguments apply to Communist countries only. In the case of others, viz Finland and Indonesia, we are able to provide for some expansion of trade with countries which lie outside the main currency areas, thus enabling us to secure the supply of and/or the demand for particular commodities and also to make use of the transferable sterling offered in London. Moreover, it is in our interest to establish trade contacts in all parts of the world, in advance of the actual flow of trade, if necessary. Further, it is desirable to place as many countries as possible on the soft currency list even if our trade with specific countries is on the whole nominal. Lastly, the greater the amount of trade done in rupees, the higher will the international prestige of our currency be. It would be useful to have an evaluation of our trade agreements in the light of these and other arguments.

To get back to where we started from. This being the pattern of the trade relations we are developing, when our delegation to the Joint Fund-Meeting returns from Washington, it will not be a story of Dick Whittington and London. But what did we send them for?

Asia and the Arab World

WHILE the debate in the Security Council on the Suez Canal crisis continues, some of the deeper issues involved deserve emphasis. Some observations of Pandit Nehru, prior to his departure for Saudi Arabia, have caused misgivings. Not only within the country, but in the entire Arab world there is growing suspicion about New Delhi's Suez diplomacy. Pandit Nehru's statement, that New Delhi does not approve of the manner in which Egypt has assumed control over the Canal, seems to have deepened these suspicions. More than once, the Prime Minister has emphasised that any disruption of traffic through the Canal will hamper economic progress in many countries, including India. He has had occasion to express fears that, if the crisis provokes war, or in the absence of freedom of navigation through the Canal, the progress of India's Second Plan will be impeded. These are legitimate apprehensions. Not only India, or Britain, or the Commonwealth, but the whole world will suffer in the absence of freedom of navigation through the Canal.

To entertain such apprehensions is not to argue the case for international control of the Canal, though India is, naturally, concerned that the rights and interests of the users of the Canal must be protected. These rights and interests are guaranteed by Egypt's acceptance of the right of all countries to free navigation through the Canal on payment of reasonable dues. This aspect of the problem is rightly stressed in the joint communique issued by King Saud and the Prime Minister. Those who entertain suspicions about India's Suez diplomacy ignore the emphatic opposition of King Saud and the Prime Minister to political and economic pressures by the Western Powers to resolve the crisis.

Pandit Nehru is conscious of "the urges that move the world". Those who discern certain conflicts of interest between south-east Asia and west Asia also stress these international political and economic trends. Both within this country and in the Arab world, there is some disappointment over India's hesitant attitude to the Suez Canal crisis. Whether India's policy to the Canal crisis is positive or not, is discussed later. Before this problem is analysed, it is necessary to consider the alleged sources of conflict of interests between south-east Asia, including India, and the Arab World. Nationalism, it is argued, is no longer an active force in south-east Asia, but it is the main current influence in the Arab world. South-east Asia, including India, emerged out of colonialism nine years ago.

Colonialism continues to be a threat to peace in the whole Arab world. Many countries in Africa have yet to emerge as free nations. Semi-colonial conditions prevail in many countries in west Asia. This region's economy and oil resources are dominated by the Western Powers. Britain and France have "imperial" and strategic outposts throughout the Arab world. There is constant conflict between Arab nationalism and "collective colonialism" of the West. Countries in south-east Asia, including India, are independent nations. But these countries have cordial economic and political relations with the West. Independence in south-east Asia has heightened the awareness of economic inter-dependence between this region and the West. Cordial economic relations exist between south-east Asia and the West. South-east Asian countries are sympathetic to the nationalist movement in the Arab world. On any situation like the Suez Canal crisis, where the West is in conflict with the Arab world, south-east Asia is confronted with a dilemma, it is implied, because of its dual affinities with the West and the Arab world.

With the exceptions of Burma and Indonesia, all newly-independent south-east Asian countries are members of the Commonwealth. But all these south-east Asian countries are, along with the Arab world, committed to the Bandung principle. But it is wrong to assume that there is any inherent contradiction between Commonwealth membership and adherence to the Bandung principle. Need for Arab-Asian solidarity is emphasised by the economic implications of the Western Powers' policy to the Suez Canal. "Collective Colonialism" is a developing threat which cannot be ignored. Refusal of Britain and America to finance the Aswan Dam, the Western Powers' demand for international control over the Suez Canal and the veiled threats issued by the British Chancellor of the Exchequer, and endorsed by the President of the World Bank, during the annual meetings of the Bretton Woods twins intensify the menace of "collective colonialism". This is a growing menace which not only threatens peace in the East, but also economic progress in under-developed countries. South-east Asia, including India, is as much concerned about this new menace as the Arab world. Threatened by a common peril, the countries in both these areas are under a compulsion to formulate a joint policy to overcome the developing menace.

India's efforts to eliminate racialism and colonialism to ensure world peace are widely acknowledged. Indonesia had the active support of India in her fight for independence. India's sympathy with the nationalist movement in the whole Arab world, including Africa, is equally widely appreciated. But, as the threat of "collective colonialism" grows, it becomes necessary for India to intensify her efforts to eradicate colonialism. There is no possible source of conflict of interest between India, or any other south-east Asian country, and the Arab world. On the Suez Canal crisis, Egypt has the solid support and sympathy of India, Ceylon and Indonesia. Membership of the Commonwealth, of India, or of any other south-east Asian country, can be no bar to her friendship or alliance with Egypt, or with any other Arab country. India and those other Commonwealth members who are also Bandung nations have both a responsibility and an opportunity to act as mediators in the Canal dispute between Egypt and the Western Powers. Since the start of the Suez Canal crisis, New Delhi has made efforts to reach a negotiated solution. These efforts are as much appreciated in London and Washington as in Cairo. During the debate in the Security Council on the Canal crisis, India will have further opportunities to act as a bridge between the two sides. She faces no dilemma, as insinuated in some quarters, but is confronted with the most delicate diplomatic mission since her emergence as a free nation. There will be hope that India, in co-operation with like-minded nations, will succeed in her efforts to reach a negotiated solution of the crisis.

Weekly Notes

Coal, Steel and Engineering Industries

THERE was a serious error in the comment on Lala Sri Ram's speech at the last Annual General Meeting of Jay Engineering Works which appeared in the issue of September 22 under the caption "Export of Engineering Goods". What Lala Shri Ram had actually said was that "there is room for considerable increase in the export of general engineering goods". In fact, the whole of his speech reflected this sentiment and so did the note, which detailed the steps which could help the exports of such goods e.g. supply of steel at lower prices and improvement in the quality of pig iron and hard coke supplied to engineering industries. But an unfortunate slip crept into the line as it was printed and Lala Shri Ram was credited with the opinion that "there was 'no' considerable scope for expanding the export" of these goods. The intrusion of a negative was an unfortunate accident.

Lala Shri Ram also voiced on this occasion the universal complaint of all exporters of manufactured products viz the difficulty of getting draw back of customs duty. If this is the experience of his company, the plight of the smaller fry who cannot afford to run up to Delhi every now and then and maintain contacts at the top levels can well be imagined. As rightly suggested by him, it should certainly be possible to devise a simple procedure, on an ad hoc basis, which would remove the present hardship of the exporters. In fact, some time ago, the Commerce Minister himself expressed surprise that so few of the exporters came forward to ask for the refund to which they were entitled. He should have known what was the reason for it.

As Lala Shri Ram was more concerned with supply of steel at the retention price paid to the Indian producers which is still considerably lower than the pool price, he did not dilate on the difficulties which are now being experienced by engineering industries in Calcutta and Bombay after the equalisation of the price of steel at all rail heads. At the time when he spoke, the possibility of uniform prices being extended to coal which would mean higher prices for another major raw material of the engineering industries where they happen to be concentrated, was not looming large on the horizon. A Calcutta correspondent, annoyed that this threat should have been treated as a joke in the editorial which appeared last week with the 'flippant' title, "Why not free transport?" writes:

> "One can understand New Delhi's anxiety. Coal is a basic raw material, and certainly anything that could reduce its price in centres far removed from the collieries would eliminate one of the underlying obstacles to industrial development in such areas. But, and this is vital, is there no way of achieving this other than by dislocating seriously the economies of the numerous industries which buy coal within a short distance from where it is raised?"

These are only the primary effects. A series of secondary chain actions will follow.

Finally, the correspondent twits us for not quoting Shri D C Driver in full. For Shri Driver had not only drawn attention to the heavy blow struck by higher prices of steel to the engineering industry in West Bengal, he had also asked in despair:

"Will the Central Government in line with its policy to decentralise industries and reduce disparities in the levels of development between different States, equalise the price of cotton all over India at rail heads so that the States of Madras and Bombay will pay more for their cotton and Bengal will pay less?

"If Government cannot consider this logical outcome of their policy, such discrimination against Bengal that her gainful industries like the engineering industry should suffer by Delhi's price equalisation policy but her weak industries like cotton textile should be denied its benefit hurts Bengal and makes her suspicious.

"With the jute and engineering industries deprived of the natural advantages by act of Government and its cotton textile industry enfeebled by high price of cotton, the only hope for Bengal is to nurture the chemical industry based on coal.

"There is only one hope, and that hope is the Raniganj coalfield, its development and the processing of its coal into raw materials for a great chemical industry."

That hope will vanish if coal costs the same in the coalfields of Jharia or Raniganj and in Bombay or Ahmedabad.

Uneasy Coalition

BY an overwhelming majority, the East Pakistan Assembly has voted for a joint electorate. Soon, the Pakistan National Assembly will be in session in Dacca. Judging from press reports, Mir Abdul Quaiyum, Secretary-General of the Republican Party, has made it clear that Lahore will insist on separate electorates. If necessary, the Republican Party, will co-operate with the Muslim League to defeat the Awami League plan for joint electorates. In combination, the Republican Party, the Muslim League and the Nizam-e-Islam party can be sure of a majority in the National Assembly. Mir Abdul Quaiyum has hinted that Mr Suhrawardy remained at the mercy of his Party. Dr Khan Sahib, the Party President, has disowned the sentiments expressed by the Secretary-General of his party. But it becomes increasingly obvious that the Republican Party is manoeuvring to become the Party in power.

An analysis of the numerical strength of parties in Pakistan suggests that the situation is likely to remain delicate. Except on the issue of the system of elections, there is no point of agreement between the Republican Party and the Muslim League. These two parties can combine to oust Mr Suhrawardy from power. But a united front between these two parties is not likely. It is easier to visualise a united front between the Awami League and the United Front. On the major political issues, such a coalition is likely to be supported by the minority political interests as well as by politically conscious elements.

Shaheed Suhrawardy is adept in party politics. But the relative numerical strength of political parties and popular combinations is such as to perpetuate political instability in Pakistan. There will, however, be hope that a progressive single party or a combination of progressive parties will emerge out of the elections to fill the political gap created by the eclipse of the Muslim League.

Return of the Saar

RE-INCORPORATION of the Saar into Germany was a foregone conclusion. This rich territory has been in dispute between France and Germany throughout modern history. Its alliance has been a source of irritation between the two countries. But the Saarlanders have never shown any doubt that their affinity is with Germany. They do not favour either an autonomous status or incorporation with France. Last October, a referendum was held in the Saar. It rejected the proposed statute for Europeanisation of the territory. In January last, the Saar Parliament voted decisively in favour of political and economic integration with Germany. France and West Germany started negotiations about the future of the Saar. Agreement has now been reached for the return of the Saar to Germany. Both Bonn and Paris have expressed hopes that the return of the Saar to Germany will further cordial relations between the two countries.

Conditions to-day are different from those prevailing in 1935. Then, the Nazis exploited the Saar plebiscite as a symbol of militant German nationalism. No such fears are now entertained by France, as NATO and EDC are guarantees against any revival of German militarism. Return of the Saar to Germany will mean some economic loss to France. But France has been assured of coal from the Saar. With the European steel pool in operation, the Saar's steel reserves are not likely to cause any worry to France.

Tobacco Excise and Cigarettes

IF people in Britain did not smoke or drink, it is hard to imagine how the Government would manage to meet its expenditure, so intimately has the revenue system been associated with the taxes on tobacco and spirits for generations. Drink is out from reckoning in the Indian tax system, without even so much as by your leave from the Finance Minister. Tobacco, however, occupies a position in the Indian economy which does not enable it to be used so readily as a major prop of the Indian tax system. The Taxation Enquiry Committee (1924-25) was struck by the fact that though the use of tobacco in India was even more widespread than in many of the countries in which it was one of the main props of the tax system, it had not been subjected to any internal taxation whatsoever. Indeed, the Committee found that the lack of reliance on this tax, which could be borne so easily was the feature which distinguished the fiscal system of India from those of most other civilized countries.

Tax on tobacco is not open to the usual objections against indirect taxes but there are other difficulties. For the very reason that the use of tobacco is so widespread, its end uses are so many—tobacco can be made into cigars, cigarettes or bidis; it can be smoked in hookhas; it can be chewed. Though different varieties of tobacco are particularly suited for these different uses, the possible range of substitution among them makes it difficult to charge different rates for different types of tobacco without the risk of the varieties being shifted to other uses. This alone calls for very fine adjustment of rates. But the situation is further complicated because India also happens to be one of the largest growers of tobacco and a sizeable exporter. The necessity of maintaining exports and of relating the duty to fluctuating prices makes the adjustment of rates of tax extremely complex.

Well, those days have passed, the Central Excise on tobacco has proved a fairly productive source of revenue. It was not until the war, however that the excise duty was was imposed on tobacco. In the first year of the duty 1943-44, the revenue collected was Rs. 9.65 crores. In the very next year, the rates of duty were raised and collection jumped to Rs. 20.82 crores. And it went on rising until Rs 35.39 crores were collected in 1951-52. Then there was a slight decline, following the general recession of 1952. This illustrates another aspect of tobacco duty; in the absence of any change in duty, fluctuations of revenue from this source are a good index of sales and of money incomes in the country. The collections of 1951-52 remains a peak. Another peak seems to be in the offing, judging from the increasing sales of cigarettes, to which the Chairman of the Imperial Tobacco Company referred in his address at the Annual General Meeting of the Company last week. The point that the Chairman seems to make, though he does not say so in so many words, is that taxing tobacco is a specialist's job to which manufacturers of cigarettes have a valuable contribution to make. He concedes the right of a Government to tax tobacco and its products and suggests that his company and the Government have a common interest in developing it into a sound revenue producing source, which should not be damaged. And it can be damaged permanently, if due attention is not paid to the incidence of this tax on different types of tobacco and grades of products.

Mopping Up Excess Income

EXCISE DUTY on cigarettes, graduated according to quality and price, is a most civilized manner of painless extraction of income from consumers and it could be made to yield the most, if the principles of scientific extraction are followed carefully. Too many changes are bad and the tax has to be adjusted to the buying habits of the people which follow a fairly stable pattern. A high proportion of the sale of cigarettes, for instance, is in the form of a single cigarette for a single coin. The scale of duties has to be adjusted to these habits, the strength of which is the basis of taxability. Growth of demand, however, observed everywhere in the consumption of habit forming commodities like tobacco is a factor that operates by itself. And its effect has to be eliminated, before one can judge the effect of other factors e.g. variations in duty or money incomes, on revenue from this source.

From the expanding volume of sales reported by Imperial Tobacco, despite recent increases in duty, the inference is not unwarranted that barring the general growth factor demand for cigarettes is income elastic rather than price elastic. But a priori deductions are of very little use and the Chairman's suggestion that experience of manufacturers like the Imperial Tobacco should be drawn upon for devising changes in the tax on tobacco can be endorsed without reservation. Unfortunately, central excise is not the only tax on tobacco; much greater complications are created by sales taxes, the varying rates of these taxes imposed by the States and the different conditions attaching to them. A greater uniformity is desirable in the case of all sales taxes, but in a vital revenue earning item like the tax on tobacco, its utility can hardly be exaggerated, if its full potentialities are to be exploited. With increasing money incomes and threat of inflationary pressures, this convenient and highly effective device for mopping up excess purchasing power certainly needs to be exploited much more fully than has been attempted so far.

Letters to the Editor

The Warp of Ideology
—In a Punjab Village

I HAVE read the article "The Warp of Ideology" by R K Hazari which appeared in your issue of August 18 carefully. Barring certain details about counts, I have followed the line of reasoning in this article in the light of my personal experience in my village in Ludhiana and find myself in full agreement with the views expressed. I have been making attempts to introduce hand spinning in my village and the surrounding areas with help of Gram Sevaks lent to me by the Kasturba Trust. These attempts failed mainly because the earnings per day did not come up to the expectations of the poor spinners. We have had also to face many other difficulties such as non-availability of charkhas, supply of cotton and irregularities in the matter of working of the spinners. Not a single male came forward to spin or could spin. They take it as below their self-respect to spin. And women would spin only when they have time. This they can never easily find. They have to cook, bring up children and also do the menial services for the cattle which are a necessary part of the family duties. To make two ends meet, they would go out for pickings in the fields during the wheat and cotton harvests, collect fuel and assist the males in harvesting the crop, and finding grass and fodder for the cattle. My personal observation is that they are very much overworked and if and when they find time, they are much more interested in their cattle than in the Charkha.

One evening while I was sitting at the fountains near the Mahatma Gandhi statue on the Mall, during a recent visit to Patiala, there was a woman sitting close to me persuading some other women to join the Ambar Charkha Centre. I also talked to her and asked her to show me the women of her Centre. Next day I went to her and saw about half a dozen Ambar Charkhas at work. The old women and some girls who were learning were finding it difficult to ply the Charkha and to spin the yarn without a break. They could not even make hanks of cotton with ease. The Lady Worker told me that in spite of the allowance offered and free distribution of milk powder to attract them, sufficient number of women were not coming forward to learn this art. I came back greatly disappointed and my belief, which had already been shaken by my experiences in the past, was further weakened and I am almost convinced that investments on a large scale to make this venture a success in the commercial field would be a complete waste.

As a household hobby or a side occupation, charkha may have some value but it cannot supply national needs or compete with textile mills. When people go to the market, they want the best of materials and the maximum value for their money and not one in a thousand would buy an inferior stuff or an unattractive product.

A K H

Raipur, Dehra Dun.
August 27, 1956.

"Statistics in the Plural"

WE have read with much interest your note on 'Statistics in the Plural' published in your Journal 'Economic Weekly', Volume VIII—No. 37, of September 15, 1956.

We find you have quoted the statistics published in our Texprocil Bulletin and we draw your attention to your statement which reads as follows:

"But what about rows 3 and 4 (3 and 4 relate to Texprocil Statistics) they both relate to Bombay Port only and are in excess of the all-India totals. A possible explanation may be that these figures are for the cotton piecegoods passed for shipment".

In row 4 you have mentioned these figures as passed for shipment, then there is no need of a possible explanation which is clear. In row 3 these figures relate to exports from Bombay Port as published in the daily Trade List issued by Bombay Custom Authorities and they are distinctly different from the figures relating to those passed for shipment.

This Council, no doubt, publishes statistical information in respect of cotton textiles exports for the benefit of trade and industry. In order to do so this Council collects various statistical information primarily collected by the Government Agencies as you are already aware of. Perhaps you have noticed that in our Bulletins we invariably mention the source from which these statistics are collected. However, we thank you very much for bringing out this apparent anomaly in our export statistics for cotton textiles on the surface through your valued Journal.

P Nagersheth,
Secretary,
The Cotton Textiles Export Promotion Council.

Cecil Court,
26, Lansdowne Road,
Apollo Bunder,
Bombay-1.
October 1, 1956

[Figures of cloth passed for shipment are certainly "distinctly different" from those which "relate to exports". That is why they were shown in two separate rows. But where do we go from here? Are we to understand that the Cotton Textiles Export Promotion Council still regards this anomaly as "apparent" and not real, though we are thanked for bringing it out "on the surface"? In his otherwise illuminating analysis "Pattern of India's Export Trade in Cotton Textiles" in 1955, Shri P K Bhaumik, Statistical Officer of the Council, takes through the highly inflated figures of cloth export issued by the Jt Controller of Exports (Texprocil Bulletin, April 5, 1956, page 1). So does Shri Neville N Wadia, Chairman, in his presidential address to the Annual General Meeting of the Council (Texprocil Bulletin, August 1, 1956, page 1).

Why they do so, is not explained. Perhaps Government communications are not intended to communicate and Government agencies merely pass on what others collect; it is none of their business to look into what they pass on.—Ed.]

UNITED ASIA

International magazine of Asian affairs, 12, Rampart Row, Bombay 1, India.

Our Delhi letter

Manufacture of Raw Film

A CONTRACT is about to be signed for technical collaboration between the Government of India and the East German firm of Agfa for setting up a film producing plant at Ootacamund. This would conclude the long-drawn negotiations between New Delhi and East Berlin on a project which would fill a glaring gap in the industrial map of the country. The Governments of U P and Mysore have been interested in the scheme for some time but, since film manufacture requires a high degree of technical competence, the Central Government has been curbing their enthusiasm. Preliminary talks on the venture were held with a number of European film manufacturers when Shri L K Jha, Managing Director of National Industrial Development Corporation, visited the continent last year. At one stage, even the Japanese entrepreneurs appeared to be interested. The project however made considerable headway when Mr Gerhard Weiss, Deputy Minister of Trade and Leader of East German Trade Delegation visited New Delhi during the Indian Industries Fair. Shortly afterwards, a team of experts, including Dr Eugen Guehring, Chief Chemist, and Mr Kurt-Dreschler, Chief Designer, Agfa Wolfen Film Factory, and Mr Werner Pholand, Engineer to the Ministry of Chemical Industry, Berlin, arrived in India to survey possible sites. They looked for comparatively cold climate, dust-free atmosphere and proximity to plentiful supply of skilled labour and cellulose-yielding quality woods. From all points of view, Ootacamund was the best choice.

Negotiations were finally clinched during the last tour of Shri H V R Ienger, Secretary of the Ministry of Commerce and Industry, when he visited the Agfa factory in East Germany. It was proposed that the Ooty plant should to begin with, confine itself to the manufacture of films for the Indian cinema industry, reputedly the second biggest in the world. Special films for still cameras and colour photography would continue to be imported. India has 3,000 cinemas, 350 film producing units and 44 studios. The country consumes about 200 million feet of raw film per year. The raw film imports cost the country about Rs 2 crores a year. The proposed factory will have an annual capacity for the manufacture of 150 million feet of film. It will take 3 years to construct. The plant may cost Rs 5½ crores but the chances are that the price of the "turn key" job may be reduced during the final phase of negotiations with the East German Government.

Copper Mining Project

The Government of India is considering the establishment of a copper mining project in the public sector. The Minister for NRSR Shri K D Malaviya, announced in Parliament last April that a copper mine may be nationalised. Shortly afterwards, the Government stated that there was no intention to take over the Indian Copper Corporation. This British-owned concern is working three mines at Badia, Mosabani and Surala in the Singhbhum Dist. The Corporation has an issued capital of £914,000. Its annual production in 1955 amounted to 3,95,415 tons of ore and 7,281 tons of metal. While the development of other copper deposits in the Singhbhum district is contemplated—the Indian Bureau of Mines is already engaged in exploratory work in the area—the Government of India is thinking of opening a mine on its own in Khetri near Jaipur.

Khetri is held on a mining lease by Messers Jaipur Mining Corporation, Ltd. The concession which began in February, 1949, is valid for 60 years. The Geological Survey of India has undertaken a certain amount of pitting, trenching and drilling in the area. The team of Russian experts which visited India recently estimated that the Khetri copper belt contains ore reserves of 50 million tons with a metal content of one per cent. This means that about 500,000 tons of copper can be extracted from the Khetri deposits. The Ministries of N R S R and Law are discussing the termination of the lease of Messers Jaipur Mining Corporation and floatation of a state-owned company to take over the lease.

Russian Planes for Indian Airlines

The purchase of 6 Ilyushin aircraft by the Government of India is baulked by the inability of the Russians to furnish reliable data on the subject of maintainance costs. It appears that the Indian Airlines Corporation is not very enthusiastic about the deal. The machines have proved to be technically sound; compared to the Dakotas, the Ilyushins have certain definite advantages, such as higher speed and the ability to reach a greater altitude with a bigger load. But the I A C believes that the trouble and expense of setting up separate servicing units for a small number of aircraft may not be worthwhile. People may like to save an hour or so in the flying time from Bombay to Delhi but not at the expense of a 50 percent increase in fares.

According to the Russians, after normal operation for a period of six months, the engines of Ilyushins should be entirely changed. Such drastic overhauls have not been effected even in the U S S R but the Russians seem to be keen that their product should not get a bad name in India.



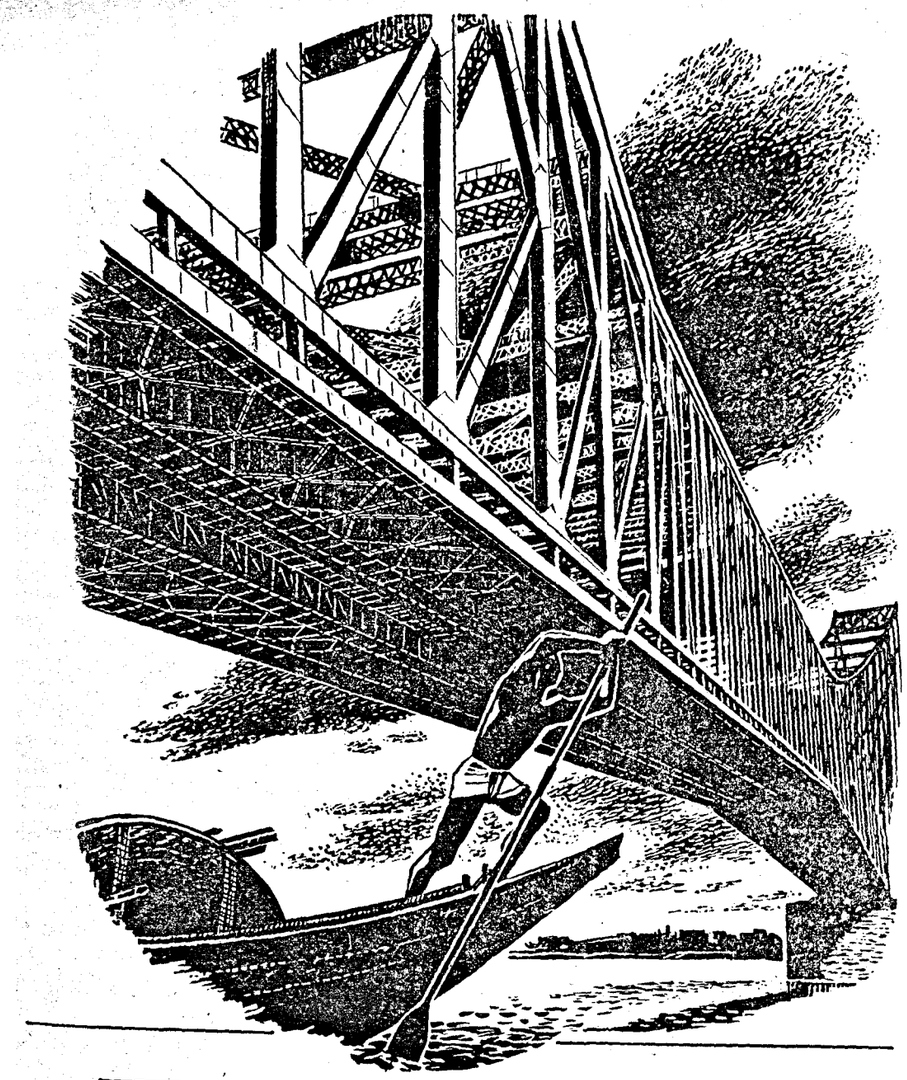
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From the London End

A European Custom's Union

THE drive towards the creation of a West European Custom's Union including Britain is gathering a new momentum. In Paris, for the first time, British experts are actively co-operating with OEEC officials in working out the details of "common market", and on October 10th there is scheduled to take place a crucial meeting of Ministers from the six "common market" countries at which the establishment of a free trade area between France, Western Germany, Italy, Belgium-Luxembourg, Holland and the UK will be discussed and if possible for an agreement, on principles, to be reached. In the meantime the Treasury has called for the views of the Trades Union Congress and the Federation of British Industries and there can be little doubt that the opinion of the Commonwealth countries is now being canvassed. By the end of the year, it is hoped, the OEEC working party will have completed its work and submit a draft treaty for acceptance by each of the six countries concerned.

The creation of a West European free trade area has been given a new impetus by the present international situation. The strengthening of the **Entente Cordiale** following Sir Anthony Eden's Paris visit and the announcement of a forthcoming State visit to France brings the United Kingdom more closely to the problems of the European continent. The problems in the Middle East too have some relevance. Dr Adenauer when in Brussels last week made certain thoughtful comments on the future role of European countries in world affairs. He suggested that the existence of "European States" did not provide the basis for the "continued fulfilment of Europe's destiny". There have emerged during the past 10 years, according to his estimation, new nation states like India and China which together with the Russian and American giants "swamped the separate European states". The Suez crisis have shown how ineffective was the Western European (divided as it was) role when the giants believed or pursued policies that were different. He therefore drew the conclusion that renewed efforts at European integration be made. It may be possible that Britain is, for once, coming round to give a more visible appreciation of this estimation.

The idea of a European Custom's Union is by no means a new one. Ever since the days of Marshall Aid in 1948, the idea has been canvassed but all along the policies of the UK have been the biggest stumbling block on the way to its realisation. Even when a partial common market was established in the nature of the Coal and Steel Community, this achievement was of limited consequence in view of the absence (within the community) of one of the principal coal and steel producer and user. The British policy hitherto (and may be now) took more the character of a dilemma than anything else. The UK hesitated to include herself as an integral part of Europe fearing that this might endanger her impartial interests. At the same time she showed little wish to see an integrated Europe formed without her participation. In a word the British dilemma was as a Latin poet put it: 'nec mecum, nec sine me'. It may now very well be that the dilemma has been resolved by the inexorable forces which have been at work to produce the current international situation. It is reported that the IMF Conference at Washington is being used as an opportunity for a meeting of Commonwealth Finance Ministers at which this new view will be presented and discussed.

The absolute economic arguments favouring a custom's union are overwhelming. It will contribute to the achievement of a higher level of industrial and commercial specialisation, to a levelling of living standards in the free trade area and to an increase in trade. The gains from trade will thus be considerable. These arguments however require some application to the European scene. And here a number of difficulties exist (though it must be said that some of the arguments are invalidated thereby). As your correspondent sees the European economic situation, some six crucial difficulties exist against the creation of a European common market. The first two are primarily political and concern, the well known reluctance of European Governments to renounce their sovereign rights and the British attitude as examined above.

The third difficulty is offered by the absence of any marked degree of complementarity among the six West European economies. There can be found a whole range of economic activities in which the countries concerned are competitive to each other and it is certain that in at least one of these fields i.e. agricultural products, an exception will have to be made in any planned custom's union. The classicists will argue that where production costs do not differ widely between countries it may still be possible for some gains from trade to take place —the tendency for each country to specialise in activities to which it is best suited may offset any losses that arise from the existence of competitive industries. In reality the employment of large slices of the working population in these competitive industries may make it difficult for any European Government to agree to a full-scale custom's union.

A fourth difficulty arises from the firm possibility that a West European Custom's Union may not solve the balance of payments problem of any of the union countries. Any European union must still depend greatly on raw material imports from non-European sources. And the balancing of these imports can only occur by a corresponding value of exports the nature of which is made uncertain when the Union portends a greater commodity specialisation—a type of specialisation which need not necessarily correspond with the import demands of the non-European world. This is certainly a real long term difficulty.

The fifth difficulty is found in the already complex economic structure of each of the six European countries concerned. The integration of countries with already diversified economies—at once, agricultural, commercial and industrial—is difficult. Many supporters of a Custom's Union claim that the integration of the states that led to the formation of the United States and the establishment of the German Zollverein in the 19th century contributing to the formation of a German state are pertinent examples to follow. But the example is out of date: the structure of European eco-

nomies in this second half of the 20th century is very different to that of earlier times.

The sixth difficulty is a general one. The period since 1930 has witnessed a process of diversification and disintegration of the international economy. National policies have tended to emphasise differences and there has correspondingly developed an ever increasing share of the state in economic matters.

These difficulties have often been raised in European discussions but little is said on how these could be resolved. The OEEC working party are however experts and their forthcoming draft treaty will no doubt reflect a consciousness of these difficulties. It is not easy to see how in the face of the foregoing problems a complete union can be set up. It may very well be that a certain partial or sectional customs union is visualized in the hope that, once Britain becomes involved, other sectors of the European economy can gradually be included in the free trade area. In this way Britain may not have to face the unenvious task of indulging in a wholesale dismantling of imperial preferences. Indeed, a complete European Custom's Union looks very much like the Confucian Gods: "....They may be respected as long as they are kept at a distance".

Lockheed—IBM Machine To Write Books

HIGH level thinkers at Lockheed Aircraft Corporation have taught an electronic accounting machine to write a book—not just any old book—but the vital maintenance and spare parts catalogues which are required for each airplane built.

Responding to the military service's call for faster ways of incorporating latest technical data in the manuals, the Lockheed specialists devised a new method of using IBM punched cards. About the size of two playing cards, the punched pasteboards replace an old method of writing the books on the Varityper, a big brother to the office typewriter, which was so slow that outmoded information frequently crept into the manuals.

Besides permitting additions, deletions and revisions at the last minute, the tab method also reduces composition costs by 80 percent, according to D S Stevenson, spare parts division manager. A typical Varitype page costs $ 25.00. The punch-card page costs about $ 5.00.

An operator punches the necessary information into a series of cards. The IBM machine then shuffles and deals the cards, sorting them into correct order and reproducing their contents on paged sheets. Revisions at the last minute? Just punch a card. The machine does the rest fast.

The final sheets are photographed, and, from the negatives, the book is printed by offset press.

Catalogues for all the latest Lockheed airplanes are being written by the tab method, including the F-104 Starfighter, the world's fastest combat airplane; the T2V-I SeaStar, Navy carrier-based jet trainer; 1649A Super Constellation, world's longest range transport; and the new propjet Electra, America's first turboprop airliner.

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A Calcutta Diary

This Frankenstein ...

THE Relief and Rehabilitation Department of the Government of West Bengal has provided an easy target to anyone who wanted to fill up a column or secure a vote. Actually, it has become an old chestnut. A report of the activities of this Department from 1946 to date reveals that during the course of the years, 30,92,944 displaced persons have found their way into this State. From 1952 to July 1956, the number that has sought refuge is 5,75,480. The machinery of the State had to be geared to receive and accommodate these persons and devise ways and means to rehabilitate them.

The problem of rehabilitation will baffle anyone who pauses to give it some thought and plan for the future. With a population density of about 800 per sq mile, the immensity of the task becomes apparent. In addition notice has to be taken of the fact that the majority, and that is 90 per cent, have had no previous training in any vocation or calling except tilling the land. To train and equip even a small percentage of these people, to find them suitable employment in industry and commerce raises big issues. It must be stated at the beginning that assistance, advice and help from the industrialists in solving the problem, has been negligible. The number that has been absorbed in factories and industrial undertakings comes to a bare 28,000. The weavers started out well but with the control on yarn, they never managed to get regular supplies and had to find alternate ways of livelihood. The table showing figures of employment gives the number of teachers, in government sponsored schools, and colleges as 10,000. The total number employed in other categories including the teachers comes to about 90,000 out of a total influx of 31 lakhs!

What has been lacking is a constructive approach. The State government and the centre, seemed to have forgotten one important factor in dealing with millions that is discipline. These refugees have been pampered to a degree when they feel that it is the duty of the Government not merely to feed and clothe them but also to find them employment where there will be no competition—they insist on reserved categories in every walk of life. The Government has given in on all these points and now no industrialist dare employ refugees for fear of their paralysing the entire machinery. The refugees refuse to go outside the state, they refuse to work hard and inspite of all high flaunting praise to the contrary about the willingness of refugees to work and all that, it is time it was fully realised that they are pretty useless. But so is clay, unless it is moulded and shaped.

The Government after years of pampering and giving in to all demands, now finds that it cannot manage this Frankenstein of its own creation. Don't let us be bluffed and misled by figures, which by themselves are most impressive. The amount spent by the Rehabilitation Department since its inception totals to date Rs 68,97.29 lakhs. During the financial year 1954-55, the amount disbursed was Rs 10,40.58 lakhs and for 1955-56 the budget is 18,53.50 lakhs. When one comes to think that the annual expenditure under this head is equal to the total revenue of some States, one can gauge the vastness of the issues involved.

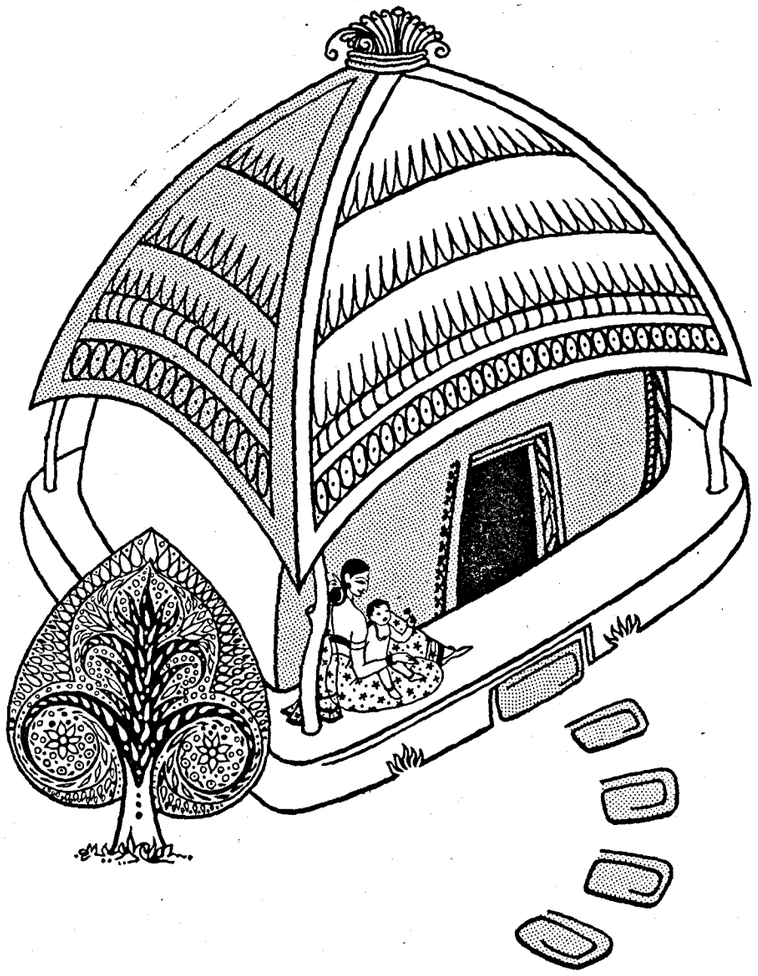
Yet a large percentage of those that moved into West Bengal has not sought or taken any governmental aid. The Government figures show that rehabilitation benefits or assistance in some form or other has been given to 19.80 lakhs persons. The only tragedy is that this figure is not correct. The people receiving aid in the shape of agricultural land, house building loans, built houses, business loans are not all rehabilitated. The actual percentage that have been rehabilitated in the sense that they are capable of earning a livelihood, is small. Some subsist, others manage to wheedle extra loans or doles and the exact figures of such persons are not easily available. The purpose of this diary is not to blame anyone in particular but to appeal to the Government, both Centre and State, and to the public at large to set about the business in a thorough and business-like manner, without wasting pity or sentiment and make decisions and see that they are carried out.

The snag lies there, the decisions are never fully implemented and the fault lies with the attitude of those in power, who are always willing and eager to relax the rules for reasons best known to them. They are more concerned with doing small favours to individuals and forgetting the bigger issues involved. If anyone does not want to live outside Calcutta but is in a scheme that involves such movement, let him approach someone in power and lo and behold, it is done! These relaxations are made every hour of the day in every scheme. Somewhere, someone seems scared. There are bigger issues involved. The department is still manned by temporary officers who have worked for almost ten years and are yet not sure of the future. This psychological uncertainly does more harm than is realised and the Department is overrun with frustrated workers who realise and see that other political peddlers get the better of them. It is understood that the present Minister for Relief and Rehabilitation has promised that all who worked well would find permanent berths but these are promises that are not so readily kept.

One has to think in terms of the future and this has not been done. Why is it not possible to insist on the millowners in West Bengal to absorb a certain percentage of the refugees and train them for future employment? This source has never been tapped, instead there are projects of starting new industries in refugee areas. These projects will take time while the existing mills can certainly absorb a large portion of unskilled and semi-skilled labour. This can only be brought about by the Government.

It is understood that Dr Roy has already addressed the industrialists to employ Bengalis but that does not ease the situation. It has to be seen through and not padded with statistics of employment. Concerted action is required but there are no signs of this to date. Bengal has suffered another set-back with the recent floods and though the exact numbers that have been rendered homeless are not yet available, the figures already put out in the newspapers, are staggering. Courage and straight thinking can do something but these are not to be seen. So it will go on, for goodness knows how many years, providing material and jibes to all that want to make a cause of it.

—Narad



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Official Papers

Larger Yield in the Community Development Areas?

Rabi Crop Estimate Survey 1954-55—A Report on the Community Project and National Extension Service Areas. By the Directorate of National Sample Survey, issued by the Community Projects Administration, Government of India.

Reviewed by **B H Joshi**

OVER-FULFILMENT of the target for food production during the First Plan period has given rise to much speculation. Widely divergent views have been expressed regarding the role of favourable monsoons and the effectiveness of the measures for agricultural development in realizing these higher levels of output. It is not possible to estimate directly the increase in production due to implementation of agricultural programmes independent of the influence of favourable monsoons. But a comparative study of yields in similar regions with different rates of outlay per acre over a series of years can be of great value in ascertaining the contribution of various developmental measures to higher production.

A survey on these lines has been carried out in the Community Development areas under the guidance of the Directorate of National Sample Survey for estimating yield rates of principal rabi crops in 1954-55. The survey was spread over 14 States of the Union covering 36 Community Project Blocks (C P) allotted in 1952-53, 24 Community Development Blocks (C D B) allotted in 1953-54, and 74 National Extension Service Blocks (N E S) allotted in 1953-54. The sample thus included, in all, 134 blocks, out of a total of 291 blocks. Altogether, 6,110 crop-cutting experiments were planned of which 2,953 were for wheat, 770 for barley, 2,141 for gram and 246 for rabi-jowar. The results of the survey were compared with the average yields of the districts in which the sample blocks were situated. The table below gives a summary of the important results.

The above results would not have attracted much attention but for the controversy raging over the adequacy of the targets for food production for the Second Five-Year Plan. As a compromise between a 40% increase in food production suggested by Mr Nehru, and 15% increase as originally provided in the Plan, the Agriculture Ministers gathered at the Mussorie Conference have decided upon an increase of 25% in food production. When the planning for consumption goods is production potential-oriented, the coincidence between the target fixed at Mussorie and the results of this survey in the C D P and NES regions do not appear to be merely accidental.

The consolidated figures for all the three development regions, show (last row of the table) in general, a 25% increase in yields of rabi crops. There is, however, a great divergence in the percentage increases in yields in the three types of development blocks. For instance, the increase in yield of gram and barley in the Community Development block is very much more than the increase in the Community Project blocks. When subjected to test of significance, the yield rate for gram in the latter is found to be significantly lower than either of the other two. This only shows that the increase in yields is not always commensurate with the increase in total outlay per acre. The only explanation for this apparent contradiction can be either that an inappropriate set of weights were assigned in the preparation of the survey estimates or bias in sampling or a non-optimal utilisation of resources.

The authors of the Report are good enough to have pointed out the serious limitations of the survey. Among these are a large degree of non-response, and the lack of adequate supervision. Only about 62.4 percent of the total number of crop-cutting experiments initially planned were actually carried out. Much of the success of crop-cutting surveys depends upon timely arrangements which, unfortunately, the project administrative machinery was slow to realise. The lack of co-operation between the revenue and project administrations has also detracted from the value of the results. A serious non-response cannot but affect the representative character of the estimates. The data obtained as well might not be wholly reliable, because of inadequate supervision of the field work by the block officers. But the most important shortcoming of all is that the set of weights used in preparing the overall estimates was based on information obtained only from the sample blocks and not the entire population of blocks. When the average yield in the development areas have been found to vary from 607 lbs in Madhya Pradesh to 1386 lbs in PEPSU in the case of wheat, from 476 lbs in Madhya Pradesh to 1873 lbs in Punjab in the case of gram, and from 774 lbs in Bihar to 1214 lbs in Rajasthan in case of barley, unless an appropriate system of weightage, is chosen the findings of the survey may either greatly exaggerate or grossly underestimate the overall rise in yields. In view of the large regional variations, the data must be carefully sifted, together with proper regional adjustments, before the results can be utilized for gauging the production-potential of the country for food-grains.

SURVEY ESTIMATES OF AVERAGE YIELDS AND COMPARISON WITH GENERAL YIELD RATES

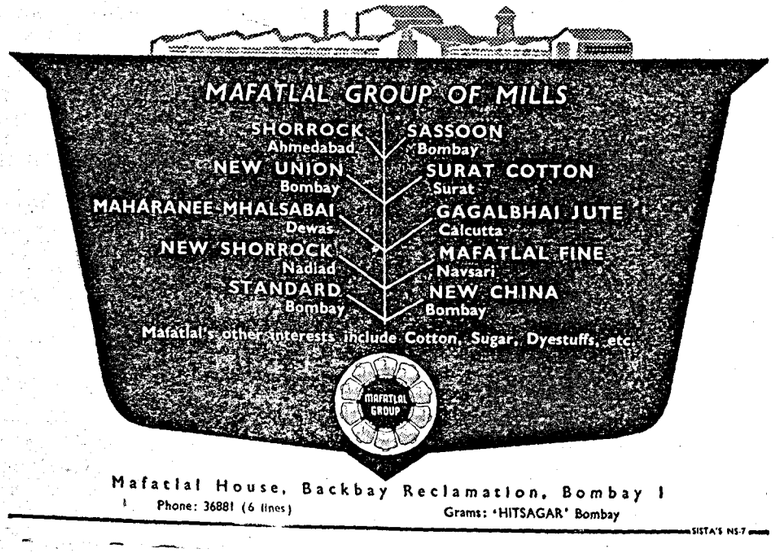
Category	Wheat				Gram				Barley			
	Survey Estimate average yield lbs/acre	Yield from Genl. C. E. Survey lbs/acre	$\frac{(2)-(3)}{(3)} \times 100$	Sampling error of survey estimate %	Survey Estimate average yield lbs/acre	Yield from Genl. C. E. Survey lbs/acre	$\frac{(6)-(7)}{(7)} \times 100$	Sampling error of survey estimate %	Survey Estimate average yield lbs/acre	Yield from Genl. C. E. Survey lbs/acre	$\frac{(10)-(11)}{(11)} \times 100$	Sampling error of survey estimate %
1	2	3	4	5	6	7	8	9	10	11	12	13
C.P.	1000	789	26.7	3.3	683	604	13.1	3.8	1242	1120	10.9	7.8
C.D.	923	792	16.5	3.7	836	566	47.7	8.7	957	731	30.9	5.1
N.E.S.	896	735	21.9	2.3	760	606	25.4	3.8	981	818	19.9	3.9
Combined	933	748	24.7	1.7	752	601	25.1	3.0	1035	817	26.7	3.3



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SISTA'S NS-7

Appleby Again

R Dwarkadas

DEAN PAUL APPLEBY, after three successive visits to India, is surely no novice on the subject of Indian Public Administration. He brings to bear on our problems the dispassionateness and impartiality of an outside observer. His technical competence, academic bent of mind and experience as a Director of the Bureau of Budget of New York State, make him eminently qualified to pass judgments on our administrative problems. Appleby is not one those Americans who either doubts the democratic character of our government or questions the necessity of our planning for economic development. As a matter of fact, he commends our Plans: "The two Five Year Plans have been brilliantly conceived in their analyses of needs and their balancing of values". If he has to say something harsh about our administrative machinery and methods, it is only to highlight the difficulties rather than from "American arrogance", as some of our parliamentarians thought mistakenly.

Frankly, some of the criticisms of the parliamentarians show either a lack of understanding of the problems of our administration or are motivated by extraneous political considerations. For too long we have been fed on illusions and myths; it is time we rationalized less and came to grips with facts. It is really hard for those who have been in the habit of making sweeping criticism, to appreciate the nuances and methods of administrative improvement. Besides, it is so easy to use the expert's strictures for partisan purposes; but, obviously, it needs an open mind, to be able to brush aside political affiliations and get down to the task of cleansing our administration and making it into a dynamic organization, suited to the requirements of speedy development.

Publicity and Terminology

It is unfortunate that Appleby should have said that his criticisms ought not to be made and and discussed publicly. This makes mystery out of an administration. The tendency of administrators to keep everything confidential and their allergy to publicity have contributed not a little to the prevalence of misconceptions in the public mind about administration. It is prudent not to be so secretive, particularly when the rank and file ought also to be conversant with the administrative system for its effective functioning.

We do not seem to have as yet recognized the value of terminology in public administration. Words like 'centralization' and 'decentralization', 'staff and line', 'companies and corporations' are not properly understood in terms of their local application. This calls for careful attempt at clarification of terminological usages.

Volte Face

Appleby discusses at length the concept of autonomy of nationalized ventures. In his first report, he emphasised the governmental character of public enterprises rather than their autonomy. It is refreshing to note that he now concedes that "advocacy of autonomy simply highlights the need to educate responsible top organs of government in the ordinances of self-denial which would restrict their intervention to really important concerns". Appleby also makes a **volte face** when he says that "There is no danger whatever that grants of power to Indian enterprises will be too great....the danger is that the government and parliament will be much too fearful and will grant insufficient 'autonomy'."

It is agreed on all hands that autonomy of public enterprises is destroyed if there is too much control over the day-to-day affairs of administration by Ministers and/or Parliament, but to draw the line where control should end is indeed very difficult. Post-war experience in Britain shows that ministers issue directives to public corporations for the purposes of policy-coordination. However, there is a difference between ministerial action for a coordinating policy and ministerial interference affecting the flexibility of public corporations. Dr John Matthai's resignation from the Chairmanship of the State Bank has highlighted the danger in ministers getting bogged down in details of administration of public corporations. Besides, an inquisitorial parliament may make public corporations more cautious and less action-minded. The qualities that ought to be stimulated in public corporations are initiative, drive and enthusiasm for action, rather than caution, circumspection and fear, which frustrate action. It is possible to devise methods and patterns of restraints whereby freedom of action is carefully blended with responsibility to democratic agencies. By and large, the considerations of greater delegation of responsibility, rapid decision-making and rapid action buttress the arguments in favour of strengthening the autonomy of public corporations. Perhaps, there is a clear case for a deeper examination of the questions involved in the accountability of nationalized industries and it may well be examined by a small expert commission.

Need for more Government

Appleby strikes at the heart of our problem when he says that while thinking is big about social objectives, the thinking is small about the government whose increasing size and complexity is the **sine qua non** for the translation of social objectives. He highlights this aspect in these impressive words: "What India needs more than anything else, what Parliament needs most, is more government by joint secretaries, more government by deputy secretaries, more government by under secretaries, more government by managing directors and their subordinates".

Decision-making and Delegation

Great social objectives imply more government, more government implies widening and deepening of hierarchy and proliferation of hierarchy implies delegation of responsibility. Appleby rebuts the view that greater delegation results in erosion of responsibility. Far from eroding responsibility, greater delegation strengthens it. It is not delegation, moreover, which will endanger the realization of public purposes, but small thinking, perfunctory application, concern for precedent, rupee-pinching, etc, which will most positively thwart public good.

High authorities, if they mean to function effectively, ought to concern themselves more and more with higher policy decisions. They have to achieve a 'new intellectual orientation' which will keep them tied to higher policy concerns of government, instead of frustrating their

effectiveness and utility by getting tangled in details of routine. Basically, there are levels of authority which ought to be matched with levels of responsibility. If each level keeps itself to its tasks, and respects the delegated pattern of governmental functioning, you get the government most suited to the complexities of modern age; but, if there is constant blurring and trenching of responsibility by incursions, specially from the top, there will be corrosion of responsibility with its concomitant, timidity of junior officials, who will shun taking decisions, which ought to be legitimately taken by them. This leads to the tendency of pushing smaller decisions to higher elevations of authority, with consequent danger of congestion of petty embroilments at higher levels. This not only destroys the capacity to take decisions at lower levels but also destroys the outlook of 'bigness' at higher levels. By not delegating responsibility, the higher levels get stunted and stymied by routine irrelevancies which leave little time to executives for larger concerns and policy issues. In other words, the conditions for effective decision-making at all levels, and the fruitfulness of delegation of responsibility, have to be clearly comprehended by administrators and politicians for ensuring success of the nation's developmental plans.

Performance of Parliament

These are some of the considerations which are at the back of his mind when Appleby indicts Parliamentary performance. He accepts the representative, policy-sanctioning role of Parliament. As a matter of fact, he, admires the debates on policy matters concerning legislative proposals. As for the performance of Parliament in relation to administration, he perceives a "negative approach". He says, "over and over again, cases of parliamentary criticism of small decisions made a year or two or three previously are used to explain the impossibility of taking expeditious action". Considering Parliament rightly as high-level, political, representative policy-sanctioning agency, he thinks that it ought to concern itself more and more to the manner and direction of action rather than with control of specific actions. He notes that there is a baseless fear that parliamentary responsibility is being undermined. Authorities, usually in their zest for expansion, transcend the limits of their capacities and concerns. This gets Parliament bogged down in details and particular actions.

There are other failings of Parliament also which need special mention:

(a) Parliament ought to give more attention to the development of good budgeting.

(b) Government proposals are too often and too rigorously examined and amended.

(c) Parliament's chief competitors are the States and not the Central Secretariat of which it always makes a bogey.

(d) It relies too much on the judgment of businessmen. "The business world is far from an ideal place from which to derive administrators of public enterprises". Parliament is too ready to concede the interests of narrow, small but influential business interests. This charge is pretty serious, coming as it does from an American!

(e) Parliament endorses the small and narrow approach of Public Service Commission, undermining thereby the responsibility of ministries. It ought to be developmental in its outlook in regard to personnel. Interference with or criticism of particular actions is not the mission of Parliament.

Positive Responsibility

The agitational role of Parliament pales into insignificance before the constructive, positive responsibility for large-scale operation of a dynamic government. There is, unfortunately, a growing volume of evidence to the effect that legislators trespass the boundaries of discretion, confuse and disturb the effectiveness of official decision-making and action, drive a wedge in the chain of administrative responsibility, invoke through partisan devices ministerial interventions which tend to destroy morale and promote partisan individual and business interests, even at times to the detriment of public welfare. In an earlier report Gorwala had made many references to glaring damaging cases of legislative and ministerial incursions in the Civil Service's sphere of discretion. The prejudices of the legislature against the Civil Services are well-known. It is time Parliament acted up to the advice of Appleby: "The simple way in which Parliament could reverse its influence on administration from a negative one to a positive one would be for it to stop looking for things to criticise and to begin looking for things to praise". Parliament has to learn much on Administration for the success of the nation's developmental plans. It must cease limiting the Civil Servants to the confines of 'rigid processes of colonial administration' and help make them creative tools of a developmental State.

The Role of Audit

By far the most important and severe of Appleby's criticisms is against Parliament's predilections to exaggerate the importance of the role of the Comptroller and Auditor General. Audit authorities in many parts of the world tend to arrogate to themselves powers which ought not to belong to them. Audit functions, more often than not, as if it were an end in itself. Audit is a means to good administration; it ought not to hamper the end product of administration, viz action.

Audit may be defined as "an examination made on behalf of a Principal of the transactions of an agent as recorded in an account". In this case, the principal is Parliament. Audit gives to parliamentarians a comforting and illusory sense of security. The scope of audit review shows a steady tendency to widen. Audit tends to substitute its determinations for those of operating officials on questions of fact as well as of law, involved in rulings on the availability of appropriations. The direct consequence of these tendencies is to draw attention to arguments over jurisdiction and to paper work about details handled at a point too remote from their programmatic origins, to the detriment of good management. It is not in India alone that audit tends to extend its scope unduly. An American expert, Mr Mansfield, writing on the powers of the Comptroller General of U S says: "the Comptroller-General's independence left a good deal of room within the interstices of the law for the expression of views on public policy to social and economic fields. Such expressions did not necessarily concide with prevailing attitudes to either the executive or the legislative branch". Mansfield, Harvey, C— The Comptroller General, Yale University Press, 1939. That is exactly what Appleby means when he says dramatically that. "Into the vaccum thus left, the auditor has moved".

Apart from repressive and negative influences of Audit, which are roundly condemned, the Comptroller and Auditor General's right to review administrative decisions is challenged. Appleby questions the competence of Auditor-General to appraise objectives and performance of administrators. "What is Cabinet for, what is Prime Minister for, what is Parliament for, what are the individual ministers for, what is a Secretariat for, and what is a bureaucracy for?". It has also to be noted, however, that nowhere has Appleby taken exception to the normal functions of the Comptroller General, as 'watch-dog' of public revenues.

Rights of Personnel

A damaging concern for the 'rights' of personnel, the cadre and rank consciousness, the negative outlook of the Ministry of Home Affairs, the Public Service Commission's stringent procedures all these hamper the development of an imaginative personnel policy. The expert is all in favour of keeping 'large registers of eligibles' rather than follow the tedious procedure of special examination, advertisement and selection. In the words of Appleby, the "present practice imposed on Home Affairs and Public Service Commission have made for pettiness, unimaginativeness and inflexibility and a tempo in which a calendar has more relevance than a clock". There are not many persons capable of serving well at high levels: they must be sought wherever they may be found, in business or Universities or in Government. As for salaries, he feels there is too much of rupee-pinching, and that it is time that the people as well as Parliament realised that they must be willing to pay for an adequate and successful government, without wasting their time searching for small economies, mulcted out of the not-very-high salary earners.

Planning Commission

Appleby has a good word for the Planning Commission. Planning is recognised in our system as an essential part of administrative policy-making, not one which functions in a political or administrative 'vacuum'. He commends the idea of making members of the Commission as a "small edition of the Government itself". This makes the plan co-extensive with the development of policy and programme of the government. That the Planning Commission has not assumed direct responsibility in the execution of the Plan, and it is constantly endeavouring to evaluate the performance of the plan, all point in the right direction. Thus, the recent elevation of the Community Projects Administration into a ministery is a move in the right direction. The location of Public Management Studies in the Planning Commission, however, is questioned by Appleby and the Cabinet Secretariat is suggested as a good choice.

He feels, and that rightly, that programme agencies should come into their own, and rely less on the Ministries of Finance and Home Affairs. The review agencies have functioned stringently, and this is stifling the creativeness of programme agencies. The ministries of Finance and Home ought to move steadily to higher levels of responsibility, exercising more general, and less specific, controls, allowing programme agencies to build internal competence in management and financial programming. The system of having a financial adviser in programmatic ministry is undermining departmental responsibilities.

Business Management

Appleby recommends an office for Business Management in every Ministry, and in every attached operating administration, to develop and maintain accounts necessary for administrative control, formulate budget estimates, project forward expenditures, keep expenditures within the limits of appropriations, see whether the plan objectives are realised, supervise planning of personnel, its recruitment, placement and promotion, study and propose procedure and structural changes, etc. There seems to be a careless blend of control and O & M functions charged to this business management office. Whereas there is a clear need for devices for internal control, within a department it does not appear expedient to mix O & M functions with control functions. O & M functions, i e, matters like structural and procedural analyses, office machines, review of methods and practices, etc, ought to be in charge of an O & M Division, located in each Department. This might fall on expert help from the Central O & M division located in the Central Cabinet Secretariat. To mix advisory, staff functions on the one hand, with that of budgetary, personnel control apparatus of the Department would be derogatory to the effectiveness of O & M agencies, which must always remain consultative. I hope Appleby will give this suggestion a thought.

Programme Expediter

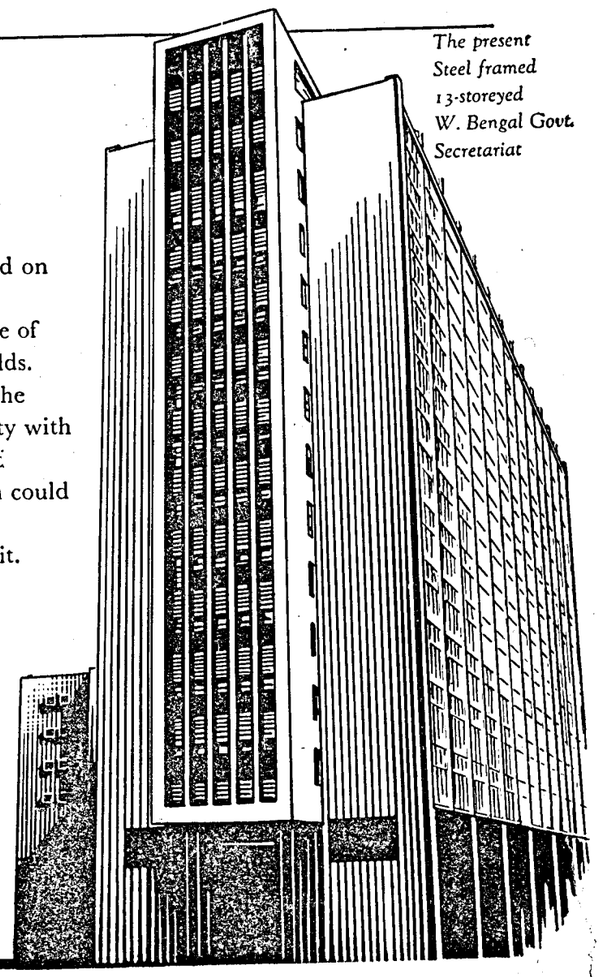
His other suggestion for a top level Programme Expediter or Plan Expediter sounds good, though ambitious. The expediter is to serve as an 'Umpire' trouble-shooter, bottleneck breaker, procedure reformer and structural adviser. In other words, he must be a top level, Cabinet supported, grand co-ordinator, umpire, O & M expert, Development enthusiast, all rolled into one. A development enthusiast must be one with a streak of aggression about him. An umpire should have the sobriety and impartiality of a judge. An O & M expert ought to be a statesmanlike consultant. Can all these qualities be found in one single person? If one could find one such person, this suggestion ought not to be lightly treated. There is another valuable recommendation—to accelerate decision-making in the Ministry of Finance, it is good to have a special aide to the Secretary in charge of expenditure.

Appleby's suggestions, on the whole, are in the direction of elevating concerns of policy-making bodies, and cutting through the maze of reference-cross-reference and detailed-review-pattern of administration. He wants to strengthen departmental integrity and responsibility and recognises the necessity of expanding hierarchy. Enlarged delegation of responsibility and permeating the whole administrative mechanism with what he called as "action-mindedness', are his recipe for success in developmental administration.

These are the suggestions, which are most controversial. There are many others which are no less sound and no less worthy of immediate implementation. Undoubtedly, Appleby has done a very good job this time. If he, has enraged Parliament and the Comptroller General, that is not his fault. He has thrown searching light on what has been ignored so long. Instead of being sore at his remarks, it would be prudent on our part to set to work on cleansing the augean stables.

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there was once naught but the city's site. " OVID



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From the Chair

The Imperial Tobacco Company of India Limited

Speech by the Chairman, Mr. G. H. J. Clarke

THE following is the speech of the Chairman, Mr. G. H. J. Clarke delivered at the Forty-fifth Annual General Meeting of the Company held on the 27th September, 1956.

Ladies and Gentlemen:

I have pleasure in welcoming you to this Forty-fifth Annual General Meeting of the Company.

The meeting was originally convened for the 14th September, 1956 and I wish to express the Board's regrets that the accidental omission of the hour of the meeting in the original Notice made deferment advisable in the interests of the shareholders. An explanatory statement has been sent to you.

With your approval we shall take the Notice convening this Meeting, the Report of the Directors and the Accounts which have been circulated, as read and the Assistant Secretary will now read the Auditors' Report.

Since the last Annual General Meeting, Mr. E. H. Hare has resigned from the Board after serving your Company for over 30 years, latterly as the Chairman of the Board.

Mr. W. E. Nicholson, who had served, mainly in the tobacco growing areas of Southern India, for over 33 years, resigned from the Board early this year.

We wish them both much happiness in well-earned retirement.

Following Mr. Hare's resignation, I was elected Chairman in December 1955.

In April of this year, Mr. C. N. Kirkus, Mr. N. Shiva Rao and Mr. E. G. Willis were appointed to the Board.

These three gentlemen bring to their new duties and increased responsibilities an extensive experience and expert knowledge of your Company's business in its various aspects and they will, I know, make a substantial contribution to the progress of your Company.

The Accounts in your possession give a comprehensive picture of the financial results of the Company's trading during the year under review and I believe you will regard these results as most satisfactory.

In the tobacco industry, as in many others, the volume of sales is a decisive factor in contributing to a company's financial prosperity and I am pleased to report that the increase in sales volume, to which Mr. Hare referred in his speech last year, was fully maintained throughout the whole of the year now under review.

That increase has called for further investment in both fixed and current assets as reflected in the Balance Sheet, although in the case of fixed assets some element of the increased investment was occasioned by higher costs of new machinery.

Having regard to the fact that the bulk of the Company's investments are short-dated, that item on the Balance Sheet read with the cash position indicates a satisfactory degree of liquidity.

Consequent upon the introduction, under the Finance Act, 1956, of a tax on distributed profits, provision has had to be made in the Accounts now presented for the tax liability in respect of the profits distributed by way of dividend out of the profits for the year to 31st March, 1955 as well as in respect of the two interim dividends for the year under review, all of which were distributed during the year to 31st March, 1956. The additional tax burden arising from these distributions amounts to Rs 13,26,500 and is included in the charge for Income and Super Tax in the Profit & Loss Account, a charge which in total approximates very closely to the amount left available for disposal by the Board out of the results of the year's trading.

The appropriations made by the Board and their recommendation as to the Final Dividend are set forth in the Report of the Directors on page 4 of the Report and Accounts, and at this stage I need only say that these appropriations continue to reflect the application of the Board's financial policy to which Mr. Hare referred in some detail in his speech last year. The final dividend of 4%, if approved, will now be payable on 28th September, 1956.

There are already evident to us all signs of a mild inflationary tendency in the country's economy and whilst we welcome the broad aims of the Second Five-Year Plan, with its promise of a better standard of living for all in this land, it behoves us to have clearly in mind the implications that the execution of the Plan carries in the way of possible inflationary pressure at some points in the economy. It will therefore continue to be the policy of your Board to ensure that the Company's Reserves are maintained at a level adequate to safeguard the real capital position.

I have referred earlier in my speech to the increased volume of sales during the year under review and to the benefit derived therefrom by the Company.

The revenues of the Central Government have also benefited directly through the medium of increased collections of Tobacco and Cigarette Excise Duties on that greater volume of sales.

It has always been the contention of the tobacco industry and of your Company in particular that frequent increases in the rates of taxation of tobacco products were bound to have an adverse effect on consumer demand. That point of view has been supported in the past when sudden, too frequent increases in Tobacco and Cigarette Excise Duties have severely inhibited the natural growth of sales in following years, with consequent adverse effect on the overall yield from such taxation to the revenues of the Central Government.

In the year under review, the benefit accruing to the Central Government from increased collections of the duties has arisen, as I have said, directly from the increased volume of sales and gives support to the further contention of the industry that a satisfactory measure of increase in tax collections will arise naturally from an expanding volume of sales.

There can be no question of challenging the right of a Government to tax tobacco and its products, but I do wish to support, most strongly, the point made by Mr. Hare in his speech last year that, in fairness to the consumer and in order to avoid any permanent damage to a sound revenue-producing source, Government should consult with the tobacco industry as to the best method of applying the incidence of this type

of taxation. Failure to do so not only harms the tobacco industry, as well as those it employs and those it serves, but also defeats the intention of Government.

During the year under review, the States have continued to levy Sales Taxes on tobacco products at varying, though high, rates and it is greatly to be regretted that tobacco and tobacco products, already subject to high duties imposed by the Centre, have not yet been totally exempted from sales and local taxation.

A high proportion of your Company's sales is made in the form of a single cigarette for a single coin and there can be no question but that a multiplicity of State and local taxation rates, on top of the Central duties, seriously hampers the growth of our industry and greatly restricts the yield from taxation to the Central Government.

An example of a type of State taxation damaging to the tobacco industry as a whole and to the economy of this country is to be found in the Andhra Act of 1955 amending the Madras General Sales Tax and the Madras Tobacco (Taxation of Sales and Registration) Acts as applied to the State of Andhra. The 1955 Act imposed a tax at the rate of 7½ pies in the rupee on first purchases of certain varieties of raw tobacco. Not only does this impose an additional and heavy burden on cigarette manufacturers in this country but, at a time when competition in overseas markets is unusually keen, it places Indian grown tobaccos at a price disadvantage in these markets and may therefore seriously affect this country's valuable export trade in that commodity. The Government of Andhra State promised to review the operation of this tax; and it was greatly hoped that the tax would be removed in the overall interest. Such hopes however have been considerably dimmed by the passing of a further Act imposing a tax on country varieties of tobacco, formerly excluded; but however logical it may be to extend the application of the tax to all varieties of tobacco, the tax remains damaging to the industry as a whole and to the economy of this country.

I have intentionally laid considerable emphasis on this subject of taxation of tobacco products because, whilst of vital interest to your Company, the effects of its application and incidence are of equal interest to the Central Government.

The first five months of the current trading year again record an increase in sales volume but I would remind you of the following factors which are likely to affect our costs and so offset the financial benefits of that increased volume.

The effects of rising raw material costs have yet to be fully reflected in our production costs; in particular, we had to pay higher prices for leaf tobacco in Southern India this year and grade out-turns are likely to be disappointing.

Furthermore, the mounting costs of wages and of the provision of amenities for our workers have an inflationary effect on production costs and unless these increased wages and amenities are matched by increased production on the part of those receiving them, the Company's prosperity, and theirs, must suffer.

Relations between the Management and the workers have been very good throughout the year. Nevertheless, your Company, no doubt in common with other manufacturers, has suffered an occasional loss in production through the ill-advised tactics adopted by small groups of workers, often without the support of their recognised labour union.

In an industry so highly mechanized as ours, we have always set great store by the maintenance of a high standard of working conditions, of good relations with labour and the provision of adequate amenities; all of which further the aims and objectives of the Second Five-Year Plan; but we are entitled to expect that all workers will reciprocate by giving of their best to increase production.

I must say that there is increasing and encouraging evidence that both workers and their representatives are beginning to share our conviction that such differences as may arise from time to time between factory managements and workers are more readily capable of settlement by direct negotiation rather than by the adoption of tactics which not only adversely affect overall output but also the earnings of the individual worker.

Whilst, therefore, I am hopeful that rising costs of production will not offset the benefits of expanding sales, I would be failing in my duty to you if I did not warn you of the significance of the upward trend in costs. Your Directors have felt justified, however, in the light of the results of the first five months' trading of the current year, in declaring an Interim Dividend of 2%, free of income tax.

I now beg formally to move the adoption of the Report and Accounts for the year ended 31st March, 1956 including the payment on the 28th September next of a Final Dividend of 4%, free of income tax, on the issued Ordinary Shares of the Company.

I shall now ask a member to second the Resolution and when that has been done, if anyone has any question to put or comment to make on the Accounts, it will be a convenient time to do so.

Indian Agriculture in Brief

A useful and pocket-size book-let has been recently brought out by the Economic and Statistical Adviser, Ministry of Food and Agriculture, Government of India, with a view to meeting primarily the need of those who wish to have a snap shot picture of Indian Agricultural Economy as revealed by the current Agricultural Statistics, certain essential data in allied spheres; e.g., population, national income etc. needed for an understanding of the Agricultural Economy in its broader perspective have also been included in this booklet.

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The Indian Standard Wagon Company Ltd.

Notice

NOTICE is hereby given that the Annual General Meeting (being the thirty-seventh Ordinary General Meeting) of the Company will be held at the Registered Office, 12, Mission Row, Calcutta at 11 a.m. on Friday the 2nd November, 1956, for the following purposes:

1. To receive and adopt the Audited Accounts for the year ended 31st. March, 1956 and the Directors' and Auditors' Reports thereon.
2. To declare Dividends. The dividends if declared, will be paid to the shareholders whose names appear in the Company's books on the 2nd November, 1956 or to their mandatees.
3. To appoint Directors in place of those retiring. In this connection notice is hereby given that Special Notice as defined in Section 190 of the Companies Act, 1956 has been received by the Company under Section 281 of that Act, to move the following resolution at the Meeting:—

   "That Sir P P Ginwala who has attained the age of 81 years be and is hereby appointed a Director of the Company and that it is hereby declared that the age limit laid down in Section 280 of the Companies Act, 1956 shall not apply to him."
4. To appoint Auditors and fix their remuneration.
5. As special business to consider and if thought fit to pass with or without modification *the following resolutions* which will be proposed as special resolutions. (A) "That subclause 3(17) of the Memorandum of Association of the Company be deleted and substituted by the following two sub-clauses:

   "(17a) To subscribe, contribute or guarantee money for any national, charitable, benevolent, political, public, general or useful object or fund or for any exhibition".

   "(17b) To establish and support, or aid in the establishment and support of associations, institutions, funds, trusts and conveniences calculated to benefit persons who are or have been employed by or who are serving or have served the Company or its predecessors in business or the dependents or connections of such persons and to grant pensions and allowances and to make payments towards insurance".

   (B) "That Article 151 (17) of the Company's Articles of Association be deleted and substituted by the two following sub-clauses:—

   "(17a) Subject to the provisions of Section 293(1)-(e) of the Companies Act 1956 to establish maintain support and contribute or subscribe to any national, charitable, benevolent, political, public, general or useful object or fund and any institution, society or club, which may be for the benefit of the Company or may be connected with any town or place where the Company carries on business".

   "(17b) To give pensions, gratuities, allowances, bonuses, profit sharing bonuses or benefits or other charitable aids payments or monies to or for the benefit of persons who are or have been employed by or who are serving or have served the Company or its predecessors in business or the wives, children, dependents or connections of such person or persons as may appear to the *Directors just and proper* whether any such person his widow children or dependents or connections have or have not a legal claim upon the Company".

The Share Registers and the Transfer Books of the Company will be closed from the 23rd October, 1956 to the 2nd November, 1956, both days inclusive.

A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote on a poll instead of himself and a proxy need not be a member.

By Order of the Board
MARTIN BURN LIMITED
F G Liversedge
Managing Director
Managing Agents.

Calcutta,
28th Sept. 1956.

Explanatory Statement As Required by Section 173 of The Companies Act,1956.

Item No 3

Sir P P Ginwala who retires by rotation and is otherwise eligible for reappointment, has attained the age of 81 years and Section 280 of the Companies Act provides that he can not be reappointed a Director of the Company except by a resolution of which special notice has been given in accordance with Section 281 of the Act. The Company has received such a special notice from a Member notifying his intention to move the resolution set out in the Notice. Sir P P Ginwala joined the Board of Directors of this Company in 1944 and has rendered valuable assistance to the Board as a technical expert. It is in the interest of the Company that the Board should continue to receive the benefit of his long experience and able guidance.

Item No 5

Clauses 3(17) of the Memorandum and Articles of Association at present reads as follows:—

"To establish and support, or aid in the establishment and support of, associations, institutions, funds, trusts and conveniences calculated to benefit employees or ex-employees of the Company, or its predecessors in business, or the dependents or connections of such persons, and to grant pensions and allowances, and to make payments towards insurance, and to subscribe or guarantee money for charitable or benevolent objects or for any exhibition, or for any public, general or useful object".

This sub-clause deals with two different classes of objects to which the Company may contribute funds, the first relating to associations and funds for benefit of employees and their relatives and the second relating to charitable and public objects. These being two distinct objects it

is desirable that they should be set out separately and it is accordingly proposed that the first object should be repeated without enlargement of its scope as a new separate sub-clause 17(b). As regards the second object the existing clause in so far as it relates to subscriptions to public objects is stated in a form too restricted to suit modern conditions. The industrial policy of the Government of the day is of vital importance to most industries and particularly to your Company, the principal buyer of whose products is the Government. It is common ground that industrial policies are influenced by political parties who form the government of the day. It is therefore in the interest of the Company to be able to contribute to the funds of political parties which in the Company's opinion will serve the interest of industries in general and of your Company in particular.

Shareholders might be interested to know that under section 293(1)(e) of the Companies Act 1956 the right of a Company to contribute to funds not directly relating to its business or the welfare of its employees is clearly recognised and it is provided therein that the contributions made by the Board of Directors of a Company in such case shall not exceed 5 per cent of its average nett profits or Rs 25,000|- whichever is the higher.

In the existing clause in the Memorandum it is not quite clear whether the Company could contribute to a political fund and it is desirable that a specific provision in the Memorandum to contribute to such political objects and purposes should be included. It is therefore proposed that the second object above referred to should be set out separately in more explicit terms as a new sub-clause 17(a).

The existing Article 151(17) of the Company's Articles of Association sets out the power of the Board of Directors to carry out the object contained in clause 3(17) of the Company's Memorandum of Association. It is proposed to delete this sub-clause and substitute therefor clauses as detailed in the notice conforming to the proposed alterations in the Memorandum of Association.

The Directors and Managing Agents of the Company have no interest in the business represented by the foregoing resolutions other than in their capacity as shareholders.

THE BHARAT VANASPATI PRODUCTS LIMITED

MANUFACTURERS OF

RADIO & KEY BRANDS VANASPATI
KITCHEN BRAND REFINED OIL

&

BVP-303 WASHING SOAP
IN BARS & CHIPS

SEKSARIA CHAMBERS, 139, MEDOWS STREET,
BOMBAY

Around Bombay Markets

Cautious Undertone

Thursday, Morning

BUSINESS was small and the price trend was irregular during the week under review, operators being chary of extending their commitments. Even the implied exhortation by the Chief Minister at the Bombay Shareholder's Association meeting early in the week, that it was not proper to suspend trading on the excuse of undue speculation (he warned, of course, against excessive speculation) failed to enthuse the market. However, towards the end of the week, as though to compensate for the earlier lethargy, industrials did stage a slow recovery, due largely to bear covering and replacement buying. Yet, confidence is still far from being restored.

The nervous bull liquidation in the textile section following the prohibitory order on mill cloth stocks continued during this week and mill shares suffered a further setback. The reported move on the part of the Government to further tighten back credit aggravated the jitteriness.

The steel section received a jolt when Indian Iron declared a dividend of just one rupee, against higher market expectations. The Company has taken a loan from the Government of India, free of interest, for financing expansion and is likely to go in for a further loan from the World Bank for which the Government of India has agreed to stand guarantee. In the circumstances, it is natural that the Government should disapprove that the Company declare a higher dividend. In the event, Indian Iron which quoted at one time Rs 36-4 on the last day of the week, suffered a loss and hit the lowest for the day at Rs 34-14-6 and closed at Rs 34-15-6. There were sellers, but practically no buyers.

In the miscellaneous section, cement shares were down because of the Government's announcement of a lower selling price for cement. ACC declined from Rs 204-4 to Rs 199. Digvijay, despite the declaration of one share for two shares by the Company, slided from Rs 207 to Rs 197.

Sugar shares, as also small priced engineering shares, ruled lower, the only exception being Mahindra and Mahindra, which ended the week at the highest level on yield considerations.

Cotton

Easy Trend Continues

THERE was hardly anything of note in the cotton futures market. The continued bearish trend is helping neither futures trading nor, indirectly though, the cotton cultivator. It is more than a little intriguing, as already remarked in these columns, that cotton futures should remain lethargic when the statistical position of cotton and other factors justify a rising price trend. Attention has also been drawn to the psychological pull that seems to be working in the minds of the operators, against the distinctly bullish pattern of the cotton trade and industry.

A feature, which had not been in evidence last week, is the sympathetic reaction on the spot market, which, too, has now developed a bearish trend. Market observers, however, offer a ready explanation. They point out that this trend is the result of the anticipation, on the part of the traders, of a much reduced or no export quota. More often than not, export quotas are announced either in the month of October or in early November. This has been the case with cotton in the past two seasons. Also, at this time of the year the new crop movement gathers momentum, especially of Punjab cotton. In view of this, mills are naturally biding their time. Their hands are also tied by the ceiling imposed on cloth stocks. They cannot hold more than one month's stock. They have to bear the whole brunt of the additional excise duty, to boot. In the circumstances, they are naturally chary of entering into fresh commitment. If there were some who were in two minds about the present situation, they were converted to the majority view when reports came of consumer-resistance in the piecegoods market!

A word here about the recent Indo—U S Agreement on Farm Surplus, particularly about India's import of U S Surplus cotton. In view of the inflationary potential of our large-scale deficit financing, the provision that India could pay in rupees for her cotton imports from the U S A, it must be conceded, is of a far-reaching significance. Importers of cotton here, however, complain that as yet the procedural details have not been made available to them. This is unfortunate, because cotton prices currently ruling in the U S are considered attractive by purchasers here. Importers are also worried over the import of U S cotton through Burma under the Indo-Burma-U S Tripartite Agreement concluded much earlier than the Indo-U S Agreement. Under this, India is scheduled to supply Indian textiles to Burma for which the latter would pay with U S Sur-

MARKET LEADERS DURING THE WEEK

	3-10-1956	Week's Range High	Low	26-9-1956
Steel Shares				
Tata Ordinary ..	196-12	201-12	196- 8	199- 0
Indian Iron ..	34-15½	36- 4	34-14½	36- 0
Textile Shares :				
Bombay Dyeing ..	630-10	650- 0	630-10	645- 0
Central India ..	152- 0	159- 0	152- 0	156- 0
Century ..	554- 0	567- 8	554- 0	559- 0
Kohinoor ..	356- 0	370- 0	355- 8	367- 4
Swadeshi ..	252- 0	260- 0	252- 0	257- 0
Simplex ..	201- 0	205- 8	200- 8	204- 8
Miscellaneous Shares :				
Associated Cement	199- 0	204- 4	199- 0	203- 0
Belapur ..	251- 0	259- 0	251- 0	253- 0
Burma Old ..	736- 4	760- 0	736- 4	756- 4
Premier Const ..	210- 0	217- 8	208- 0	216- 0
National Rayon ..	263- 8	273- 0	263- 0	271- 4
Scindia ..	19- 3	19-10	19- 2½	19- 6
New India Ins ..	45-12	46- 0	45- 8	45-12

plus cotton. The stipulation that import licences would be issued only after a certain quantity of Indian textiles had been exported to Burma is the main source of headache, and those who have applied for export licences do not know when the Government would release licences for the import of U S cotton through Burma. Thus whether through Burma or direct from America, U S cotton imports have yet to materialise. The sooner the authorities clarify the whole position, and facilitate the flow of U S cotton into India, the better for all concerned.

Meanwhile, Jarilla and Vijay futures lost about ten points per candy during the week. Ready delivery contracts for several varieties like Morvi, Khandesh, Berar, 216F and 320F Punjab eased considerably. At botton prices, however, a leading group of Delhi Mills bought a couple of thousand bales of Walad Cotton, either for December or January delivery. Local mills bought Pima and Sudan Cottons.

Around Calcutta Markets

Oilseeds

Linseeds Look Up

THE oilseeds market presented a mixed trend during this week. There was a relatively better undertone in the linseeds section as against a generally depressed sentiment in, e g, castorseed and groundnuts.

The strength of the linseed and linseed oil sections has been mainly attributed to the reported deal, the first after the recent abolition of the export duty of Rs 250 per ton. Sentiment has also been helped, to some extent, by better advices from the U K where prices have been revised upwards. London prices have improved by as much as £4 per ton, and shippers here have naturally taken advantage of this. A business of some 200 tons, for October-November delivery, is reported to have been concluded by a leading shipper here. While it is believed that linseed oil prices in the U K may be lifted further, in view of the increasing demand from East European countries, some Indian shippers feel that even at the current London rates, the U K quotations are out of parity with the internal prices. It is suggested, in effect, that the booking done by the shipper in question must have been in anticipation of a further fall in domestic prices. To what extent prices would decline further is anybody's guess. But, as things are with the continued shortage of ready supplies and the prospects of better buying enquiries from Communist countries, the trend promises to turn bullish shortly.

With the expiry of the castor September contract, there has been little or no activity in this section. In view of the likely increase in the supply of castorseeds and following beneficial rains in recent weeks, traders and shippers are biding their time to guage the volume of foreign demand. In the meanwhile, the tendency for any further decline in prices has been checked promptly by the reported business in castor oil to the tune of of 1000 tons done with the Continent last week.

Indian Iron Dividend

Wednesday Evening

DEVELOPMENTS relating to Indian Iron continued to influence fluctuations in equities. Towards the close of last week, equities steadied-up on expectations that the Indian Iron dividend would be announced on Monday last. Though the dividend was not announced, the circular letter issued to shareholders by the Chairman of the managing agents of IISCO made it clear beyond the shadow of any doubt that the dividend would not exceed one rupee per share. This had a depressing effect on Indian Iron. As Indian Iron fell, equities in general developed a downward trend.

On Monday last, as the contents of the circular letter came to be known, Indian Iron dropped eight annas on liquidation by weak "bulls". There was a subsequent recovery due to technical reasons. Monday last was the settlement day. Unduly wide "budla" charges indicated a considerable "short" position in this scrip. There was some "bear" covering, and the rate improved. Subsequently, in kerb dealings on Tuesday and Wednesday, Indian Iron lost ground again due to "bull" liquidation.

Delhi Refuses

In a circular letter to shareholders, the Chairman of managing agents of IISCO explains the grounds on which the Government has refused requests for a higher dividend. From a perusal of the circular letter, it also appears that the Government is not interested in revising the terms and conditions of the proposed right issue. Representations were made by both shareholders and management, as in the last year, on both these issues. As in the previous year, the Government has turned down requests for a higher dividend. It is now clear that the dividend will not exceed one rupee per share.

Until Monday last, Lyons Range was expecting a higher dividend and/or a modification in the terms of the proposed right issue. Representations made to the Government were based on two arguments. One was about the inadequacy of a dividend of ten per cent. Some were hoping that, even if the request for a higher dividend were turned down, the Government might be induced to revise the terms and conditions of the proposed right issue. There is some relation between these two issues from the shareholders' viewpoint.

Arguments For

At present the nominal value of each share of Indian Iron is Rs 10. But the shares were originally issued at Rs 100 each. There have been many subsequent reductions in the nominal value of these shares. But one of the arguments for a higher dividend is that, at rupee one per share, the yield is negligible so far as original shareholders are concerned. This is a technical argument which cannot be stretched too far. Original shareholders have been compensated in each of the various readjustments of the share capital. Alternatively, it is arguable that either there are no original shareholders at present, or that those among them who are still holding are confident of bright future prospects.

At Rs 10 per share, the dividend of a rupee is not illiberal. So, it cannot be argued that genuine investors are being penalised by the Government's decision not to allow a higher dividend. But the argument for a higher dividend is supposed to be based on the alleged unfavourable terms and conditions of the proposed right issue. In May last, the company sought permission to issue ordinary share capital to finance expansion plans. New Delhi consented, but only on the condition that right shares should be issued at a premium of Rs 3½ per share.

Arguments Against

In effect, the arguments advanced by shareholders and management boil down to this: Since the announcement of the terms of the right issue, Indian Iron have developed an irregularly lower trend. To make the right issue a success, it is, therefore, necessary to raise the dividend payment so that investors will be induced to subscribe to the right issue. Terms of IISCO's proposed right issue are favourable in comparison with those of Tata Steel Company's new issue. IISCO's prospects are quite bright. There is, therefore, no valid reason to assume that the proposed right issue will not be taken up by investors.

New Delhi's refusal to allow a higher dividend distribution or to modify the terms of the proposed new issue is based on good logic. A higher dividend would involve enlarged payments out. Therefore, retained profits would be lower. To enable the Company to finance expansion plans, the premium of Rs 3½ per share has been fixed. This will help the Company to secure the needed capital for expansion. Two loans, one free of interest, advanced by the Government have yet to be repaid. Soon, the Company will again approach the World Bank for another loan which will have to be guaranteed by New Delhi. Impartial observers will endorse the Government's view that a higher dividend is, thus, not in the interest of the public or of IISCO shareholders.

Tea Shares

Tea shares steadied-up by the middle of last week, only to slide back in sympathy with the downward trend in equities in general. Last week, the Tea Regulation Committee decided to curtail output. North-east Indian planters are represented in this Committee. North-east India is the major tea-producing region in this country. So, the Committee's decision is likely to be enforced and effective. It has also decided to improve the quality of the tea output so that inferior grades are not offered at the auctions. As equities in general resume the upward trend, Tea shares are likely to move up appreciably.

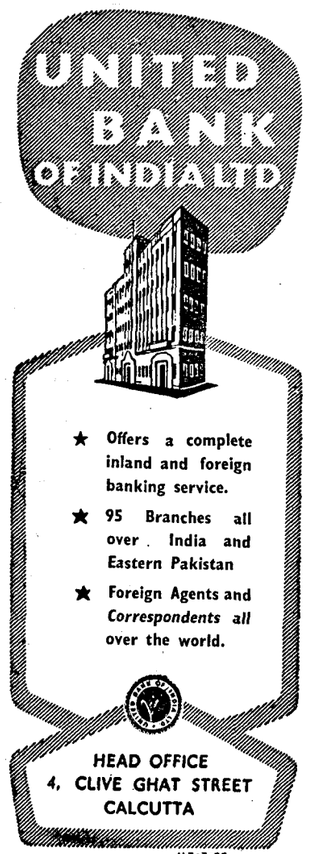
In recent weeks, industry in Calcutta has been worried by the coal strike. This has affected the output of jute mills. Many engineering concerns are also experiencing difficulties. Besides, the Government's decision to enforce uniform steel prices throughout the country has also affected engineering concerns in port towns like Calcutta. These are the main reasons for the recent hesitant trend in Engineering shares. Latest reports indicate, however, that the coal strike may be called off. Industry in Calcutta will welcome the end of the coal strike.

Jutes Steady

It is only natural that Jute shares will develop a downward trend in sympathy with the easiness in equities in general. Weakness in jute goods has had a depressing effect on Jute shares. Jute goods are falling partly because of speculative selling pressure, but mainly due to lack of fresh foreign orders. There are also apprehensions that the Suez Canal crisis, and the consequent increases in freight and marine insurance rates, may deprive the industry of some of the advantages of increasing exports at rising prices.

These fears are not altogether without basis. But it should not be ignored that the full effect of the re-sealing of looms will be felt only from this month. Output in September will be lower than that of August.

In October, the first full month when the industry will be working with the unsealed looms re-sealed, the output will decline further. Therefore, mill stocks of jute goods are likely to decrease gradually. Further, raw jute prices are also falling. Prospects for Jute shares are not unencouraging. These shares are worth the consideration of investors at all set-backs.



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Thaoomal House (1st Floor)
Cawasji Patel Street,
FORT, BOMBAY-1.

Tel. Nos. Office: 28901 / 20264
Residence: 88055
Tel. Address "SUREADVICE"
BOMBAY 21.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1409.23	1417.71	1424.51	1280.22
2. Rupee Coin	120.07	118.80	116.74	112.05
3. Deposits				
a) Central Government's	71.39	67.43	65.77	58.04
b) Banks'	52.64	52.55	56.56	62.77
c) Other Governments'	19.06	23.95	2.91	11.64
d) Others'	12.46	13.81	12.27	16.37
4. Foreign Securities	586.74	596.74	606.68	671.82
5. Balances held abroad	28.33	26.40	24.94	47.66
6. Rupee Securities	703.72	698.72	698.72	488.96
7. Investments	32.34	42.37	50.12	49.85
8. Loans and advances to Governments	2.84	2.84	8.06	2.02
Scheduled Banks				
1. Demand liabilities (net)	622.13	625.85	637.46	596.65
2. Time Liabilities	461.05	460.57	461.90	415.23
3. Cash on hand	35.98	37.28	37.53	33.88
4. Borrowings from Reserve Bank	67.66	54.05	34.63	12.47
of which against Usance Bills	40.65	30.90	26.12	8.68
5. Advances and Bills discounted	706.01	705.38	689.98	554.34
of which State Bank's	131.67	133.21	123.77	98.78
6. Invst. in Govt. Sec.	373.48	371.14	362.02	381.44
of which State Bank's	107.41	107.41	106.19	109.25
Cheque Clearance	123.23	155.02	131.16	137.21

†For Reserve Bank and Cheque Clearance week ended 28-9-56. Scheduled Banks week ended 14-9-56.

Bombay Money Rates	28-9-56	21-9-56	31-8-56	30-9-55
Inter-Bank Call Rate	$3\frac{3}{16}$	$3\frac{3}{16}$	$3\frac{1}{8}$	$2\frac{3}{8}$
3 months deposits	$3\frac{3}{8}$	$3\frac{3}{8}$	$3\frac{3}{8}$	$2\frac{7}{8}$
6 months deposits	$3\frac{3}{8}$	$3\frac{3}{8}$	$3\frac{3}{8}$	3

Bombay Bullion — In Rupees and Annas

	27-9-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	103-0	103-12	103-0	94-10
Forward	103-3	103-11	103-2	†
Silver (per 100 tolas)				
Spot	173-12	174-5	174-0	168-0
Forward	174-2	174-13	174-6	†

† no trading

JUTE STATISTICS

	Aug. 1956	July. 1956	June. 1956	July'55 to June '56
Production ('000 tons)				
Hessian	35.4	34.3	35.0	403.0
Sacking	48.2	52.9	57.3	622.9
Others	6.0	6.9	6.6	69.1
TOTAL	89.6	94.1	98.9	1095.0
Total production in the corresponding months of:				
1955	81.4	84.1	85.7	994.8
1954	78.2	80.7	74.6	865.7
Stocks at the end of the month ('000 tons)				
Hessian	28.5	38.5	37.5	—
Sacking	88.2	93.2	83.0	—
Others	5.4	6.2	6.5	—
TOTAL	122.1	137.9	127.0	
Stocks at the end of the corresponding months of:				
1955	79.2	81.5	87.6	—
1954	70.5	80.8	86.9	—
Despatches:† ('000 tons)				
Hessian	45.9	33.3	38.3	413.5
Sacking	54.0	44.6	46.5	579.5
Others	5.7	6.3	5.9	54.2
TOTAL	105.6	84.2	90.7	1047.2
Total despatches in the corresponding months of:				
1955	82.7	91.6	84.0	988.4
1954	88.7	87.4	73.0	908.6
Raw jute consumption: (lakh bales of 400 lbs each)				
1956	5.00	5.25	5.54	63.40
1955	4.62	4.65	4.94	57.92
IJMA Mills' purchases				
of raw jute ('000 bales)				
Pakistani	83	43	37	11.99
In corresponding periods of:				
1955	1.59	1.90	1.26	10.80
1954	47	89	90	9.35
Indian	4.93	3.41	3.7[illegible]	49.70
In corresponding periods of:				
1955	2.65	2.84	1.79	44.19
1954	2.10	2.06	2.14	37.87

† Despatches include exports and sales for internal consumption

Source : Indian Jute Mills Association

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group	Week Ending 15-9-56	Week Ago	Month Ago	Year Ago
I **Food Articles:**	**391.5**	**395.0**	**401.0**	**312.0**
Cereals	506	511	505	378
Pulses	393	395	408	268
Others	247	249	264	230
II **Industrial Raw Materials:**	**506.4**	**508.6**	**505.1**	**401.0**
Fibres	479	481	475	411
Oilseeds	578	579	582	374
Minerals	517	529	515	419
Others	422	422	426	420
III Semi **Manufactures:**	**408.7**	**408.6**	**409.5**	**324.5**
Leather	373	375	381	329
Mineral Oils	208	208	208	202
Vegetable Oils	589	585	606	362
Cotton Yarn	603	505	498	408
Metals	329	329	329	259
Oilcakes	488	489	479	344
Others	361	361	361	330
IV **Manufactures:**	**391.6**	**390.7**	**388.0**	**369.3**
Textiles	427	426	422	404
Jute	430	422	393	404
Cotton	430	430	430	402
Rayon & Silk	470	470	470	474
Woollen	266	266	266	278
Metal Products	388	388	388	352
Others.	295	295	293	286
V **Miscellaneous:**	**553.5**	**553.0**	**565.2**	**553.3**
All Commodities:	**418.9**	**420.1**	**421.1**	**353.7**

ALL INDIA COTTON ACREAGE

(First estimate 1956-57)

(Area in '000 acres)

	1956-57	1955-56*	Difference
Staple Length			
Long ..	4,520	3,954	+ 566
Medium ..	6,855	5,919	+ 936
Short ..	3,227	3,302	— 75
TOTAL ..	14,602	13,175	+ 1,427
Trade Description			
Bengals ..	865	745	+ 120
Americans ..	2,473	1,953	+ 520
Jarilla (incl Virnar	2,925	2,610	+ 315
Verum ..	323	294	+ 29
H420 (incl Malini M5-A)	432	466	— 34
Oomras ..	2,089	2,326	— 237
Hyderabad Gaorani ..	1,140	1,044	+ 96
Malvi ..	1,316	1,234	+ 82
Broach—Vijay	1,046	1,013	+ 33
Surti Suyog ..	482	482	---
Dholleras ..	958	566	+ 392
Southerns ..	499	388	+ 111
Comillas ..	54	54	---
TOTAL ..	14,602	13,175	+1,427

*Adjusted first estimate

Source : Ministry of Food and Agriculture.

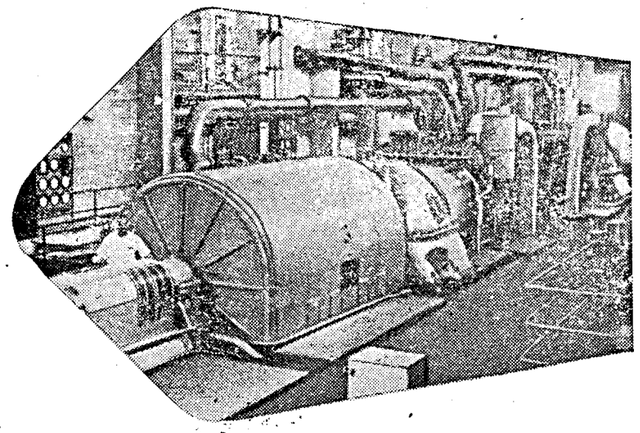
EMPLOYMENT IN COTTON TEXTILE MILLS IN MAY

	1956					1955				
	No of Mills worked	Total No. of Workers on rolls	Average daily no. of workers employed per Shift			No. of Mills worked	Total No. of Workers on rolls	Average daily no. of workers employed per Shift		
			1st	2nd	3rd			1st	2nd	3rd
Bombay	174	508,553	238,556	151,254	45,979	180	431,877	226,301	143,597	33,880
Saurashtra	10	13,208	7,264	4,896	—	11	10,789	5,994	4,201	15
Kutch	—	—	—	—	—	1	73	73	—	—
Madhya Bharat	15	50,825	21,537	15,407	3,432	16	42,710	21,271	15,274	2,158
Bhopal	1	2,769	921	627	593	1	2,598	927	652	605
Ajmer	4	5,237	3,191	1,604	—	4	4,746	2,990	1,384	—
Rajasthan	6	8,118	3,745	2,288	710	7	5,958	3,100	2,079	426
PEPSU	1	2,546	999	522	504	1	1,921	744	512	423
Punjab	3	5,646	1,797	1,222	1,156	3	4,498	1,270	933	923
Delhi	3	20,077	7,562	4,690	4,202	3	19.368	5,598	5,827	4,055
Uttar Pradesh	18	59,569	23,957	16,838	9,626	22	35,119	12,124	5,890	3,975
Bihar	1	746	430	269	—	2	746	384	259	—
West Bengal	24	42,625	20,126	12,452	7,221	26	38,962	20,617	11,650	5,196
Orissa	2	5,273	1,359	1,186	1,296	2	5,251	1,311	1,114	1,107
Madhya Pradesh	11	37,391	16,482	9,214	2,052	11	34,451	17,767	9,808	1,126
Hyderabad	5	18,119	7,149	4,469	2,789	6	15,142	6,950	4,493	2,813
Madras	86	112,609	49,570	31,758	9,710	81	106,478	52,476	30,959	10,245
Mysore	9	21,295	11,690	5,879	791	9	19,759	11,813	5,850	373
Kerala	10	9,221	4,207	2,099	1,509	10	9,028	4,213	1,925	1,412
Andhra	7	3,046	1,632	675	276	7	3,001	1,712	563	265
Pondicherry	3	8,178	3,417	2,456	65	3	4,723	1,479	322	7
TOTAL	393	935,051	425,591	269,805	91,911	406	797,198	399,114	247,292	69,004

Source : 1) The Textile Commissioner
2) Labour Bureau

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Hopes and Fears

LONDON and Paris may feel aggrieved that Washington is reluctant to defend its allies, though America expects her NATO partners to support her in her struggle for power against Russia. On the Suez Canal issue, Washington has had a restraining influence. Mr Dulles is in agreement with the Anglo-French plan for the solution of the crisis. But he is opposed to the policy of use of force to solve the dispute. At the instance of America, Britain and France have been forced to modify their Suez policy considerably. Only after Sir Anthony Eden discovered that America was unwilling to endorse the Anglo-French proposal for forcing the way through the Canal that Britain abandoned the idea of using Anglo-French pilots for navigating ships through the Canal as a direct provocation to war. With America's support, Britain and France would have implemented their combative policy without referring the Suez issue to the Security Council. Credit is due to America for averting war so far on the Suez Canal issue.

But all those who desire a negotiated settlement of the crisis will be dismayed that America is in agreement with Britain and France on the solution of the problem. Washington insists that the crisis must be solved through peaceful means. But Washington is in agreement with London and Paris that the crisis can only be reconciled by Egypt's acceptance of the Anglo-French plan for solution. America is opposed to the use of force. She has repeatedly warned Egypt of her stubborn attitude. But she has never raised any objection to the massive Anglo-French concentration of forces in the Eastern Mediterranean. During the Security Council debate on the Suez Canal issue, M Shepilov disclosed the extent of such military concentration. His statement was not challenged by Britain, France or America. Nor is America opposed to a policy of exerting economic pressure on Egypt. Indeed, Mr Dulles would seem to have made efforts to convince Britain and France that a policy of economic sanctions would be as effective as military action.

Time, it should not be ignored, is on the side of the Western Powers. Egypt has so far maintained freedom of navigation through the Canal. But a time may come when Egypt may experience difficulties in maintaining navigation through the Canal. Her inexperienced pilot force may break down under the heavy stress and strain in the winter months, when navigation is not only difficult, but the volume of traffic may expand considerably. Indications are not lacking that Britain and France are hoping that such an opportunity will arise. In the event, the users' association will offer to Egypt the services of its trained pilot force. If such offers of help are rejected by Egypt, "the moment for a decision about the use of force", the **Sunday Times** concludes, "will have been reached." Behind the proceedings of the Security Council, threats to use force loom large. In Paris and in London, a section of the Press is blunt in its reminders that resort to the United Nations is a procedure, not a policy. M Shepilov has drawn the attention of the Security Council to the ominous shadows that hang over it as it debates the Suez Canal crisis. He has been honest in forewarning the Security Council that Russia will veto the Anglo-French resolution which urges the Council to recommend that Egypt should negotiate on the basis of the 18-nation proposals for international control of the Canal.

Contrary to the dictatorial Anglo-French policy, Egypt's attitude is conciliatory. Dr Fawzi, Egypt's Foreign Minister, has informed the Security Council that Egypt cannot accept the Anglo-French proposal as a basis for negotiation. But he has been wise in proposing a small negotiating body to devise the basis for a negotiated settlement of the Suez Canal issue. In endorsing Egypt's proposal, M Shepilov has elaborated the aims and objections of such a negotiating committee. Even those who may not accept all the detailed principles enunciated by M Shepilov will endorse the Russian Foreign Minister's plea that the composition of the proposed negotiating body should be balanced in such a way "as to forestall the prevalence of one point of view". Even as Mr Dulles has shown diplomacy in his attitude to the Suez Canal problem, acknowledgement is due to him for inducing Britain and France to start direct negotiations with Egypt. Such an opportunity will arise during the secret session of the Security Council. If "cold war" experience be any guide, there are reasons to hope that secret diplomacy may succeed where open diplomacy has failed to bridge the gap.

One of the conditions of a negotiated settlement is that both sides must agree to the basis for negotiation. Dr Fawzi is not wrong in complaining to the Security Council that Egypt has never yet been asked to negotiate, but has been offered an ultimatum. By calling upon the Security Council to recommend that Egypt negotiate on the basis of the 18-nation proposals, Britain and France are only insisting on a dictated basis for negotiations to solve the crisis. Broad objectives and principles will have to be enunciated. M Shepilov has elaborated the general aims and objections of an agreed solution of the crisis. Mr Dulles is more diplomatic in his reference to "the heart of the Suez problem". An agreed solution of the problem must be based on the "acceptance of the principle that there should be a system to ensure that the Canal could not be used by any country as an instrument of its national policy". Britain, which along with France, now demands international control of the Canal, has not always honoured the basic principle enunciated by Mr Dulles. In wartime, freedom of navigation through the Canal has never been ensured or accepted by Britain. Nor has Egypt ever accepted Israel's right of freedom of navigation through the Canal. Despite the 1888 Convention, the international character of the Canal has not always been accepted when it has clashed with "national policy" of the authority which has so long been in control of the Canal. This calls for certain modifications in the Convention as to ensure freedom of navigation through the Canal for all time and under all circumstances. Egypt will not accept any plan for international control of the Canal. But she does not seem unwilling to accept some arrangement, under the auspices of the United Nations, which can ensure the rights and interests of the users. Fears of war on the Suez Canal issue still persist. But there is a faint ray of hope that, at the instance of America, Britain and France may yet adopt a conciliatory attitude. Egypt has indicated her willingness to accept a compromise solution. There will be hope that such a compromise formula will be evolved as a result of discussion during the recent session of the Security Council.

On the Carpet

THE Second Plan did not start under the same happy auspices as the First Plan. This might sound paradoxical when everyone agrees that the First Plan has been a great success and all foreign observers, experts as well as lay, have expressed their admiration for the progress that India achieved. The World Bank Mission which visited India some time ago said that and Mr Eugene Black, the President of the World Bank, has been fulsome in his praise "for solid achievements in the economic field which have been recorded in India during the past five years." The First Plan achieved what it set out to do viz lay the base for further development by improving agricultural production, removing transport bottlenecks and large scale power production. Now these are the very things on which a more ambitious programme of development can be firmly based. This is precisely what the Second Plan proposes to do. Where, then, is the catch? Why should the Second Plan have to start under less favourable auspices?

There are critics, of course, who complain that the progress achieved during the first five years was not really as solid as it appears to be, because in an agriculture based economy, agriculture is the foundation of all development and it is not possible to say definitely how much of the improvement in agriculture was the result of permanent improvement and how much of it was fortuitious, being the gift of favourable monsoons. That the crops this year have not been so good or that even last year they were not as good as in the previous year lends point to what they say. A sizeable decline in foodgrains production is a fact that cannot be denied; it has created some difficulties which happily have now been met through arrangements concluded for substantial imports. This will enable us to build up strategic stocks and on present showing, these stocks should be able to counter the consequences of fluctuations in food supply.

Freer sales from stocks, whenever the situation warrants it, it is hoped, will keep food prices in check. The target for foodgrains production in the Second Plan has also been stepped up in order to eliminate all possible risks of a food shortage. It has been possible to remedy what might have turned out to be vital deficiency through imports of surplus wheat and grain from U S which will not cause a drain on our foreign exchange resources. In the case of cloth also, the economy has shown some signs of strain, but the situation is somewhat different in that there has been no decline in cloth production. On the contrary, production has substantially increased, and something is being done to step up production even further, by a rebate of excise duty on mill production which has been just announced on the additional production above that in the base period, by introducing power looms and by organising handloom production.

By and large, therefore, the inadequate supply of basic necessities is no longer a crippling handicap for launching a big programme of development. How big that programme could be, however, is a

different matter. Here the question is not only how big we want it to be or the people think it should be, but how big we can make it which will depend on our ability to mobilise resources in men, money and organisation. To the latter, naturally there could be no definite answer. No one has yet said that we are incapable of the needed effort or that we are not trying hard enough, though naturally there may be criticism both about the aims and policies as well as performance in particular fields.

From an assessment of the situation in real terms, therefore, there is no reason to think that the Plan has been launched under unfavourable auspices. The situation differs, however, sharply in two vital respects. Though the Planning Commission was apprehensive of the existing inflationary pressures in the economy when the First Plan was launched and proceeded with extreme caution—the target of investment was first put at the modest figure of 1493 crores, to be supplemented by a programme of investment of another 300 crores, if the situation should so warrant—inflationary pressure did not prove baffling in this period. More detailed examination of the projects included in the First Plan raised the figure of investment to some 2,069 crores when the final Plan was published. The Planning Commission had been apprehensive of the inflationary pressures in the economy but it could not ignore the popular pressure in the country for a larger Plan. As a result, the target was no longer broken into two parts, one of which was a 'must' and the other optional. By the time the plan got half way through, far from inflationary pressures presenting a severe handicap there were signs of recession which had to be met and a supplementary programme was added in October 1953 of Rs 185 crores. The popular pressure for a larger Plan is much stronger today than it was five years ago. And as the Plan is built up from the botton, it grows in size and as coordination is effected at the top and gaps are filled in to give structural unity to it, the Plan grows even bigger.

The difference between the first and the second plan, however, is that in addition to the popular pressure for a bigger plan, because of the phasing of the first, much of the investment had to be incurred in the last two years. Therefore in addition to the popular pressure, there is also some inflationary pressure in the economy which unfortunately cannot be ignored. Not that remedial action is impossible and is not under contemplation but such action will take time and political conditions, such as the re-organisation of the States, stand in the way of such measures being pushed through speedily.

There is another difference compared to the situation when the first plan was launched in the matter of foreign exchange reserves. The First Plan did not have as large a foreign exchange component, and accumulated sterling balances which we could not spend quickly enough in the beginning, provided a comfortable cushion which we lack today. In fact, we have begun with an acute foreign exchange shortage, which must be worrying the Finance Minister no end. In the first six months of the current financial year, we have drawn down our foreign balances by Rs 130 crores which is not an inconsiderable amount, since the total drawings on sterling releases during the entire Second Plan period are not to exceed Rs 200 crores. At this rate of withdrawal, the economy is bound to experience a severe jolt unless foreign assistance is obtained and obtained on a substantial scale.

For external finance, the Government had banked on substantial assistance from the World Bank. It had in fact expected, on what basis it is futile to ask today, a loan of at least Rs 200 crores or 400 mn dollars. The World Bank some years ago seemed to be interested in helping our development though the loans it had approved in the first plan period did not exceed Rs 12 crores of which only Rs 9 crores were actually utilised. Following the report from a World Bank Mission which came out to make a preliminary survey, there has been some correspondence between the Finance Minister and the President of the World Bank which suggests that our chances of obtaining assistance from this source may not be very bright.

There were many points of criticism in the Mission's Report, some of which are undoubtedly both cogent and valid. Of these however, Mr Eugene Black has taken up India Government's attitude to private enterprise as the one most open to objection and while doing so, he comes perilously near to passing political judgment, which the Bank is debarred from doing while considering grant of loans. On the other points, as for example, reservations on deficit financing, and the need to push exports, etc there can be no disagreement, though the Government may be in no position "to resist the pressure in the tea estates for higher wages, bonuses and social advantages" in order to push tea exports, as advised by the World Bank Mission nor even to remove the restrictions on replanting, that are enforced under the international Tea Agreement. Whether this agreement is any longer beneficial or not, of course, is another question. Similarly, neither is the Government in a position to bow to the Mission's judgment that "restrictions on exports of commodities such as groundnut oil, in order to conserve supplies for domestic consumption, is generally a misguided one". A democratic Government has to maintain certain minimum standards of consumption for the people.

Week after week, Delhi reports negotiations with foreign firms for collaboration in the development of industries for the fulfilment of the industrial targets in the Plan. The inflow of foreign capital from capital participation in schemes of collaboration does not amount to any large figure. It cannot contribute much to our foreign exchange budget. Substantially larger capital participation may be possible, if development is left to the free judgment of the investor. Indian of foreign, and the latter is given a free hand, but that is simply not possible.

Much depends on the World Bank whether India's Plan succeeds or not. By withholding the measure of foreign assistance it is in a position to give, the Bank may force India into a direction which will be still less acceptable to the American protagonists of free enterprise. It may not be such a bad thing after all, for self-reliance is the best tonic for individuals as well as for nations. If India has to fight with her back to the wall, she will do it. But in the process, the social structure will undergo a much greater change than India had bargained for when she joined the Fund and Bank, offering at least formal adherence to a system of international exchange and economic co-operation. But would Mr Eugene Black like that? One cannot help sympathising with the Finance Minister who is in position to "tell the truth and shame the devil".

Weekly Notes

One More Audit?

WITH all the emphasis on the programming in preference to the review agencies of Government, and audit singled out for attack as the villain of the piece which slows down progress and spreads frustration all around, it may appear ironical that one more audit should be sought to be planted on the developmental activities of the Government. Internal efficiency audit, however, which the Planning Commission has in mind, is not just one more audit, in addition to all the rest, or a substitute for the Auditor-General's audit. If carried out properly, it should go to the root of development by compelling the agencies concerned to 'economise' in the proper sense of the term viz by utilising resources to optimal advantage. Accountants do not do that; they only check that against every expenditure there is a voucher and proper sanction of the appropriate authorities. They have no other criterion. Whether the same thing could be achieved more economically from the wider standpoint of national resources, by using less resources quantitatively, or by a different combination of resources which might call for the adoption of an alternative technique are beyond the ken of the auditor. There is, we are told, such a thing as 'higher audit' which studies different ways of doing the same thing and suggests the best means of achieving a given end, e.g. by comparing cost data in similar project. But it does not go very far and its application has nowhere been conspicuous or successful.

Even the usual test of efficiency does not quite apply to Government enterprise. The private producer has to quit, if he loses sight of cost in relation to the selling price of the product, which he cannot control unless he happens to be in a special position of advantage. No Government enterprise in the field of industry is under a similar compulsion to earn profits and many of these enterprises are in a field where cost price relationship cannot be established directly and can, therefore, never be enforced; hence the need for efficiency audit. Along with annual plans and perspective planning and state trading, it was one of the germinal ideas in the Draft Plan-frame which is now being given effect to, or is expected to be given effect to by the Committee which has been appointed by the Planning Commission to develop "a system of internal audits of projects included in the Second Five Year Plan".

The purpose is to ensure that the money spent on projects yields the best possible results. In order to achieve this purpose, "all means of securing economic and efficient use of technical manpower resources, materials and equipment will have to be explored. For convenience of investigation, all the projects, industrial and non-industrial, have been divided into six groups and as the Chairman of the National Development Council, Shri Nehru has nominated the Chief Ministers of Bombay and Uttar Pradesh for the group investigating agriculture and Community Development Projects while Chief Ministers of Andhra and West Bengal will be the members of the committee for the Public Works and building group.

Exodus from East Bengal

MR ZIAUDDIN, Pakistani High Commissioner in India, is a realist. New Delhi hopes against hope that the exodus of displaced persons from Eastern Bengal will end as the situation improves. Karachi has repeatedly assured that its policy is to stop the exodus, and that it will pursue such a policy to the minorities as to discourage their influx into West Bengal. But the migration continues. Mr Ziauddin has expressed his opinion that it is likely to continue. His candid admission will be endorsed by all those who have the honesty to accept a realistic assessment of the problem. To stress this is not to concede the promises on which Mr Ziauddin's opinion is based.

Mr Ziauddin absolves Karachi of all responsibility for the Hindu exodus from East Bengal. "If, in spite of oft-repeated assurances from the Government, the minority community feel that they have no future in Pakistan", Mr Ziauddin asks, "what more can be done?". Karachi has repeated its assurances of fair treatment to the minorities. But it has not succeeded in implementing its assurances. This cannot be denied as the Hindu exodus continues. Nor will it be disputed that the migration continues because the minority community does not feel secure in Pakistan. Mr Ziauddin would seem to question this basic assumption. He seems emphatic that "however much a Government, or the two governments of India and Pakistan might try jointly", the Hindu exodus will not stop. He explains away the continued exodus to be due to the "psychological make-up" of minorities.

Mr Ziauddin has not elaborated the implications of his explanation, but the Muslim League will echo his views for entirely different reasons. Some time ago, Karachi seemed to accept, by implication, that the Hindu exodus was due to a feeling of insecurity. That was why it gave assurances that it would follow such a policy as to remove the misgivings of the minority community. In recent months, it has more than once indicated that it accepts Mr Ziauddin's explanation for the exodus. This begs the whole question. Psychological factors are involved. But the oft-repeated assurances about a change of policy to the minority community should have eliminated the psychological factor, if these assurances were truly implemented. This is the main problem. In Pakistan, the minority community has not the same status as the Muslims. In the Islamic State of Pakistan, Hindus have inferior rights of citizenship. This is the main reason why the Hindu exodus continues. Political, administrative and economic discrimination aggravates the outflow of Hindus from East Bengal. It can, perhaps, never be ended, but the outflow can be minimised with the gradual progress of democracy in Pakistan.

Expanding the Commonwealth

LORD WOOLTON and Mr Butler can take credit for the return to power of the Conservative Party in Britain after its eclipse in the immediate post-war period. If the Conservative Party loses the next general elections, it will be because of bellicose blunders of Sir Anthony Eden and Mr Macmillan. The Party has lost popular support by Sir Anthony's aggressive Suez diplomacy. But the Butler-Monckton group has considerable influence within the Conservative Party. There is a progressive element within the Party which is reconciled to Britain's changed world status since the last war, but is anxious to gain moral prestige for Britain. In the Commonwealth, Britain has an organisation which can be extended and improved to enhance Britain's international status. Evolution of the Commonwealth since, and as a sequel to, the transfer of power to former Asian dependencies has been one of the major contributions of the Labour Party to Britain's efforts to regain world prestige.

It is as much a reflection of the changing international conditions as of the progressive elements within the Conservative Party that a group of Conservative MPs have sponsored a plan for extension of the Commonwealth. Soon, the Gold Coast will be a member of the Commonwealth. In the immediate future, Malaya and the Caribbean Federation will be Commonwealth members. Along with the completion of these developing events, it is now proposed that the Sudan, Burma and Norway should be included within the Commonwealth. At the Labour Party's annual conference, there was a resolution to expell South Africa from the Commonwealth for its policy of racial discrimination. It is clear that the Commonwealth will increasingly become a multi-racial, non-British, non-white association. But the sponsors of the plan for extending the Commonwealth seem to be influenced by the possibility of the Commonwealth emerging as a "third force". Two recent developments would seem to be against the "third force" idea. Russia and America still remain the two giants in conflict. But, since the understanding among Big Powers not to wage an atomic warfare, the "third force" concept has lost much of its appeal. Nor can Britain, with the Conservative Party in power, inspire the Commonwealth to emerge as a "third force".

Half Sufficiency in Oil

IN his Presidential address at the last Annual General Meeting of the Geological Mining and Metallurgical Society of India, Shri W B Metre, Senior Geologist of the Assam Oil Company, summed up the position of oil in Assam as follows:

"The proved and probable reserves in the Nahorkatiya area are sufficient to plan a production target of two and a half million tons of oil per year together with about 45 million cubic feet of gas per day, equivalent to about 0.6 million tons of fuel oil per annum, a large part of which could be utilized for industrialisation of Assam".

On the basis of current consumption, Assam alone, therefore, should be able to meet 56 per cent of the present estimated crude requirements of the country as against only 8 per cent at present. True, the consumption of oil is also going up fast. But even after allowing for increased consumption, Shri Metre thinks that we can count on meeting about half of our requirements from domestic productions. It should be noted that this estimate is based on "proved and probable reserves". It excludes the proved but unestimated pools of part of Hugrijan near Nahorkatiya and in the Moran area, in both of which exploration work is being pushed as rapidly as possible, as also of possible strike in other areas in the Assam Valley which look promising. Conditions in India are similar to those in U S where also "the number of prolific fields is limited" and "a substantial proportion of the production is obtained from a large number of scattered small pools, involving extensive exploratory drilling to cover a very wide area". This is borne out by the recent experience of the Assam Oil Co at Moran and parts of the Hugrijan area, "where only one oil-bearing sand is present, compared to more than five oilsands in the Nahorkatiya area", which go to show that "we must be prepared to investigate a very large number of favourable structures to discover more oil".

Why has it taken so long to find all this oil? Shri Metre gave an interesting explanation. Geophysical work in the Nahorkatiya area was actually undertaken as early as 1925 when this method of exploration was in its infancy. "It was known that wells deeper than 10,000 ft may be required to explore this area and the drilling technique was not sufficiently advanced in those days to contemplate drilling to such depths. In fact the first well below 8,000 ft (in California) was not drilled until 1927. Though in those days exploratory effort was first directed towards exposed structures, the alluvial areas, which involved very heavy expenditure on geophysical prospecting, also received due attention. As soon as the possibilities of drilling to well below 10,000 ft were visualized, some seismic work was carried out in the Nahorkatiya area during 1938-39 to locate the most favourable site for drilling the first well. Unfortunately, soon afterwards the Second World War intervened and on account of the restrictions imposed by the Government, it was not possible to undertake any drilling in this area".

Like all other geologists, Shri Metre, warns that geophysical surveys cannot give any indication of the presence or absence of oil. "They only help us in giving a general picture of the alignment of the various rock formations, without indicating what rocks are involved. However, these methods are very useful in locating the test wells in the most favourable positions". But unlike most geologists, Dr Krishnan, for example in his Presidential address at the last Science Congress, Shri Metre is not unhopeful. Besides Assam, he said, "there are several large alluvial areas in the country, where we can now expect to find oil. These areas include part of West Bengal where S V O C are carrying out much geophysical work and the extensive Ganges Valley and the alluvial tracts of Rajasthan, Saurashtra, etc. There are also several exposed areas where the Oil and Natural Gas Commission have carried out very systematic geological and geophysical surveys and are due to undertake drilling operations". And like all good geologists, he advises plenty of patience and an over-dose of optimism; it is only the drill, however, which can give the answer!

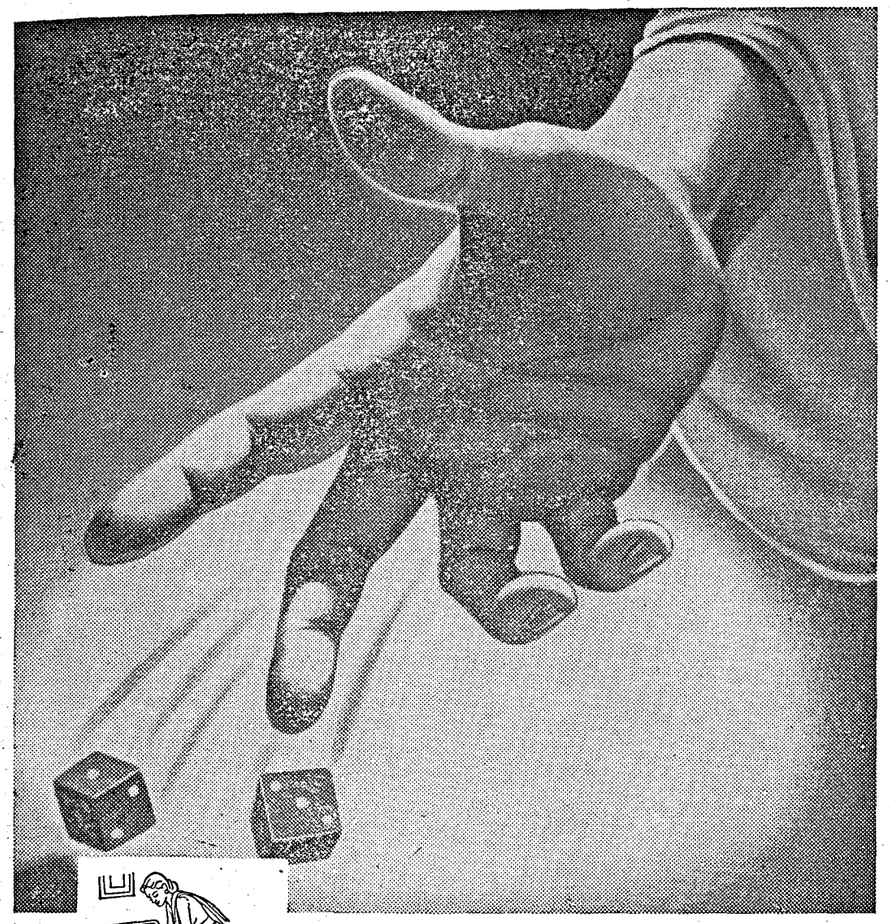
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Don't Gamble with his Future!

WHEN LIFE IS AT STAKE, one cannot take a gambler's chance. Yet many persons allow disease to get a stranglehold through ignorance, prejudice or *false* economy and self-medication. While they follow ignorant friends' "advice", carry out quack "treatment", experiment with quack remedies ("cheap and nasty") the patient's vitality is steadily draining out. Even if the patient is lucky enough to pull through, the disease has been severe enough to leave permanent crippling effects, wrecking his whole future.

At the first sign of trouble, send for a qualified doctor. With his knowledge, training and experience he can accurately diagnose and treat your trouble.

Obey his instructions.

Consult your Doctor

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Our Delhi Letter

Checks and Balances

THE Finance Minister, Shri T T Krishnamachari, this week touched the zenith of power and the nadir of unpopularity. He was the most effective and yet perhaps the most hated Minister in the Cabinet of Pandit Jawaharlal Nehru. He had annoyed the Food Minister, Shri Ajit Prasad Jain, by talking of possible restrictions on inter-zonal movement of grains. He had embarrassed the Minister for Commerce and Consumer Industries, Sardar Swaran Singh, by theatening to manipulate excise duties on cloth in the interests of a policy of which the latter was almost innocent. The two not so junior ministers (at least one of them was a Minister in his own right in the first Congress Cabinet in Orissa nearly 20 years ago!) in the former Ministry of Commerce and Industry did not relish the idea of serving, apparently owing to T T K's insistence, under Sardar Swaran Singh, who was a parliamentary secretary in a State while they held their present offices at the Centre. The Nanda-Khandubhai-Jagjivan Ram school of thought has always suspected T T K to be the most insidious antagonist of the socialist pattern and one of his recent utterances, and much less his performance, has been calculated to remove their suspicion. All the colleagues are more confused than silenced by T T K's facile facts and figures.

Finance and Food

A senior member of the High Command remarked the other day that the Finance Minister was "over-reaching" his brilliant self. At least Shri Jain has a good reason to agree heartily. It is T T K's contention that food prices fall within the jurisdiction of Finance Ministry; he, therefore, wants the Food and Agriculture Ministry to concentrate on stepping up agricultural output and, if it must, distribute food according to the dictates of Finance. No wonder that Shri Jain's Ministry had to issue an unofficial handout almost to say that food policy was still its concern; Shri Jain himself was constrained to write a letter of protest to the Prime Minister. All that, however, does not mean that T T K has given up his advocacy of the policies he maintains; by his tremendous gusts, capacity to take pains and an equal readiness to invent a problem and its solution, TTK continues to win on points. To Pandit Nehru, he is indispensable—for the time being; there is not enough talent available in the Congress ranks to man the jobs at the top level and the Government of the day must function, even if a part of its energy is to be dissipated in personal wrangles. The fact that T T K privately regards members of the Planning Commission for instance, "as so many ninnies" and the latter think that the Finance Minister is trying, quite successfully, to be "just that", is perhaps merely an exuberant expression of the democratic checks and balances.

Inter-zonal Movement

Indeed the controversies that assail the Central Government today would be more appropriately the subject for a review in the "arts and entertainment" columns of a newspaper than for serious discussion in an economic journal, if they did not have important practical bearing on the future supplies of the nation's cloth and food. One view, deserving sympathy of course, is that the question of their relative scarcity and prices had better be left alone. The next crop would be coming into the market by the end of November; large-scale food imports have already begun to materialise. The Government has opened 15,000 fair price grain shops. They are being stocked adequately. The intention is to establish more. There is no particular merit in control of inter-zonal movement; after all, not much grain is moving from Madras to U P or vice versa; nor is Kerala receiving its food supplies from Kashmir. The fact is that inter-zonal movement of grains is extremely limited as it is and such other curbs as are necessary can be imposed, quite easily, through the mechanism of railway booking. After all, the major towns, including Bombay, Calcutta, Madras and Delhi, are already living almost entirely on imported grain. The reserves are not very low. Many more food ships are on the high seas. We can draw on the bulk of the imports that have been contracted for at short notice, particularly in an emergency. The U S would not allow the purpose for which the wheat loan has been given to be defeated merely by routine delays in procuring the necessary ships or for like reasons.

Futile Controversy

Similarly, the less said about cloth the better. The key to the cloth problem is higher production. The handloom versus organised industry debate, by itself, cannot relieve the shortage. What is required is to reserve a certain minimum for the cottage industry in the interests of social justice and employment; beyond that the organised sector can be allowed to expand capacity as much as it can. Presently, 14,000 automatic looms and nearly 2.1 million spindles have been sanctioned for installation. Judging by the fact that, of the spindles, nearly 1.8 million were sanctioned long ago and licenses for about 1.5 lakh spindles were either revoked or had to be cancelled, the progress of installation is extremely slow. Nor does the pace at which rehabilitation of worn out machinery is taking place give any hope of a vigorous expansion of the mill industry. Any discussion of new targets therefore would tend to be academic and would be unfortunate if it leads to bitterness and inaction.

Delhi Studying MacMillan Plan

The Finance Ministry is currently studying the MacMillan Plan for free trade in Europe. The British Chancellor's views on the subject did not come as a surprise to the Commonwealth Finance Ministers, as Washington reports suggested about a fortnight ago. Actually a memorandum from London was received in New Delhi a couple of days before Shri B K Nehru, India's representative at the annual meetings of the International Monetary Fund and the World Bank left for Washington. The communication indicated U K's intention to join the "Messina" group of powers in a free trading area and sought the Government of India's reaction to the proposed move. Parallel letters were sent to the other Commonwealth Governments. Since then U K has apparently decided that the area should include not only Belgium, France, Germany, Italy, Luxembourg and the Netherlands but also such other member countries of the Organisation for European Economic Co-operation as wish to join. Besides, the free trade area is not designed as an "exclusive

organisation" and if other countries wanted to join, Mr Macmillan had no doubt that something could be worked out to extend the scheme. "The Commonwealth countries would each have to decide whether it would be in their interests to become a part of the area".

From Mr MacMillan's subsequent pronouncements, a few facts are clear. Firstly, it is intended to promote exports within the area of finished goods only; raw or manufactured foodstuffs, raw materials, drink or tobacco would be excluded from the scheme. Ninety per cent of Commonwealth exports to Britain are of these commodities and Commonwealth interests, embodied in the system of Imperial Preferences, would be preserved.

Secondly, within the area, tariffs, except for purely revenue purposes, would be reduced by stages and ultimately abolished over a period of ten years or more. Each country would be free to preserve its own tariffs against other countries outside the area.

Thirdly, production in each country would be gradually reoriented on the basis of specialisation and natural advantages, so that each country has a larger market. The idea is to build internal prosperity and reserves of capital for export to underdeveloped countries.

India May Keep Out

In principle there is nothing objectionable in the scheme if India is not to join it; indeed certain advantages would flow from it to Britain and if Britain becomes a member of the free trade area, it is largely her own concern. A reply in these terms is believed to have been sent to Mr MacMillan's first communication to New Delhi. With the enlargement of the concept, however, the Finance Ministry is wondering what would be its repercussions on the pattern of trade that India is evolving. Of course there can be no question of scrapping the bilateral agreements that India has signed with the communist nations, some of the Bandung powers and her neighbours. Nor would India be interested immediately in giving up the advantages of Imperial Preferences though the idea of getting out of GATT and the Imperial Preferences system has been mooted often and was indeed recommended by the Fiscal Commission. India's sizeable exports of cotton textiles to the U K may be affected if India decides to join the free trade area but these could be protected through a "protective quota". Understandably the British Chancellor of Exchequer has not welcomed the idea of keeping protective quotas but equally understandably, if India at all countenances a scheme whose aims are so manifestly political, would like to eat her cake and have it too!

Growth of Cities

AMONG interesting data and observations about urbanization in Asia discussed at the Joint U N-Unesco Seminar held at Asia were the following:

(1) There are more large cities and a larger city population in Asia than either in Europe or North America. Asia has 289, Europe 261, and North America 116 cities with 100,000 or more inhabitants. Of the world's city dwellers, one-third live in Asia, one-fourth in Europe, one-seventh in North America.

(2) The process of urbanization began in Asia much later than in Europe or North America, and the proportion of city dwellers is smaller in Asia than in any other continent, except Africa. Thus, while in the world as a whole 21 per cent of the population live in cities of 20,000 or more, the corresponding figure for Asia is only 13 per cent as against 21 per cent in Central America and the Caribbeans, 26 per cent South America, 31 per cent USSR, 35 per cent Europe (excluding USSR), 42 per cent North America and 47 per cent Oceania.

(3) While in the West industrialization and the attractions of the city have been to a large extent responsible for the exodus from the country to the city, the population move in Asia has been caused mainly by the overcrowding of the countryside, low living standards in villages, and sometimes conditions of physical insecurity e.g. war, civil disturbance, political partition, refugee movement.

(4) Urbanization in Asia, especially since the last war, has been so rapid that it has outdistanced the rate of economic development. This has caused an "over-urbanization", which in turn has brought with it a multitude of social and physical problems. Symptoms of the malady caused by over-urbanization are inadequate housing, the almost complete absence of mass sanitary facilities, the presence of filth, squalor, repugnant odours, disease and high mortality. The last, however, is not borne out by Indian experience. Indeed the death rate in some of the Indian cities are today low enough to compare favourably with the mortality experience of the cities in Western Europe.

Housing problem has assumed such proportions in Asia that governments have had to assume increasing responsibility for the planning and construction of housing and community improvement programmes. But housing is also deeply involved in the process of saving and investment. The desire to own a house of one's own is almost universal but on the other hand, in under-developed economies aiming at rapid development, productive projects claim a higher priority in the allocation of scarce resources e.g. steel, cement, other construction materials and transport.

Indian Agriculture in Brief

A useful and pocket-size book-let has been recently brought out by the Economic and Statistical Adviser, Ministry of Food and Agriculture, Government of India, with a view to meeting primarily the need of those who wish to have a snap shot picture of Indian Agricultural Economy as revealed by the current Agricultural Statistics, certain essential data in allied spheres; e.g., population, national income etc. needed for an understanding of the Agricultural Economy in its broader perspective have also been included in this booklet.

Price per copy As 8.

Copies available from:—
The Manager of Publication, Civil Lines, Delhi.

A Kabul Diary

The Importance of Being an Indian

A DAY in Kabul is an at once interesting and instructive experience today, and I recently went through it. Two days would be one too many, and this too is going to be my lot on my way back from the Soviet Union in another three or four days. Now then, here in beautiful Leningrad, I must seat myself at the typewriter and make a few general, very general, observations on Afghanistan and, inevitably, India. In spite of the travails of travelling with a mixed bunch of tourists, who are just bearable in the air but boring beyond belief on terra firma, I rather enjoyed my day in Kabul. It was not very hot, and in the evening it was distinctly cool. The city, for so it must be called, has a rugged kind of beauty of its own. There are hills all around, and they are reliefs in more senses than one, especially for one used to the monotone of the plains of Bengal. There is no dearth of flies and dirt (about the only two things in generous supply), but the boys are healthy and handsome (as Ian Stephens found them) and this almost makes up for the rather unsavoury smell some of the men emit. I can say nothing about the women, for the country is in strict purdah. One hears stories though that the women are rather more intelligent than the men, and that underneath the burkha can be seen—if only one could see—fashions in nylon and Max Factor as would not shame either Paris or New York.

The city itself resembles neither; it is in fact a Middle Eastern capital—poor, dirty, proud of its independence, unashamed of its many deficiencies, and almost totally unaware that things could be better. One says these things with more sorrow than anger, for Afghanistan is friendly towards India and I would like to see the Afghans take their rightful place in the world. It is to a country like Afghanistan that an Indian should go for a boost to his national ego. The Indian rupee is a respected thing in this part of the world and, in defiance of the phoney official rate of 4 or 5 Afghanis to a rupee, you can get anything between ten and fifteen in the nearest tea shop. And, of course, being an Indian, you are received well almost everywhere. All this is most flattering, especially because not only does Afghanistan love India but she also hates India's one hater, Pakistan. Most flattering indeed.

* * *

It is not easy to discover the centre of authority in this land-locked country. It is said that the Prime Minister is a liberal sort of man, cautiously reformist. The mullahs cannot still be ignored in matters spiritual, and for them there are not many matters which are wholly temporal. There is also a feudal element, not entirely powerless. Its endless ramifications are often ridiculous; it is possible to meet ticket collectors who have to be addressed as Their Excellencies because of their connections. How any kind of balance is maintained among these three forces—secular, religious and feudal—I cannot claim to have discovered within a matter of less than twenty-four hours. One explanation offers itself. Perhaps what we are describing as forces aren't forces at all. Perhaps all three are so many static quantities. Things in motion collide, not things stationary. That I myself was on the move should make the country appear to me as in motion, as trees look from a moving train. It may not have been an optical illusion on my part that I saw very limited evidence of movement in Afghanistan.

Writing after seeing something of Tashkent, it is necessary to record the opinion that there may well be a very different destiny for the Afghans, a very likeable people for those who love the Afghans. The Kabul Hotel, where we were installed, is the perfect setting for a novel by Mr Graham Greene, but it being the setting of a work of fiction is not the only objective of a country. Afghanistan must clearly do a few things to be taken seriously by the world outside. The first thing to do is to recognise that there is a world outside. Because this is being written in Leningrad, the first commercial port opened by Peter the Great to connect Russia with the West and to start the process of modernisation still being carried on by the Communists, I consider Afghanistan's proud isolationism particularly unfortunate. Geologists think Afghanistan has rich mineral resources. To get them out of the bowels of the earth ie beyond the Afghans as they are now. Why not invite foreign technicians? The jet age also makes a difference. If there could be a direct and regular air service between Moscow and Delhi via Kabul, and also between Western Europe and Asia (which would save much unnecessary detour) Kabul could once again be an important place. Our knowledge of how the early Aryans went out in different directions is speculative and imperfect, but Kabul must have been a sort of a junction. It can be so again, if Pan American Airways and Aeroflot choose Kabul as their airport of call. For both, I gather, efforts are afoot, and it is for Afghanistan to avail itself of the opportunity. What Afgnanistan has to do is to make up her mind that she will once again be the gateway of a number of migrating or proliferating civilisations. She may even herself be a civilisation in the process. There is, however, one serious obstacle to that happy consummation.

* * *

The one decisive factor in the affairs of Afghanistan today is an invisible one which is also very real—the ghost of Amanullah. For students of revolutions—successful and otherwise—Afghanistan may well be the most interesting case. Talk to anybody who is somebody in Afghanistan, and you will find that he disapproves purdah and most other things in his country. Why isn't anything done about them still? Because all of them, the Prime Minister included, are afraid that the fate of Amanullah awaits them. It is the glib belief of many that a revolution which has failed is a pillar of later success; there are instances in history to support this view. This, however, is no reason for ignoring the example of Afghanistan, where a leader's attempt to go too fast has put the clock back by nobody knows how many decades. Was Amanullah too daring? Hair-splitting argumentation is unnecessary. History records that he failed to carry the country with him, and the result has been the demoralisation of all later reformers so far. I had often criticised Nehru for being too slow. Kabul has been a chastening influence. I can no longer say whether Nehru has delayed urgent reforms—or

averted decades of extremer reaction and orthodoxy.

The rivers and canals of Leningrad will be freezing shortly; my fingers are beginning to anticipate the process right now, and this discourse must be brought to an end as early as possible. Well, I was happy to see that Afghanistan was friendly towards India, for I like friendship. Most of my friends are utterly useless in the sense that they are incapable of doing much good or harm; I like my friends that way. It may still be doubted whether a nation's foreign policy can be, or should be, governed by the same Forsterian principle of personal relationships. Which is the Power among what we like to call the Colombo Powers? As for Bandung, only three or four countries really believe in the India line on international affairs—Burma, Indonesia, and possibly Ceylon. Not one is a Power in any significant sense. Germany could afford an Italian ally; the United States can enlist the useless support of such dubious allies as Formosa, Korea, Viet Nam, or Portugal. Can India afford the same luxury? I do not know the answer, but there in the Paghman gardens in Kabul I was wondering whether India was not acquiring the habit of picking up friends whose capacity to do India much good is nil and whose chances of receiving much help from India are not immediate. The windfalls now accruing to India from the continuing conflict between the Soviet Union and the United States are all welcome, and let's drink a toast to Nehru. But these profits are adventitious, and a long-term foreign policy for India still awaits formulation.

Flibbertigibbet

Hotel Astoria,
Leningrad, USSR,
October 2, 1956.

Letter to the Editor

EQUAL FREIGHTS AND NATIONAL INTEREST

THE observations of the Estimates Committee regarding equalisation of the freight on coal, reported in your issue of September 29, are fraught with grave consequences for the country. The purpose of a freight rate structure is not merely to raise revenue, for which a uniform rate should be simple and admirable to administer, but also to regulate economic activity with a view to reduction of costs, including cost of transportation. In the present Indian context, it is also a question of minimising investment in transport which is already large in the Second Five Year Plan.

Now what exactly is the long range effect of uniform freight rates on coal? Uniform freight presumably aims at uniform spatial consumption of coal, so that production requiring coal may develop with as much ease in Travancore, Punjab or Assam as in West Bengal and Bihar. However, if this kind of situation develops, then the haulage of coal will very likely much more than double its present average of 300 miles, since most of the coal is mined in the corner of a quadrilateral (the approximate geographical shape of India) with arms 1500 miles long. The same thing will happen to steel also, which will annul any advantage of location in the production of articles consuming steel. Since coal traffic constitutes about 40 per cent of the total goods traffic in ton-miles, this would enormously increase the transport commitment of the Plan, leading to a big increase in the requirements of rolling stock and investment in track. If, as is likely, foreign exchange needed for the resulting increase in investment is not available, an overall reduction in the size of the Plan would be inevitable.

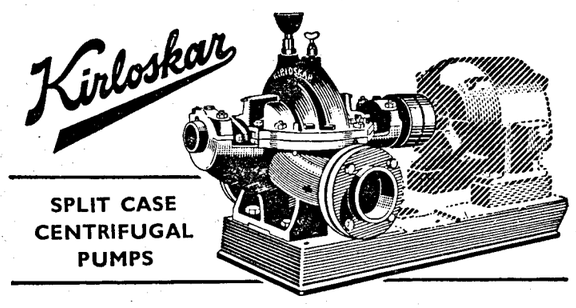
However, in the short range, established industries are not likely to shift to new locations to take advantage of freight rates, because for most manufactured articles, transport costs form a small part of the total and the products of these industries (mainly engineering) being in short supply, and prices being competitive, the burden of higher freight rates can be shifted to ultimate consumers. Thus unless the rates of freight on manufactured articles are also made uniform, the relative advantage of consumers in different geographical areas will remain unchanged, and there will be only an upgrading of average prices.

It is also very unlikely that a transition from the short range to the long range situation described above will make a substantial difference because the investor, staking his capital, will hesitate to believe that experimental official policies will really nullify natural differences.

It seems therefore that the relative advantages of geographical location cannot be so easily annulled. If it can be done at all, it must be at the cost of national interest. However, to regard equality as desirable even at the sacrifice of national interests is to seek equality with vengeance and this we believe is against the spirit of the Union into which the States of India are banded.

M N Ghosh

Dept. of Statistics,
University of Calcutta,
Calcutta.
October 5, 1956.



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From the London End

The New Opposition

THE British political situation possesses all the appearance of having undergone a major transformation in the past month. In the industrial field, it is now recognized, the abandonment of wage restraint and a new demand for a 40 hour week, has made the Trades Union Congress (in the words of The **Times**) "once again an opposition body." And the last time the House of Commons met "the two great parties were ranged, solidly and bitterly, against each other." The post-war honeymoon in British politics now appears to be over and, following in its train, are the serious possibilities of the revival of those industrial and political battles that once characterised the Baldwin years in the 1930's. In spite of qualms among the militant Left about Mr Gaitskell's qualities when he was appointed Labour leader, a new feeling and understanding has come to infect the great majority of this year's delegates to the Labour Party Conference (at Blackpool from October 1st to 15th). This feeling appears to have come from the ease with which the Labour Executive and trade unions have succumbed to the demands for militancy and a "return to the socialist solution."

The post-war political bi-partisanship between Labour and Tory, the wage truce in industry and the front-bench co-operation in Parliament has had a stifling influence on British politics and on efficient government. It has certainly made the British people a less-informed nation. The political dynamism which stimulates creative and new thinking has been absent; the vitality and understanding that comes from open controversy is no longer a feature of British politics. All this has been responsible for what in your correspondent's view is the colourless character of British public life today. The government has been able (at least up to the time of Suez) to pursue policies which increasingly give the impression that it is the Cabinet and not Parliament which is sovereign in the country. True, many constitutionalists would argue that this has always been the case. But never has Cabinet Government been more explicit in Britain than it has been since 1951. One has only to recall the speeches of the Colonial Secretary to appreciate the degree of contempt with which Parliament is currently treated by Ministers of the Crown. These tendencies have made the Government a less answerable institution and has, therefore, made for possible inefficiency in the administration.

New Unity

The apparent new unity expressed in the proceedings of the Labour Party Conference may very well provide the basis for a return to Parliament of a "new" opposition. Indeed, this is the overwhelming impression one gets of the Labour Party Conference. The unanimity that emerged on all crucial questions and above all the election of Mr Bevan to the position of Treasurer and thus to that of **de facto** deputy-leader of the Party portends a political "collaboration" in the Left which is likely to be of decisive influence in the immediate future.

It is well to examine the possible causes which have contributed to this "new" situation. The crisis in the Labour Party over the last three years (indeed ever since 1950) has taken the form of a political estrangement of Mr Bevan from the leadership. More fundamentally, this was a reflection of the conflict over policies espoused on the one hand by the then Mr Attlee and by Mr Bevan on the other. The Attlee leadership, though a spent leadership, was clear on the policy the Party was to follow: it was one of rank revisionism in the sense that much of the "social changes" worked out in 1945 had become permanent features of British life and thus there remained little to be done which was fundamentally new. The Bevanite alternative was not as clear as this —it was more in the nature of an instinctive revulsion against the apparent bankruptcy of the old leadership. And this revulsion was at the same time being experienced by many of the rank and file members. For three years, a sharp bitterness enveloped the Labour Party. It contributed more than any thing else to the course of the last two general elections in Britain.

Gaitskell and the Working Class

The resignation of Mr Attlee and his elevation to the peerage coupled with some pertinent changes in the leadership of a number of trade unions has since presented Labour with a wholly new situation. The choice of Mr Hugh Gaitskell was natural to the old leaders. It at least did mean that no major leftist trend was being let loose; indeed it was logical that a policy of "respectability" should call for such a choice. And it was equally natural that the Bevanite wing should regard the appointment with the utmost derision. In the eyes of the Bevanites, Mr Gaitskell was a perfect example of an imperfect leader for Labour: he was academic and middle-class, and his philosophy was not in the British "socialist tradition". It was said that Mr Gaitskell was a Keynesian and thus more concerned with a policy of gradually implementing his notions of equalitarianism rather than socialism as such. And so ever since 1950 Mr Gaitskell and Mr Bevan have been at odds with each other. According to the **New Statesman** "for six years these two men have fought one another and giving no quarter". The untenability of this position is now recognized in influential Labour circles, not because of the need to provide the old platform for Mr Bevan but because Mr Gaitskell is yet to establish himself in the Party and among the working class. The continuance of disunity can spell doom to the Labour Party. The delegates at Blackpool recognise this anger and this has fostered the idea of "collaboration", viz, of giving Mr Bevan a place in the Labour hierarchy. It is now being suggested that Blackpool, like the Conference of 1935 and 1945, will prove an historic turning point in the fortunes of the party.

The prospect of "collaboration" between Messrs Gaitskell and Bevan holds out an equal prospect for the Labour opposition in Parliament to take on a new character. The course of events at the T U C Conference and the Labour attitude on Suez seemed to assure the emergence of a virile opposition once again. The Labour Party Conference further strengthened this prospect. In spite of certain drawbacks and weaknesses (which were reviewed in this Journal), the policy statements on 'Equality', 'Personal Liberty' and 'Colonial Plural Societies' represent a certain step forward. The Conference adopted these with the undertaking by Mr Gaitskell that Labour, when in power, will tax

capital gains and revise the whole taxation system so that the alleged current tax evasions by business enterprises will be suitably countered. On the Colonies, an undertaking to gradually abolish colour bar practices was agreed and some fine sentiments were expressed for the proposal (and it remains no more than a proposal) that one percent of the national income be devoted to the financing of colonial economic development. On Suez, the Conference decided on negotiation and a pacific settlement. And some ideas are being worked on retirement pensions and social welfare facilities.

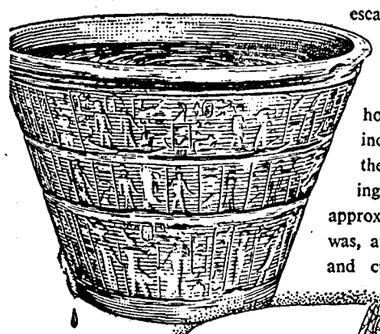
There have been published in a short space of time the Socialist Union's 'Twentieth Century Socialism', Mr. Gaitskell's pamphlet, 'Socialism and Nationalisation' and the more fundamental works by John Strachey and C A R Crossland entitled 'Contemporary Capitalism' and 'The Future of Socialism' respectively. From a different point of view, G D H Cole's 'World Socialism Restated' challenges certain contemporary policies of Labour and pleads for some international socialist-communist cooperation. All these publications reflect a deep intellectual ferment in the Labour Party. For once a serious search for a long- term programme suitable to the times and yet maintaining a continuity with the policies of Keir Hardie is being undertaken.

Of all these publications the most pertinent, in your correspondent's view, is that written by Mr C A R Crossland, M P. It is certainly one of the most thoughtful expositions of Labour's future policy. It combines a severe social, economic and political treatment with a remarkable unity. It suggests that the questions which worried earlier generations of socialists are no longer of relevance today. The contemporary society is in Mr Crossland's view, "not capitalism" and, therefore, the "ownership of the means of production" is no longer a question for Labour policy. In contrast "Equality" should be the principal aim of contemporary socialism and Mr Crossland undertakes a lengthy analysis of the various ways in which this can be achieved. By and large, the analysis turns on fiscal and educational measures. And yet the tax reforms suggested appear to be directed at the owners of wealth; thus while in a fundamental sense the whole existence of Capitalism is denied, the elaborate set of fiscal and educational proposals suggested (for equality) are in fact directed at the main economic arsenals of power in the country—the "owners of the means of production."

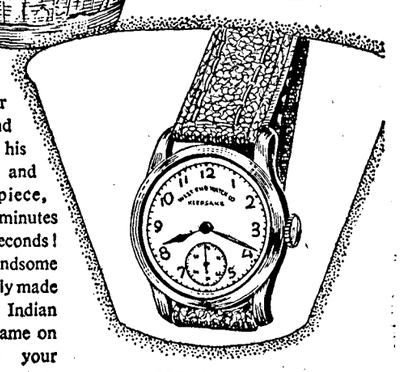
This possible inconsistency is not peculiar to Mr Crossland. The search for equality is destined to become the main aim of the Labour Party. So far, it appears to be divorced from the crucial questions of social ownership and state leadership in commerce and industry (and this is a feature of Mr Gaitskell's pamphlet). How far then can Labour's concept of equality be different from that of the Conservatives who speak in terms of a doubling of the standard of living in the next 25 years and who are still pursuing a tax system which remains progressive and continues to redistribute incomes? It may very well be possible for Laour's equalitarianism to become indistinguishable from that of "Butlerian Conservatism."

It was not expected that the Blackpool Conference would examine so important and complex a matter as this. Even the "old-time Socialists" like Mr Frank Cousins (who dominated the recent TUC Conference with such devastating effect) and Mr Bevan did not speak or argue for increased nationalisation. The intellectual ferment in the British Left has just started and resolution of conflicts wil take some time. The Conference itself appeared to tilt the balance of power within the Labour leadership in favour of the "keep left" wing.

WATER CLOCKS
were all very well—



—in Ancient Egypt! Water escaped at a fairly even rate from a small hole in the base of a large vessel. A scale of hours painted inside indicated the time by the level of the remaining water. This gave the approximate hour, but it was, at best, an uncertain and cumbersome method.



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From the Chair

Industrial Finance Corporation of India

Speech of the Chairman Shri K R K Menon

THE following is the full text of the speech delivered by the Chairman, Shri K R K Menon, at the Eighth Annual General Meeting of the Shareholders of the Corporation held on September 29, 1956:—

Gentlemen,

I have pleasure in placing before you the Accounts of the Corporation and the Report of the Board of Directors for the year ended the 30th June, 1956. Printed copies of the Accounts and the Report are before you. These have also been circulated to all the shareholders. I shall, if you agree, take them as read. I would, however, make some observations on a few points.

Profits Transferred to Reserve

The working of the Corporation for the year ended the 30th June 1956 has resulted in a profit of Rs 32.68 lakhs which shows an increase of Rs 8 lakhs over that of the previous year. After setting aside a sum of Rs 10.18 lakhs as provision for taxation we are left with a net profit of Rs 22.50 lakhs. The whole of this amount, however, has had to be transferred to the reserve for Bad and Doubtful Debts in view of the anticipated loss in the account of the Sodepore Glass Works Ltd, to which I made a reference in my speech last year. We have, therefore, had to call upon the Central Government this year also to pay us a subvention to enable us to pay the entire guaranteed dividend amounting to Rs 11,25,000/-. We hope that with the further provision that we shall make from the current year's profit towards bad and doubtful debts, there will be no need to set apart any amount in the succeeding years on this account. As we shall make a substantial saving in our tax liability on our current year's income, depending on the size of the amount that we are obliged to write off in the account of the Sodepore Glass Works Ltd, we anticipate that we will have sufficient balance left out of our profits this year to meet the guaranteed dividend to our shareholders without having recourse to a subvention from Government. You will observe that I take quite an optimistic view of the future. I do so, relying particularly on two major factors, namely, first the increasing measure of appreciation on the part of the industrialists of the country, and also of co-operative Societies engaged in industrial enterprises, of the ability of the Corporation to meet their needs in the matter of long-term loans, and second, the marked increase in the volume of industrial investment that is likely to materialise during the period covered by the Second Five Year Plan.

Record Loan Applications

Evidence of the first named factor will be found in the figures relating to our activities furnished to you in the Annual Report which is in your hands. It wil be noticed that the amount of loans applied for in the year which has closed reached the record figure of Rs 27 crores 70 lakhs as compared with Rs 11 crores 27 lakhs for 54-55 and Rs 9 crores for 53-54. The average for all the previous 7 years put together is Rs 8 crores 62 lakhs. I venture to think that this is a fair indication of the increasing amount of confidence that the industrial public is now placing in our institution. To deal, effectively with this enormous increase in the demands made on us, and at such short notice, has been no easy task, and the measure of the modest success we have achieved in this direction is indicated by the fact that the total amount of loans sanctioned by us during the year under review was Rs 15 crores 13 lakhs as against Rs 7 crores 34 lakhs in 54-55 and Rs 5 crores 27 lakhs in 53-54. The yearly average for all the previous seven years put together was only a little over Rs 4 crores. I see no reason why this very satisfactory record for 55-56 should not be maintained in the succeeding years if our administrative machinery is geared adequately to cope with the increasing load, and our relations with the industrial and commercial sector of the public continue to be as close and cordial as they have been during the past year.

Public Relations

In connection with this last named factor of public relations it is my very pleasant duty to take this opportunity to acknowledge the assistance that we have received during the year under review from the various Chambers of Commerce & Industry whose representatives were good enough to meet me and my colleagues on the Board of Directors on several occasions for free and frank discussion of various problems of mutual interest. These discussions greatly facilitated our work during the year, and have helped in particular to focus our attention on ways and means of simplifying our procedure to the advantage of our clients as well as ourselves. I feel sure that the steps we have already taken in pursuance of these discussions would bear fruit in the near future in the shape of better business for us and more cordial relations with our clients.

A Separate Legal Branch

I will refer to just one or two of the more important measures that we have adopted in connection with the drive that we embarked upon in the year under review for quickening the pace of work and effecting other general improvements. A measure of great significance, was the institution of a separate legal branch of our own, manned by full-time officers under the control of the Corporation, in our head office as well as in two of our branch offices. This measure, which has been introduced as an experiment for the present, will be extended to all our branch offices after we satisfy ourselves that there are no snags to it. It is designed to quicken the pace of work at various stages in connection with the examination of title deeds and the execution and registration of mortgage documents. This will also cut down to a very considerable extent the legal charges now incurred by us and passed on to borrowers. Many of our clients have expressed great satisfaction at this long over-due reform in our administrative set-up. We have also succeeded in considerably simplifying, and standardising to as great an extent as possible, the terms and conditions incorporated in our mortgage deeds. The previous practice of our sending for our clients' representatives all the way to the Head Office in Delhi to discuss and finalise the terms and conditions

of loans was given up and branch Managers were delegated authority to deal with our clients on the spot on our behalf. We have also liberalised to an appreciable extent the conditions under which interim loans are granted, particularly in cases where, pending the finalisation of the legal formalities concerned with the execution and registration of the formal mortgage deeds, machinery etc. ordered by our clients has to be paid for or documents relating to which have to be retired.

Four Different Auditors

Before I leave the administrative and organisational aspects of our work I should like to mention one or two salient facts in regard to the audit that has been done of our accounts. We have now four different auditors carrying out audit throughout the year, and I shall refer briefly to each of them. Firstly, there is our own internal audit, the machinery for which has, in the course of the year, been put on a satisfactory working basis. This has been found to be of very great value to us. Secondly, there is the audit done by a firm of Chartered Accountants who are elected by the shareholders. Thirdly, another firm of Chartered Accountants appointed by the Central Government in consultation with the Comptroller & Auditor General also conducts an audit. No serious irregularity has been brought to notice by either of these firms of Chartered Accountants. Certain relatively minor matters to which our attention was drawn by them have been looked into and set right. Fourthly, there is the audit carried out by the Director of Commercial Audit under the auspices of the Comptroller & Auditor General. In the course of the year under review the Director of Commercial Audit conducted his audit in two instalments, the first one extending from the last week of September 1955 to the first week of February 1956, covering our official year ending 30th June, 1955, and the second extending from the first week of June 1956 to the first week of August 1956, covering the first half of the year 1955-56. In the audit of the accounts for the first period a large number of formal objections were raised by the audit party and, after we had commented upon them, only a few of these objections are now understood to be in the process of finalisation. We are hopeful that a few more of these items also will be withdrawn or modified as a result of further discussions. The audit of the second period is still in the process of completion.

There is no doubt that in the existing set-up we have a multiplicity of audit, somewhat in excess of real requirements. One might also be tempted to take the view that if the bulk of the items of orginal audit objections was withdrawn there must have been created quite an appreciable quantity of work at all levels most of which would have been eventually proved to be infructuous. These and other related matters have engaged our close attention and we have brought these to the notice of Government.

Prospects During Second Plan

I now turn to the second important factor, which I would describe as the external factor—as distinct from the internal factors about which I have been speaking to you till now —which, in my opinion, should give us ground for hope of an even greater volume of business for the Corporation in the future. This factor is centred round the spurt in industrial investment in the private sector that it is anticipated will materialise during the Second Five Year Plan period.

The Planning Commission in their report on the Second Five Year Plan have given detailed figures of some of the overall targets of industrial investment in both the public and the private sectors which, they state, will show that the Second Plan period will be one of "intensive and many sided industrial effort." During the first Five Year Plan period there was a short-fall of investment in the private sector in certain industries, though, in the aggregate, the investment target of Rs 230 crores for expansion programmes was bettered in actual performance to Rs 340 crores. The lag in private investments occurred, according to the Planning Commission, in industries which required heavy capital investment and offered a relatively small profit margin. It is this kind of indusry which might not be able to attract adequate equity capital from the investing public that would claim our special attention during the coming years, with due reference of course to the industrial priorities drawn up by the Planning Commission in their report. The general scheme of priorities in the private sector as envisaged by them places Iron & Steel first, then heavy and medium engineering industries, including structural fabrication, automobiles, railway rolling stock, castings & forgings, industrial machinery, bicycles, sewing machines, motors and transformers etc, followed by fertilisers, chemicals, cement, refractories, jute and cotton textiles, sugar, paper and a wide range of consumer-goods industries. The programme of over-all development envisaged in the private sector during the 2nd Plan period is estimated to involve an outlay of Rs 720 crores, comprising Rs 570 crores of new investments and Rs 150 crores on replacements and modernisation. Of this total estimate of Rs 720 crores a provision has been made by the Planning Commission for Rs 55 crores for the activities of the National Industrial Development Corporation and Rs 15 crores for us, leaving a balance of Rs 650 crores to be raised from other sources. While our figure of Rs 15 crores is near enough to the average of our disbursements during the past seven years, our achievement during the past one year leads me to think that we should be able not only to reach this target quite easily but to improve on it to an appreciable extent in the next five years. We, therefore, propose to address Government on the subject of the feasibility of increasing this figure.

State Governments

In spite, however, of the fact that these figures relating to the industrial development in the private sector during the Second Five Year Plan that I have given you do augur well for an institution like ours which may well be described as a hand-maiden of the private sector, I think it is just as well that I invite your attention also to one or two factors which we shall have to take into account in assessing our ability to rise to our full stature in the coming years. Firstly we must take note of the fact that we have other institutions like the Industrial Credit and Investment Corporation of India and the National Industrial Development Corporation whose fields of activity converge on ours, and indeed, overlap with ours to some extent. Secondly, it is important to bear in mind the fact that both these institutions have a greater measure of freedom in the matter of financial operations than we have, and they enjoy certain special facilities which we do not share. Thirdly, though the Central Government have so far implemented the policy of utilising the Corporation as the main channel

for processing their own industrial loans, and we may hope with confidence that this policy will continue to be followed, we cannot be sure that the State Governments have been, or will be, equally helpful to us in this matter. I mention this as we have been given to understand that certain State Governments have sanctioned loans directly to certain industrial concerns, and, according to a statement contained in the Annual Report of one of the State Financial Corporations, the State Government concerned have been "offering loans at rates of interest which are only about half of those charged by us and on the basis of security which are also very much easier than those observed by the Corporation." You will agree this is a matter of vital importance to both ourselves and the State Financial Corporations.

Monetary Resources

The fourth, and, in a sense, the most important factor which is likely to come in the way of expanding our activities to the fullest extent otherwise possible, is the fact that, if we succeed in inviting business at the present rate and dealing with applications for loans at the pace that we have achieved last year, our own monetary resources will soon be tapering off, thereby accelerating the advent of the day when we shall perhaps be forced to borrow under conditions which might leave us little or no margin of profit after meeting our tax obligations and our working expenses. This matter is engaging our serious attention already, and we hope that we should be able to find a satisfactory solution in collaboration with the Central Government who have been apprised of the matter. It will take some time before a final decision is taken; I mention it now merely to reinforce my point that if the outlook is on the whole bright and we could be quite optimistic regarding the future, it behoves us also to take note of other factors which we shall have to take into account.

Assets of Defaulters

In my speech last year I said that we had been obliged to take over possession of the assets of certain concerns who had defaulted in their obligations to us. The position in this regard is explained in our Annual Report. You will have observed that there has been considerable progress in this matter. I am glad to inform you that one of these factories, which we sold, and another which we leased, have both now gone into production. It is gratifying that these concerns which had virtually closed down business for considerable periods have been set on their feet again and brought into full production, thanks to the intervention of this Corporation. We are taking appropriate steps with the same objective in regard to the other concerns also, and we hope it will be possible to achieve our ojective consistent with the safety of the funds invested by the Corporation

Sodepore Glass Works

You will no doubt also recollect that the Board of Directors had decided to sell the factory of the Sodepore Glass Works Ltd, another of our defaulting concerns, to the Asahi Glass Company Ltd of Tokyo and that the vendee concern were to form an Indian company to take over the assets and work the plant. This Indian company has now been formed, and necessary action in regard to the execution of the sale and mortgage deeds is well under way. Steps have also been taken by the company to make necessary arrangements for bringing the factory into production as early as possible. We expect that this factory will start working before long.

Loans to Co-operative Societies

Another noteworthy feature of our activities in the year under review was that we sanctioned loans to Co-operative Societies of a total amount of Rs 5 crores 50 lakhs. I should like to mention in this connection that apart from the impetus that this has given to the Co-operative movement as such the fact that as a condition precedent to our loans, the members of these Societies, drawn mostly from the lower income groups, have been made to subscribe towards the industrial schemes financed by us, a total sum by way of share capital of the order of Rs 2 crores 20 lakhs, has contributed appreciably towards helping Government's efforts at promoting savings and drawing them off for investment purposes.

A large majority of the concerns to whom we have lent money did quite well during the year under review, and, in the case of a number of concerns, we saw no reason to withhold the permission asked for to declare dividend in excess of the normal maximum of 6%. This very satisfactory position in regard to production and profits is reflected in the figures relating to progress of repayments furnished in the Annual Report.

Policy to Sugar Industry

You will have noticed from the industry-wise figures given in the Annual Report that our loans to the sugar industry aggregated Rs 11 crores 58 lakhs at the end of the year under review. We have been advised by the Central Government that we should continue to finance Sugar Co-operative factories on the scale that we have been doing hitherto, and that as regards loans to sugar factories other than Co-operative Sugar Factories our policy in regard to their financing should not be unduly restrictive in view of the recent enhancement by the Government of the target of production for the industry.

We dealt with the large majority of loan applications in consultation with our Advisory Committees of which we have had four working in the course of the year viz those for the Textile, Engineering, Chemical and Sugar industries. These Advisory Committees are now in the process of being reconstituted so as to include a larger number of technical experts in each, and also so as to provide for a wider territorial representation.

State-wise Distribution

The figures given in Appendix E to the Annual report showing the State-wise distribution of the loans sanctioned by us in the year under review as well as in the previous years will show that as compared with the position as it obtained on 30th June 1955, there has been a marked increase at the close of our financial year in June 1956, in the loans sanctioned to concerns located in certain States. Excluding those States which, relatively speaking, may be described as industrially advanced, the figures relating to the progress in some of the other states are, I think, worth inviting your special attention to. These are:—

(i) Andhra: Increase from Rs 4 lakhs upto the end of 1955
to Rs 1 crore 29 lakhs at the end of 1956.

(ii) Assam: From nil up to the end of the 1955
to Rs 45 lakhs at the end of 1956.

(iii) Punjab: From Rs 1 crore 10 lakhs up to the end of 1955
to Rs 2 crores at the end of 1956.

(iv) Travancore-Cochin: From Rs 1 crore 12 lakhs up to end of 1955
to Rs 3 crores 18 lakhs at the end of 1956.

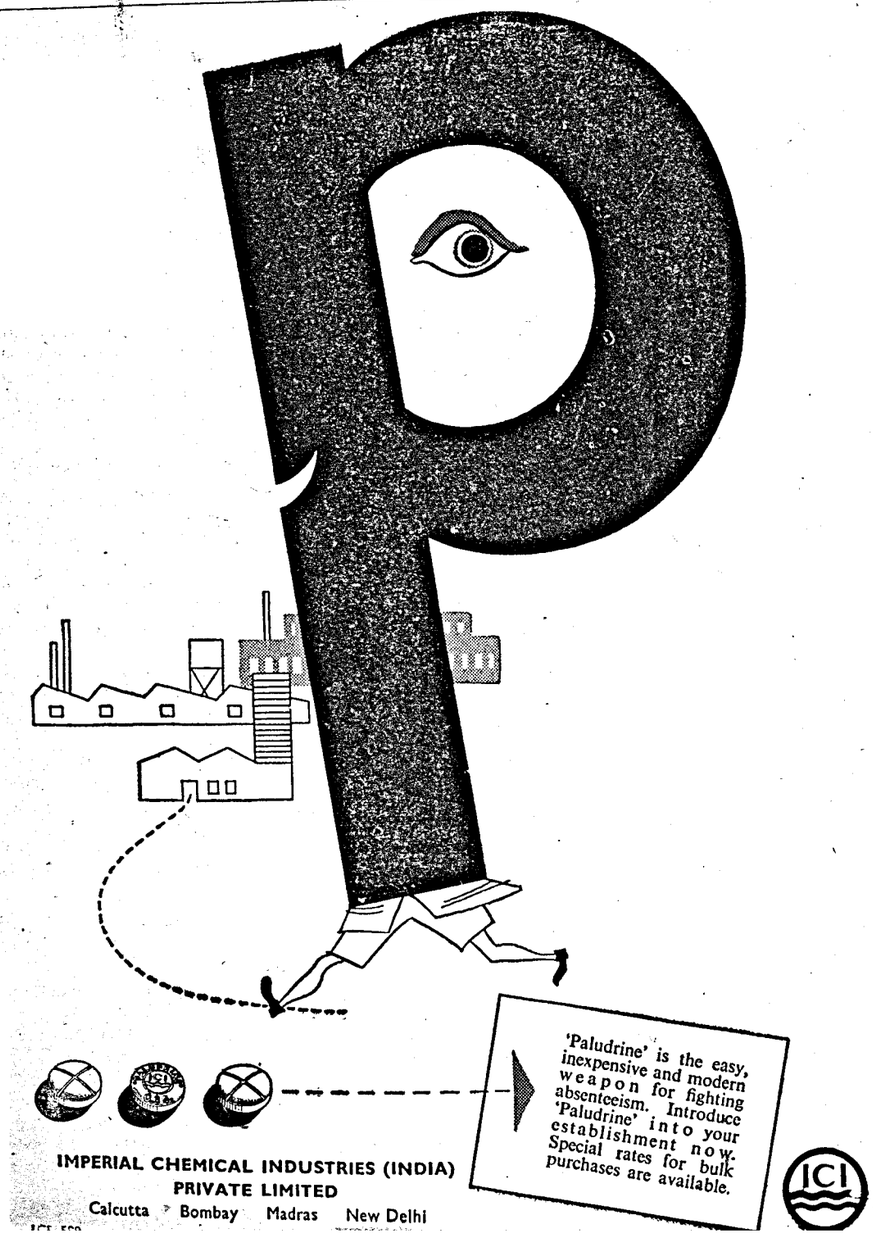
(v) Uttar Pradesh: From Rs 1 crore 30 lakhs up to end of 1955 to Rs 2 crores 95 lakhs at the end of 1956.

Efforts are being made to effect substantial increases of this kind also in other States similarly situated.

Delay Cut Down

The ministerial and officer staff of the Corporation was augmented to some extent to make good deficiencies which had existed since long. On the procedural side, certain measures were adopted which have resulted in the cutting down of delays in the day-to-day work of the Corporation to an appreciable extent. This matter continues to engage the personal attention of myself and my General Manager, and we are hopeful of effecting further improvements as soon as the additional staff to be newly recruited are in position.

Before resuming my seat, I should like to convey my sincere thanks to my colleagues on the Board of Directors and on the various Advisory Committees for their co-operation and guidance in all our deliberations. I should also like to convey on behalf of the Board and on my own behalf our thanks to the General Manager and the entire staff of the Corporation, both here and in the branches, for their very loyal and devoted work throughout the year in spite of the exceptionally severe strain that had been placed on them as a result of the marked expansion of the activities of the corporation in the year under review.



Book Review

Light on the Dark Continent

Inside Africa by John Gunther. Hamish Hamilton, 1955. Pp 960, Price 30 shillings.

THE latest book in the 'Inside' series is undoubtedly John Gunther's greatest work. Gunther himself says that he worked on this book much harder than on any that he has ever written before. As a matter of fact, he has been collecting material on Africa for about 25 years. He has also travelled widely in Africa more than once, spending several months in 1952-53 in particular, covering more than 40,000 miles and talking to over 1,500 people. The result of all these efforts is extremely gratifying. It is a heroic job to attempt to cover in a single volume—though a comparatively big one running to 960 pages—such a vast and extremely complex continent like Africa but Gunther has done it admirably.

Of the Colonial Powers in Africa, namely, France, Britain, Portugal and Belgium, different patterns are to be seen as regards their approach to the colonial problem. But basically, Britain has believed in preparing the Colonies for eventual self-government, whereas the other three have been endeavouring to achieve the so-called assimilation of the Colonies with the Metropolitan country, politically as well as culturally. The British approach seems to have been much more successful and suited to the taste of Africans than that of the other powers. Gunther regards that all in all, British rule is the best in Africa, though the British do not give as much economic opportunity as perhaps the Belgians do nor as much political and racial equality as the French. This is because the British have given opportunities to two things which Africans need most, namely, education and justice. Whatever be the means, there is little doubt that a Continent in which out of a population of nearly 200 million only about 5 million are whites, political freedom and freedom from the domination of the whites cannot be delayed for long.

Gunther starts his African survey with the French territories in the North, namely, Morrocco, Algeria, Tunisia, then proceeds to Libya, the youngest independent country of the world, then to Egypt and what he calls its enormous step-child, the Anglo-Egyptian Sudan. Thereafter Ethiopia, British East Africa and South Africa are covered; then the Portuguese and Belgian parts of Africa are surveyed and finally he goes into the "promise and sunshine, of the West Coast, where experiments of great germinating forces are taking place, particularly in the Gold Coast and Nigeria". After giving historical account, he has discussed with great detail and objectivity, current political and social issues in each of the countries and regions, such as for instance, the Mau-Mau problem in Kenya, Apartheid in South Africa, Medicine Murder in Basutoland and uranium exploitation in the Congo. Gunther is very severe on colonialism and is even more so on apartheid. He has recorded that in some respects the South African government is the ugliest he has ever encountered in the free world. Of course, he is not without some praise for the good work, albeit to a very limited degree, the Colonial Powers have done to develop Africa economically and politically, and Gunther thinks that one of the most important things which they did, was to introduce Christianity.

As mentioned earlier, it is obvious that colonialism is dying in Africa. The whole Continent is in ferment and the White man is beginning to be mainly on the defensive; in fact he is frightened and he is trying to prolong his rule by a process of what Guther calls 'amelioration and concession.' It is true that there is not much of pan-African movement in the country. But even so, there are a number of unifying factors, especially the desire to be free from Colonial rule. It has now been amply demonstrated that colonialism is not necessary for the economic prosperity of any nation. Nay, the opposite is true. In exploiting the very rich natural resources of Africa, the end of colonial rule will undoubtedly stimulate economic growth both of Africa and the other countries, not the least important the present colonial powers themselves.

To the oft-repeated question, whether the Africans are capable of self-government or not, Gunther replies:

"Of course not in many areas. But the question no longer has much relevance, strange as this may seem. I met many Africans, particularly on the East Coast, who conceded frankly that they were not remotely ready for full self-government as yet. The question is nevertheless irrelevant because, whether they are fit or not, nationalist Africans feel that they must start somewhere, sometime, and learn government by practising it. They would much prefer to have bad government of their own than good government by a white outsider. The only way to learn how to walk is—to crawl."

There are all kinds of impediments, arising in particular from the multitude of tribes and languages, but there is no question that these difficulties can be and are being overcome.

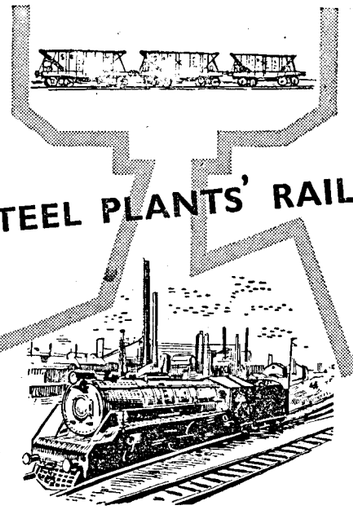
Being the American journalist that he is, Gunther naturally devotes some space to the question of Communism in Africa. While certain tendencies, such as poverty, ignorance, abuses of Colonial Powers, do make for Communist advance, by and large there are other factors which are tending to operate against Communist advance. The Russians themselves have not yet taken much interest in Africa, except very recently in Egypt. Further, religious and tribal factors help to restrain the spread of Communism. Gunther concludes, therefore, that the most sensible way to discourage Communism in Africa is to give political opportunity to the local population, and in the short run, give them at least good government.

Gunther's appraisal of American policy in Africa is also candid and realistic. The U S A began taking interest in Africa only during World War II. Gunther observes that American policy towards Africa is double-edged, namely, "to sympathise in the abstract with the Colonial people in their desire to be free, but to do nothing that will embarrass their European masters". The U S A is of course interested in maintaining naval and air bases on the African Continent, especially on the West and Northern Coasts. Incidentally, Gunther gives quite a few

particulars about the aerodromes which the U S air forces control, including such details as the length of the runaways etc. The U S is also interested in uranium and other atomic metals in Africa. American influence is particularly considerable in Ethiopia, Liberia and Congo. His advice is that his country has to take a much bolder position by announcing its complete faith in freedom for all people and by enormously expanding its assistance to Africa. But he notices that as in many other parts in the world, anti-American sentiment is often pronounced in Africa, and he says that

"Jawaharlal Nehru is more likely to be the spiritual father of the new Africa than Dwight D Eisenhower. Africa is awake, Africa is alert, it has seen the example of Asia, even if its circumstances are different from those of Asia and for good or ill, it is marching with the times".

It is impossible to do justice to this great and fascinating book in a short review. It does not of course pretend to cover exhaustively all aspects of the African Continent, but in this busy world when even the scholar cannot find time to read even a part of the material that is available, 'Inside Africa' provides a self-contained and eminently readable account of a Continent that is going to be in the forefront of world politics in the second half of this century. Its usefulness is further enhanced by the very exhaustive bibliography and a tabular statement giving data on area, population, political status, racial composition, etc, etc.



THE 'STEEL PLANTS' RAILWAY

Not a new Railway, but a new name by which we may call the South Eastern Railway—and for good reasons too.

The South Eastern serves the gigantic Steel Plants at Tatanagar and Burnpore. Two new ones, each with a million-ton capacity, are now going up at Rourkela and Bhilai on the South Eastern Railway and another at Durgapur. To Tata Plant alone, the Railway carries daily on an average 850 wagon-loads of iron-ore, limestone, dolomite, manganese and, of course, coal. And from there, again, the Railway moves out 150 wagons a day carrying finished steel. Imagine the colossal requirements of all the five plants put together, specially when the old ones will have doubled their capacity and the new ones gone into production by the end of the second Plan period. Before then, the South Eastern Railway should be ready with many new lines and doublings, remodelled yards, crossing stations, modernised goods sheds and whole new townships.

SOUTH EASTERN RAILWAY WILL DELIVER THE GOODS

ISSUED BY THE PUBLIC RELATIONS OFFICER

Labour Cost and Economic Growth

P R Brahmananda

IN his article, Labour Cost and Economic Growth (Economic Weekly, September 29), Mr A K Sen argues that the foundation of the thesis of Consumption Multiplier is "dubious", because of the possibility that the rural population would tend to raise its consumption as and when the disguised unemployed are transferred to the investment sector. Mr Sen, therefore, pleads for effective fiscal measures with a view to minimising the extent of such additional consumption. In the course of the same article, Mr Sen also argues that if the consumption multiplier thesis is accepted, there would tend to be a predominant bias in favour of techniques with a higher degree of labour intensity. The example given by Mr Sen in this connection is reproduced below:

	(Figs except % are of Rs) Technique I	Technique II
C (Capital) ..	100	300
P (Production) ..	10	20
W (Wages) ..	5	5
r (Rate of profit of the firm) ..	5%	5%
k (Consumption of the disguised unemployed) ..	4	4
p (Proportion of recovery of k) ..	$\frac{1}{2}$	$\frac{1}{2}$
r' (Rate of profit of the economy) ..	7%	5.7%

Let us examine each of the contentions of Mr Sen.

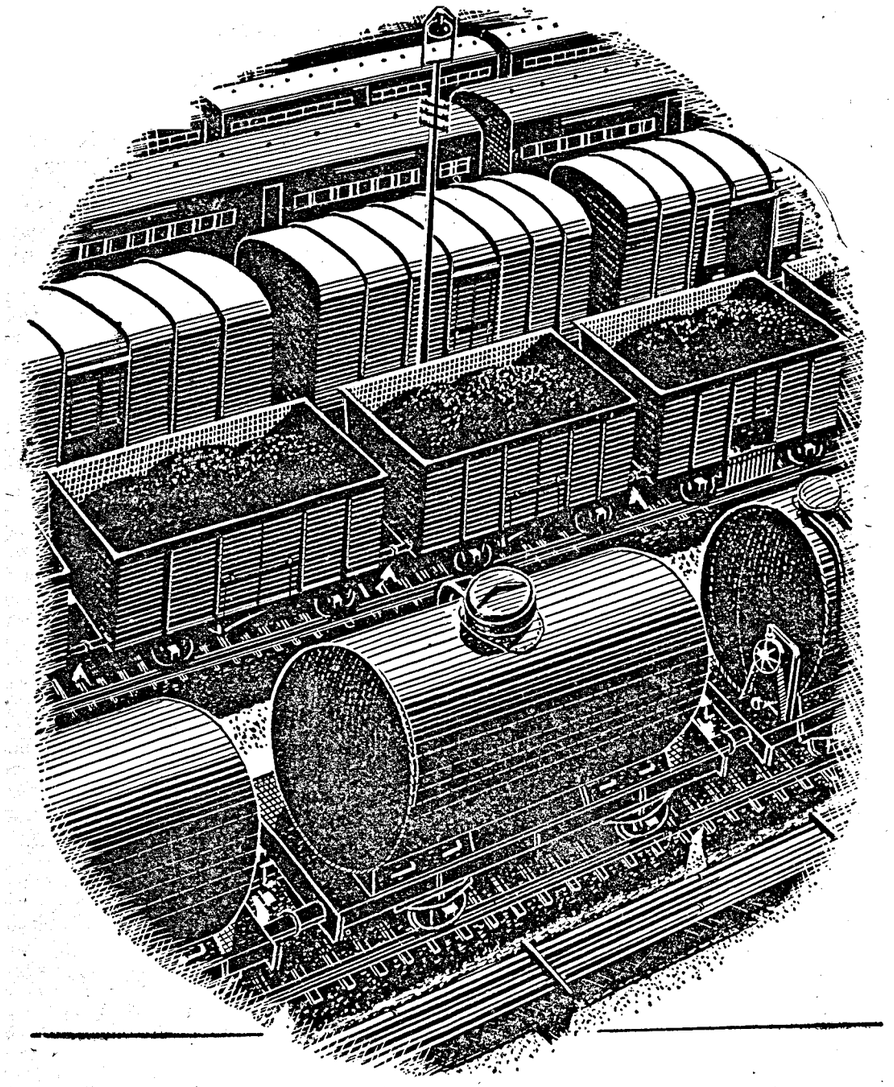
1. The generalised formula of the Consumption Multiplier as given in **"Planning for an Expanding Economy"** is: $\frac{1}{g+(d\times mpc)}$, where **g** is the difference between the wage (**w**), and the consumption of the disguised unemployed (**d**) and **mpc** is the marginal propensity of self-consumption of the rural population. In the illustration given by Mr Sen above, if **w** is equal to 1, **g** is $\frac{1}{5}$ **d** is $\frac{4}{5}$ and **mpc** is $\frac{1}{2}$. The value of the consumption multiplier would be unity only if we assume that **mpc** is equal to unity. The problem of reducing the value of **mpc** through fiscal and other measures has been duly emphasised in the same book which Mr Sen criticises.

2. It is not correct, however, to assume that **mpc** would always be unity. There are periodic bumper harvests during which considerable expansion in the investment sector can take place without encountering the difficulties to which Mr Sen refers. In any given period, **mpc** would tend to decline with expansion in output. The larger the range of output expansion, the lower would tend to be the value of **mpc**. Herein lies the possibility of overcoming unemployment and of initiating a self-sustaining cumulative process, provided appropriate policy measures are adopted.

3. There is a subtle incompleteness in the illustration given by Mr Sen. Let us assume that the economy has a choice between the two techniques. In each case, the cost of fixed equipment is Rs 100. Technique I takes up 5 units of liquid capital (wage-goods) and Technique II, $1\frac{1}{3}$ units. Technique I produces 10 units of output and Technique II, $6\frac{2}{3}$ units. The profit rate to the firm would tend to be 5 (or 5 per cent) in either case. Mr Sen's contention here is that as in Technique I, 5 units are expended on wage-goods and as **k** is 4, and as the proportion of recovery is $\frac{1}{2}$**k**, there would tend to be a release of 2 units of wage-goods to the economy. Hence, the surplus to the economy is 5+2, viz., 7 units (or 7 per cent) in the case of Technique I. In Technique II, the release as a result of the disbursement of $1\frac{2}{3}$ units of wages, would tend to be only $\frac{2}{3}$ of a unit, and hence the rate of profit to the economy would be about 5.7 per cent. Obviously, Technique I should tend to be superior, according to Mr Sen. The above contention does not stand a deeper examination. As pointed out earlier, the value of the Consumption Multiplier in the above case is $1\frac{2}{3}$. Hence the figures of recovery are higher than those indicated by Mr Sen. In the case of Technique I, the recovery would be $3\frac{1}{3}$ and in the case of Technique II, it would be $1\frac{1}{3}$. Apart from this, even a glance at the above illustration would indicate that whereas in the case of Technique I, the economy is utilising 5 units of wage-goods as liquid capital, in the case of Technique II, only $1\frac{1}{3}$ units are being utilised for this purpose. Hence, by adopting Technique II the economy is saving $3\frac{2}{3}$ units of wage-goods which will be available for other purposes. If the supply of wage-goods happens to be a limiting factor in the economy, and the objective of policy is to derive the best advantages from given resources, the $3\frac{1}{3}$ units saved to the economy as a result of the adoption of Technique II in preference to Technique I, will be available for employment in the investment sector, Hence, the aggregate amount of employment would be the same, whatever the technique adopted.

4. In the case of Technique I, the profit to the economy, following Mr Sen, would tend to be $8\frac{1}{3}$ per cent. In the case of Technique II, the profit rate to the economy would be $5+1^{1}+(3\frac{1}{3}\times 1\frac{2}{3})$, viz., $11\frac{2}{3}$. At the end of any given period, therefore, Technique II would show up an amount of surplus which would be more than in Technique I. Actually, given the limitation of real liquid capital (wage-goods), the rate of profit to the economy on capital is higher in the case of Technique II. The conclusion therefore, is exactly the opposite of that of Mr Sen. His contention, however, would be correct only if we assume that the economy does **not** suffer from any deficiency of wage-goods and/or that the capital investments themselves are concerned with a quick expansion of output of wage-goods.

The choice of techniques does not generally affect the volume of employment in an optimally planned economy, and that, other conditions being given the degree of capital intensity would tend to determine the rate of growth of accumulation as well as of employment in the long period. Techniques implying a high labour intensity are generally at the cost of accumulation and hence, would tend to lower the proportion of resources going in for accumulation, and would further tend to keep the rate of growth of employment lower than what would be the case otherwise. If there are feasible alternative techniques with a higher degree of capital intensity in the economy, their non-adoption does not lead to any additional gains in the short period; worse still, such a policy (of non-adoption) can be justified only on the assumption that the future should be discounted at as high a rate as possible in all policy matters!



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Commonsense Made Difficult

M Srinivasan

PROBABLY, the definition of economics most germane to our experience in this country is the one which defines economics as commonsense made difficult. Nowhere would this definition be more appropriate than in the two articles* which appeared recently in the Economic Weekly on some aspects of economic growth. Simple economic truths, easily perceptible and still more easily understood, are curtained off by a thick veil of economic jargons and cliches, so much so that attention is focused on inessentials and superfluous explanations. The difficulties of the reader are further enhanced when the theoretical ruminations are cluttered with seeming contradictions and circular arguments.

Now, take the article of Mr Sen. The main core of his argument, as I understand it, is that the additional cost of labour in terms of his consumption consequent upon his transfer from the pool of disguised unemployed to the new investment being smaller, there is a pronounced bias in favour of labour-intensive techniques of production. This is based on the fact that the disguised unemployed can be induced to work in new investment only if he is offered a wage rate higher than his previous consumption, so that he can maintain himself in good working condition. Since the disguised unemployed was already consuming a certain amount of wage-goods, it would mean that to the society, the cost of labour is equal to the difference between the wage rate in new investment and his average consumption prior to his transfer. Given the input combinations at any given point of time, when the price of one input falls in relation to those of others, naturally, the use of cheaper input on a larger scale would be beneficial from the community's point of view. In this scheme of ideas of Nurkse, the additional cost of labour is nil, as he assumes that the disguised labour can be transferred to new investment at the same level of wage rate. Whichever way one may look at it, the fact remains that labour-intensive techniques would be more advantageous from the point of view of economic growth.

So far so good. All this is simple enough to appear to commonsense, and it does not require invoking a principle of opportunity cost to prove or disprove it. Mr Sen believes that the opportunity cost principle which implies that the value of labour is determined by what it would earn if it is put to alternative use is not a helpful guide in an economy with a large-scale disguised unemployment. as the opportunity cost of labour in that situation would be nil, though actually as we have seen above, the labour has to be valued at the additional consumption required by the disguised unemployed in new investment. This is clearly a misstatement of the principle of opportunity cost, because the interpretation which Mr Sen puts on it ignores the fact that the labour has a choice to work or not to work at a given wage rate. For instance, if a disguised unemployed could not get additional wage-goods in return of his transfer to new investment, he would prefer to stay where he is rather than work on the same level of consumption. This means that the labour has his reserve price, so to say. It would easily follow then that what the worker coming out of disguised unemployment desires to get in new investment is his opportunity cost and nothing else. There is, therefore, no difference whatever between Mr Sen's method of valuing labour and the opportunity cost proper, and his relevant industrial cost of labour in terms of additional consumption is the same thing as the opportunity cost of labour in its alternative use. Thus, it will be seen that the opportunity cost theory does not deny what Mr Sen wants to prove and in fact, proves what he wants to deny.

Mr Sen's criticism of consumption-goods multiplier as that of Prof Das Gupta is misdirected and arises from their misunderstanding of the concept. The concept of consumption goods multiplier is based upon the release of consumption goods of the disguised unemployed when they are transferred to new investment. Which means that in the absence of any such release, the multiplier would not simply function. If the goods released by the employment of disguised unemployed are absorbed in consumption by those who stayed behind, there would not be any scope for realising the savings potential. But who has ever denied this possibility? And how can it make the foundation of the consumption goods multiplier dubious? If the Keynesian Multiplier can continue to remain a valid and operationally useful tool of analysis in spite of the possibility of the marginal propensity to consume being zero, there is no earthly reason why the consumption goods multiplier should be rendered useless in the event of a non-release of wage-goods consequent on the transfer of the disguised unemployed. Mr Sen himself does not deny the possibility of release of goods; his only fear is that they may be consumed unless the State steps in to siphon them off, through taxation. If he had again carefully gone through the text of the book of Prof Vakil and Dr Brahmananda, he would have found for himself that the authors also envisaged those fiscal measures which he has in mind.

The main point of Mr Sen would have been equally clear without the use of elaborate arithmetical examples which he has worked out to prove the profitability of labour-intensive methods of production. Such arithmetical examples are quite deceptive and one may as well arrive at the conclusions opposite to that of Mr Sen, with different but equally plausible sets of figures. Apart from this, his example does not take into account the duration of the capital equipment under the two techniques. The duration of capital equipment in Technique I is bound to be shorter than that in Technique II and this is likely to vitiate the results which Mr Sen has tried to arrive at through these examples. My objection is not to the point which Mr Sen has made because it can be easily accepted, but to the way in which he has argued it.

Prof Das Gupta, though he seems to be aware of the implications of wage-goods for capital formation, embroils himself in such a bundle of contradictions that it is really difficult to make out what he is driving at. After stating that the extent of employment in the invest-

* "Disguised Unemployment and Economic Development" by A K Das Gupta, August 25, 1956.
"Labour Cost and Economic Growth", by A K Sen, September 29, 1956.

ment-goods section is determined at any point of time by the availability of wage goods, he curiously argues that the wage-goods being also a function of the stock of capital, an increase in the latter would extend the scope for employment of labour. This is nothing more than begging the very question which all underdeveloped economies are trying to solve. The crucial problem, as Prof Das Gupta himself points out, is how to increase the stock of capital and as it is limited by the availability of wage-goods, if you cannot raise the stock of capital unless wage-goods are increased. What is important in the initial stages of economic development is the "wage-goods gap" or a marketable surplus in the consumption goods sector which alone can bring about a rise in capital stock. It is therefore pointless in this context to emphasise that output of wage-goods is also a function of the stock of capital. Without realising this apparent contradiction in his argument, he tries to reconcile the 'wage-goods approach' of Prof Vakil and Dr Brahmananda with the 'logic' of the Planning Commission, emphasising the need for fixed capital, and states that the former refers to the short run and the latter to the long run scope for employment. It passes one's understanding how short-term and long-term distinctions can be brought into this discussion at all. There is nothing as short-term in the long-term setting of economic growth as capital formation itself extends over a long period of time. It is therefore misleading in the extreme to take 'wage-goods gap' as referring to only short-run scope for employment. In fact, when Prof Vakil and Dr Brahmananda refer to 'fixed capital', they emphasise indirectly the inelasticity of supply of wage-goods in an underdeveloped economy as being a bottleneck in the formation of fixed capital. And when one tries to hit upon a target of 'fixed capital' beyond the limit set by the available supply of wage-goods, it is but natural that it would end in frustration. In view of this, how can one credulously persist in the belief that there is no contradiction between the theory of wage-goods gap as envisaged by the authors of this theory and the Planning Commission's 'logic' employed to justify a high order of fixed capital.

As an economist steeped in the traditions of classical economists, Prof Das Gupta, one expects, should not have made a categorical statement that the disguised unemployment and the unemployment generated by new labour force as a result of population growth, are not two separate entities. Coming as it does from one who is quick enough to grasp the implications of disguised unemployment for economic development, it is really surprising. Disguised unemployment differs from the other in that the former carries with it the 'savings potential' which assists the cumulative growth of the economy, while the latter reduces that saving potential by increasing the number of mouths to be fed with it. The two types of unemployment stand as apart from each other as saving from consumption and surely, no economist worth the name has yet suggested that "saving" is an alias for "consumption"? Indeed, it is strange to argue that "saving potential" would remain unaffected in the face of a growing number of people. The difference between the two is fundamental and this very distinction forms a central core of economic growth as emphasised by Nurkse and others. Had it not been so, our economic problems would have been very much simplified. What is more baffling is that Prof Das Gupta himself jumps to contradict his own stand on the matter when he maintains that new savings are required to be created to meet the wage-bill of additional labourers, drawn from this newly emerging labour force, while relief is obtained in the form of release of wage-goods which is nothing but savings, where labourers from the disguised unemployed are utilised.

One gets an impression from the article of Prof. Das Gupta that he still prefers to analyse the problems of growth with the aid of existing tools of economic analysis. The question is: can one do so? Admittedly, the conditions like disguised unemployment, choice of techniques and the pattern of investment, etc., call for a treatment on an altogether different plane. Devotion to the existing tools, howsoever commendable, does not serve the purpose adequately. The manner in which Prof Das Gupta has confused the problems of growth by his adherence to the old tools provides sufficient justification for new tools of economic analysis to interpret and to explain the economics of growth.



Cotton Hedge Contracts

V C Poojara

AFTER the forced closure of the futures market by the Government in December last year, the entire trade was seized by a sense of uncertainty and frustration. In the heated atmosphere that followed, the issues were taken to the Court of Law, where after protracted hearings the action of the Government was legally upheld. Though from a strictly legalistic view, the authorities justified their stand, the trade at large has not been convinced of the justness of the Government action and continues to have serious misgivings about the role of the Government in trade affairs.

Suspension of futures trading market naturally stimulated efforts to reorient the basis of futures trading that would ensure its smooth working. Faced with the threat of increased State intervention, deliberations continued for nearly six months for framing a Futures contract that would be a correct barometer for the cotton market. As soon as these deliberations took concrete shape, the East India Cotton Association Limited framed proposals for restoration of futures trading; and in June last with the approval and blessings of the Forward Market Commission, Futures market started once again its operations in the newly devised twin Indian Cotton Contracts.

Two Contracts Instead of One

Thus in the place of one Indian Jarilla Contract embracing almost all important cottons produced in the country, we have now two contracts: (1) Indian Cotton Contract No. 1 known as Jarilla Contract with basis Fine Jarilla 25/32" staple; (2) Indian Cotton Contract No. 2 known as Vijay Contract with basis Fine Vijay 27/32" staple. Jarilla Contract covers cottons ranging in staple lengths from ¾" to 27/32", whereas Vijay Contract is designed to cover cottons ranging in staple lengths from 13/16" to 31/32".

The rationale behind the two contracts appears to be fundamentally sound, for it accepts as its basis the vastly changed production pattern of cotton in the country. It is a matter of common knowledge that during the past few years, efforts of the Indian Central Cotton Committee have yielded rich dividends by way of increased production of improved varieties of cotton of higher staple length. In the scheme of any hedge contract, emphasis has always been laid that it should cover within its orbit all principal varieties of cotton grown in the country. A single futures contract seeking to cover all varieties of cotton ranging in staple length from ¾" to 1" would be by its very nature an extremely broad contract, impotent to function as a proper hedge contract because of the innate danger of such a contract breaking loose from the spot market. These dangers were pretty well exposed by the working of a single hedge contract during the past few years.

To Absorb Price Changes

Two contracts are designed to serve different Indian Cotton qualities by grouping them into compartments based on their relative staple length and indirectly their end-use. Thus under Jarilla Contract are brought together cottons that would spin upto 18s. Cottons that will spin from 18s to 32s are grouped together under Vijay Contract. Creation of two contracts would thus considerably narrow down the extent of uncertainty as to the quality of tender from the view point of spinners or buyers of the contract. Cotton merchants would also be able to select a contract to hedge their stocks according to the quality of the stocks they hold.

It was hoped that creation of two contracts would go a long way in fulfilling aspirations of the trade as well as industry to have a futures market that would correctly feel and reflect sentiments of the spot market and be able to absorb the risk of price changes to the largest possible extent.

Results of the Experiment

The new contracts have now been in operation for over three months. This experiment is being watched with keen interest by many. An attempt is made here to assess the value and utility of these contracts on the basis of their operation during this period.

Have the new contracts been able to establish liaison between the spot market and the Futures market? Have the new contracts succeeded in restoring the confidence of trade and industry in the soundness of the Futures market as an instrument of effective hedge operations?

Liaison with Spot Market

We shall first examine the working of Futures market in relation to the spot market. Spot premiums for the basic quality of the contract can be taken as a rough indicator of relationship between Futures and spot markets. The greater the tendency over a period for larger spot premiums, the greater the disparity between the two markets and vice versa. The greater such disparity, the lesser is the utility of Future market for effective hedge operations.

It should, however, be borne in mind that there would always be some spot premiums for ready cotton in the market. A purchase of a futures contract, if held on till maturity, would at the most guarantee a delivery of cotton from a number of qualities tenderable against the contract. In some cases even this may not be possible and the buyer of the contract must satisfy himself with some sort of monetary compensation by way of penalty from the seller of the contract who tenders either unknowingly cotton which is rejected or may even fail to tender any cotton. It is therefore, obvious that ready cotton would always command some premium over the Futures contract; and the mere existence of a premium, therefore, is not a sign of any malady in the trade. It is the **continuous** tendency over a period for **larger** spot premiums that would indicate some measure of disparity between Futures and spot markets.

In Table 1 are given prices of Jarilla Contract representing Futures value of 'Fine Jarilla cotton of 25|32" staple and corresponding premiums prevailing in the spot market for the same quality. A persistent tendency for substantially large spot premiums is clearly revealed by the figures in this table.

Table II gives the comparative price statistics for Vijay contract. It shows tendencies which are even much more perplexing. As compared to the Futures value of basic quality of Vijay contract namely Fine Vijay 27/32", Fine Vijay 13/16" commands sizeable premiums in the



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TABLE I

Date	ICC No 1 Fine Jarilla 25/32" March Delivery	Spot premiums for Fine Jarilla 25/32" Dec. Delivery
	(Rs and As per candy)	
2-7-56	665	69
17-7-56	669	73
2-8-56	676	82
16-8-56	696/8	92
3-9-56	676/8	82
20-9-56	692/12	84
28-9-56	683	79

TABLE II
(Rs and as per candy)

Date	ICC No 2 Fine Vijay 27/32" April Delivery	Spot prem. Spot prem for Fine for Vijay 13/16" Feb/March Delivery	320F 27/32' Decembe Delivery
	(Rs and As per candy)		
2-7-56	858-8	25	55
17-7-56	819	45	65
2-8-56	816	74	75
16-8-56	827-8	68	77
3-9-56	810-8	58	68
20-9-56	820	72	82
28-9-56	811	61	68

spot market. Furthermore, 320F cotton, a quality which is usually considered inferior to Vijay cotton also attracts good spot premiums. Such anomalies clearly indicate existence of large cleavage between the Futures market and the ready cotton market.

Thus even after the introduction of two contracts to rationalise trading in futures the trade is unluckily faced with the same unhealthy tendencies that led during the past few years to the undermining of confidence in the Futures market.

One can well visualise temporary situations leading to disequilibrium between Futures and spot markets, but when such disequilibrium tends to persist, it clearly indicates the absence of a corrective mechanism in the working of the Futures contract. This aspect of the contract has been the subject of careful study by many during the last two years; and these studies have revealed that such a corrective mechanism is very closely related to the mode of fixing tendering differences at the time of maturity of contract.

Corrective: Tendering Differences

If the tendering differences are fixed in such a manner as would pass on the benefit of any prevailing spot premium (or loss in case of spot discount) to the holder of unliquidated contract who receives the tender, the corrective values would automatically start operating to restore equilibrium between the two markets. Assuming that disparity is in the form of high spot premiums, with the approach of maturity of the contract obviously the buyers of the contract would be induced to hold on, the sellers would be induced to lift their hedges and to sell their ready stocks to avail of high spot prices, the benefit of which would otherwise go to the holders of the contract. These actions on the part of operators in the market would naturally tend to reduce disparity and gradually restore the equilibrium between the two markets.

Provision is made under the present Futures Contracts for fixation of tendering differences on the basis of the premia or discounts, as the case may be, for varieties other than basic cotton over or below the hedge contract prices. Evidently under this rule, the benefit of the spot premium is passed on to the holder of the unliquidated contract in the case of tender of basic quality but in the case of tender of all other tenderable varieties, such a benefit is retained by the sellers of the contract. When, therefore, the quantity of basic variety forms but an unimportant portion of the total volume of tenderable cottons, the corrective mechanism is not left with sufficient motive power to go into automatic operation.

Conduit Pipe Blocked

It is also essential that in case of failure to tender or tender being rejected, the benefit of the spot premium should pass on to the holders of the contract. The application of this principle would demand that invoicing back in case of rejection of tender or of failure to tender should be on the basis of spot rate of the contract. In this respect, the present Hedge contracts provide for invoicing back of cotton rejected in tender on the forward rate; and penalty for rejection is fixed at Rs 10 per candy. This provision also militates against the principle enunciated above. It has not been explained on what principle a fixed penalty is established. Such an ad-hoc provision can never be a workable substitute for a sound principle. Rejection of this principle thus blocks the very conduit pipe which is meant to allow free flow of influences between futures and spot markets.

Over and above this basic defect in the construction of Futures contracts, another factor that contributes to maintenance of existing disequilibrium between the two markets is a sort of "fear complex" that has afflicted the trade ever since the forced closure of the futures market referred to above. There is a strong feeling that Government's treatment is highly discriminatory in respect of the two markets. The trade is not averse to the rational use of various powers vested in the authorities; but it regards it as absolutely essential that both the futures and the spot market should be allowed to operate freely under identical set of circumstances; codes of behaviour applicable to the two markets should be as far as possible uniform. After all, the two markets are complementary to each other and must operate in close liaison to attain the ultimate objective of smooth marketing of cotton. A categorical assurance on the part of the authorities that they have no intention of interfering with the normal functioning of either of the markets, so long as prescribed ceilings and floors are respected, would, therefore go a long way towards restoring confidence which has suffered a severe setback.

Amusing Anomalies

We now wish to refer to certain amusing anomalies — that are full of potential trouble — created by the peculiar construction of present futures contracts. Most of these anomalies appear to result from the following inadequacies in the construction of the contracts:

(1) Defective manner of fixing tendering differences which is common to both the contracts; and (2) Defective basis of the contract which is peculiar to the Vijay Contract. Look to the Jarilla Contract. In the Hedge Schedule which specifies tenderable qualities, Jarilla quality has been divided into two groups, namely (1) Jarilla (A) basis Fine 25/32" staple which is the basic quality of Jarilla contract and (2) Jarilla (B) basis Fine ¾" staple. From the qualitative view point, this grouping appears to be rationally based; but at the time of fixing tendering differences, this very fact will place the committee for fixation of tendering differences in a very embarrassing position. Under Jarilla (A), if Fine 25/32" Jarilla Cotton is tendered, being the basic quality of the contract, it will have to be tendered at the contract price, irrespective of the prevailing spot premium for the same. On the other hand, if Fine ¾" Jarilla is tendered under Jarilla

(B), whatever spot premium over the contract it may command in the market, the tenderer will receive the benefit of such spot premium merely because he chooses to tender Jarilla cotton belonging to Jarilla group which is different from the Jarilla group of basic quality of the Contract.

The Committee for fixation of tendering differences will have to guide itself by the provision that tendering differences should be fixed on the basis of premia or discounts, as the case may be, for varieties other than basic cotton over or below the Hedge Contract Prices. In the illustration, we have taken above, basic quality of Jarilla (B) group is Fine ¾" which is other than the basic quality of the contract; i.e. Fine Jarilla 25/32" staple of Group 'A' and therefore, application of the above rule would surely compel the Committee to fix the tendering difference for Jarilla ¾" Fine belonging to Group 'B' on the basis of prevailing spot premium over the contract.

Further, if 25/32" cotton is tendered under this group, there will be added allowance for 1/32" staple length. If the above analysis is correct, the result would be that Jarilla Fine ¾" and 25/32" quality belonging to Group 'B' would fare better at the time of the tender as compared to basic quality of the contract, namely Group 'A' Jarilla Fine 25/32". This would indeed be a highly anomalous situation.

Case of Vijay Worse

Anomalies in respect of Vijay Cotton are even more glaring. Basic quality of the Vijay Contract is Fine 27/32" Vijay Cotton. On maturity of the contract, tender of Fine 27/32" Vijay cotton will take place at the Contract Rate. In the face of this fact, the spot market quotes at present Fine 13/16" Vijay Cotton at a substantial premium on the contract. Fine 27/32" Vijay Cotton would, therefore, be at an even greater disparity with the contract. (See Table II.)

Again, take for instance Punjab 320F quality. Spot market quotes Fine 27/32" 320F at a substantial premium over the contract. (See Table II.) On maturity of the contract, this is sure to create another anomalous situation. Against the tender at contract rate of Vijay cotton, it being the basic quality of the contract, tendering difference for 320F cotton will have to be based on prevailing spot premium. In other words at the time of the tender, Vijay quality, which normally fetches better price as compared to 320F cotton, will be undervalued for tender purposes. Consequently, this will have the obvious effect of driving Vijay cotton out of the Vijay Contract.

Is It Unsuitable?

How far this anomaly is due to the unsuitability of Vijay cotton to serve as a basic quality of the contract and whether this anomaly could be rectified or not, say, for instance, by substitution of 320F cotton for Vijay cotton as a base of the contract, are some of the points that are in need of further study and consideration. Whether as a result of such study, modification of the basis of the Vijay contract is found necessary or not, it appears certain that rectification of the defective manner of fixation of tendering differences would go a long way in removing a number of anomalies in the working of the Futures contracts. For, the method of fixation of tendering differences on the basis of spot value of the futures contract ensures uniform treatment to all the cottons tenderable under the contract including the basic quality, not only at the time of tender but also in cases of rejection of tender or failure to tender.

The foregoing is an attempt at analytical probe into the working and constitution of the present Hedge Contracts. There would indeed be other possible analytical approaches. It is hoped this attempt would stimulate further thinking on the subject from as many angles as possible. It is no doubt terribly disappointing that after all the serious efforts and labour that went into restoration of Futures trading, we should still be in the midst of a whirlpool of problems, old and new. Is this not in itself a challenge to our ways of thinking and approach?

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Around Bombay Markets

Mill Shares Under a Shadow

Thursday, Morning

THE stock market opened on a dull note and both Tata Steel and Indian Iron remained quiet, despite budla rates being low at about As 6 for Tata Steel and As 1½ for Indian Iron. The disappointing dividend in Indian Iron was partially responsible for this. Steadiness returned during mid-week when the market attempted to stage a recovery. But the irrepressible TTK chose just this moment to threaten from Bangalore that Government would not hesitate to take stricter measures, if cloth prices did not come down. He said in effect, though not in so many words, that the State would take over, should the textile industry and trade fail to co-operate with the Government in bringing down prices. Not that the market always believes all that TTK says, it can also play at the game. But the morale of the market, particularly the textile section, had been shaken and the bearish trend in mill shares was further accentuated by apprehensions that mill profits would be affected in the next year by the increase in excise duty. A gradual liquidation of textile shares has been going on and sellers are predominant. Till now, spinning mills, like Gokak and Madura, were attracting some support. But even this will disappear, in view of the reported move on the part of the authorities to fix fair prices for yarn.

In the miscellaneous section, cement shares became jittery on Government's decision to reduce ex-factory prices in the case of several companies. This apart, technical considerations, viz. end-of-account adjustments, also imparted a weak tone to cement shares. The reduction in price will certainly cut into the profits of some of the new units and such units may not be able to maintain their dividends.

Sugar shares also displayed a generally easy trend with Belapur dropping two to three points and Phalton one to two points.

Bombay Burmah registered a heavy fall from Rs 745 to Rs 710 before closing steady at Rs 728-12. Tata Chemicals remained steady in view of the proximity of dividend announcement. The company is expected to announce a dividend of annas twelve per share and also to increase its capital.

In Brief

The Vishnu Cotton Mills Ltd has announced an interim dividend of Rs 2-8-0 per share, free of tax, on its ordinary shares. The transfer books of the company will remain closed from 22nd October to 1st November, 1956.

The Laxmi Cotton Manufacturing Company Limited has announced an interim dividend of Rs 12-8-0 per share, free of tax, on its ordinary shares. The transfer books of the company will remain closed from 22nd October to 1st November, 1956.

Larsen and Toubro Ltd is to issue fresh capital of Rs 5 lakhs, by issuing one new share of Rs 10 at par for eight shares held. The shares are at present quoted at around Rs 19.

Standard Mills Ltd, it is reported, has plans to establish a cement factory friend from its own resources. Its shares have been currently quoting around Rs 471-4.

The shares of the Bank of Jaipur have of late been attracting much attention in the stock exchange. They have found buyers up to Rs 36 as against only a nominal quotation of Rs 30 a month ago. The demand, it is reported, emanate's from either Delhi or Calcutta.

Cotton

Erratic and Uncertain

COTTON futures continue to be erratic and uncertain. Early in the week, particularly on the opening day, the tendency was to wind up each day's trading, resulting in a distinct improvement of rates over the opening level. This, however, was soon reversed and there has been a sharper fall between the opening and the closing levels. The trend at the end of the week was downwards.

As has often been mentioned in these columns, market observers are unable to explain this unsatisfactory state. Under normal circumstances, falling prices in any commodity might be welcomed. Conditions obtaining at present, however, are far from normal. The cotton grower naturally expects to get a good price for his cotton and would very much appreciate a rising trend just now when he has started marketing his cotton. Government seems to have different ideas and persists in taking measures which adversely affect the price trend. In these circumstances, cultivators are left with only one alternative, that is, to hold on to their stock until prices are attractive enough. If they

MARKET LEADERS DURING THE WEEK

	10-10-56	Week's Range High	Low	3-10-1956
Steel Shares:				
Tata Ordinary ..	194-12	197- 0	193- 0	196-12
Indian Iron ..	34- 6	34-14	34- 4	34-15½
Textile Shares:				
Bombay Dyeing ..	624- 6	637- 8	616- 4	630-10
Central India ..	150- 0	152- 0	148- 0	152- 0
Century ..	551- 0	560- 8	543- 0	554- 0
Kohinoor ..	352- 8	359- 0	347- 0	356- 0
Swadeshi ..	248- 4	253- 8	246- 0	252- 0
Simplex ..	202- 8	205- 0	200- 8	201- 0
Miscellaneous Shares:		200- 0	196- 8	199- 0
Associated Cement ..	197- 4			
Belapur ..	253- 0	253- 8	247- 0	251- 0
Burma Old ..	728-12	740-10	710- 0	736- 4
Premier Const. ..	209- 0	210- 8	205- 8	210- 0
National Rayon ..	259- 8	266- 0	256- 8	263- 8
Scindia ..	18 15½	19- 3½	18-11½	19- 3
New India Ins. ..	44- 4	45- 8	43- 8	45-12



succeed in this, the resulting scarcity of cotton would inevitably raise prices. But will the growers be able to hold on?

The morale of the trade, already pretty low, has been further affected by the threat to yarn prices, which have caught the attention of the authorities. Should the present hardening trend in yarn prices persist, Government, it has been reported, would not hesitate to declare fair prices for yarn as it has done in the case of cloth. The series of steps that Government has been taking in recent weeks indicate that state trading may not be far off. If yarn prices are fixed by Government, it would certainly benefit handloom interests who were the first to complain against high prices of yarn.

Statistics relating to raw cotton imports for the cotton season 1955-56 now available show that as against 529,579 bales of cotton imported in 1954-55 consisting of both sterling and dollar area cottons, 598,030 bales were imported in 1955-56. Imports licensed, however, were much larger, being 649,280 bales and 893,428 bales, respectively. Among cotton from the sterling area, East African topped the list with 223,037 bales (actual arrivals) and Egyptian followed with 219,263 bales. India's offtake of Sudan cotton was also sizeable. Imports of dollar cotton, however, were only a meagre 14,783 bales!

Oilseeds

Not Smooth Sailing

As compared with the last week, better sentiment prevailed in the oilseeds market during the week under review . Ready as well as future castor rallied on firm foreign advices. Both America and Britain quoted higher rates, although no sizable deals were reported early in the week. Towards the end, however, traders were believed to be making arrangements to charter a ship for exporting a large consignment of castor oil.

Groundnuts presented a quiet steady trend. Local expectations of a large groundnut crop, together with adequate availablility of groundnut oil overseas, evidenced by the sale of 3000 tons of African groundnut oil to Britain, affected sentiment adversely. Fresh purchases were, therefore, limited. There was, in addition, the fear that government might extend to oilseeds the credit squeeze now working in respect of cloth. The oilseeds market did not witness a precipitate fall despite the operation of these bearish factors because of the sustained support it received in the Punjab, Rajasthan and other places. The ready section was increasingly supported by buying from crushers and vanaspati manufacturers.

The firmness in linseed noticed in the previous week continued. Reports that government had called for tenders for export to a communist country also imparted some strength to this market.

Bullion

Silver from Tibet

Bullion market remained steady at the close, after moving either way earlier in the week.

The gold section remained fairly firm throughout the week, due to the emergence of good demand in connection with Pooja, Dassera and Diwali festivals.

Silver, however, eased towards the later part of the week on the reported deal with Tibet for the import of about 11,000 bars of silver for which import duty, it is reported, has already been paid by bullion importers in Calcutta. Prices of silver, therefore, fell by nearly Rs 2 from 174 to Rs 172 on heavy bull liquidation. At the close of the week, however, rates steadied up.

Company Note

Indian Standard Wagon

Along with other Engineering shares, Indian Standard Wagon moved up recently before Lyons Range climbed down under the impact of the fall in Indian Iron. This Company has, in common with other engineering concerns, fared well in recent years. In view of the rapid extension of business, it has become necessary to reorganise capital so as to ensure a proper balance between share capital and working funds. It has a plan to capitalise reserves to the extent of Rs 19½ lakhs. Permission has been sought of the Controller of Capital Issues to issue bonus shares on the basis of one share for each share held.

Directors of the Company have informed shareholders that the Company's plans for rehabilitation and expansion are making rapid progress. Expansion projects will cost Rs 32½ lakhs.Current provisions of Rs 7¾ lakhs for financing expansion plans are adequate so far as present requirements are concerned. But the directors assure that further allocations to reserves will be made in the near future so that the expansion plans are not hampered by lack of finance.

Indo-German Trade Agreement

Talks between the representatives of the Ministry of Commerce and Consumer Industries and the Trade Delegation from the Ministry of Foreign Trade and Inner German Trade of the German Democratic Republic have been concluded and a fresh agreement has been drawn up to replace the agreement made in 1954 which is to expire on October 15, 1956.

Included in the list of exports from India to the German Democratic Republic are tobacco—manufactured and unmanufactured, mica, chrome ore, ilmenite, iron ore, kyanite ore, manganese ore, shellac, vegetable oils, cashew nuts, cashew shell oil, textiles, (cotton, silk and art silk, woollen and jute) coir, coir manufactures, handicrafts and products of India's chemical and engineering industries.

The important imports from the German Democratic Republic to India are various kinds of machinery, locomotives (electric diesel and steam) plant and equipment for cement and sugar production, and appliances, wireless communications equipment, newsprint and raw films.

It has been agreed that all payments between the two countries will be settled in rupees.

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Uncertain Trend

Wednesday, Evening

LYONS RANGE remains closed for the Puja holidays. But kerb trading continues. Equities remain hesitant in the absence of buyers. But the selling pressure seems to have subsided. Indian Iron are steady at the lower level. So are other clearing shares. Official trading during the first two days of the week indicated a quietly steady trend in cash scrips. In recent days, the behaviour of equities has been influenced mainly by the long Puja holidays. Buyers are reluctant to add to their commitments. Sellers, too, remain scarce.

On current indications, however, equities may remain steady as Lyons Range opens after the holidays. There are possibilities of an early end of the coal strike. That should be welcomed by industry in and around Calcutta. By the time the market reopens, the effects of the higher excise duty on cotton mill shares will be over. Dalal Street may start looking up. That should have a sustaining influence on Lyons Range. Over here, the adverse effects of the Indian Iron dividend are likely to be over.

IISCO Dividend

On Tuesday last, it was announced that the directors of IISCO had recommended a dividend of one rupee per ordinary share. This did not come as a surprise to the market. Last week, the Chairman of the managing agents of the Company issued a circular letter to shareholders in which the Government's reasons for not allowing a higher dividend were included. In recommending that the dividend be maintained at one rupee, the directors refer to the Government's directive to the Company to conserve its resources, instead of wasting the resources in paying a higher dividend.

Financial data released by the directors are highly impressive. Net profits of IISCO for the year to March last are slightly lower at Rs 65.18 lakhs. It would be wrong to jump to the conclusion that last year's earnings and gross profits were also lower. Earnings were much higher, as indicated by figures. Allocations to depreciation remain unchanged at Rs 120 lakhs. But the provision for reserves is Rs 78 lakhs higher at Rs 281 lakhs. It was not without significance that, as these figures were released on Tuesday, Indian Iron steadied down to the lower level.

Prospects

IISCO has heavy prior changes. It has taken two loans from the Government. It will again have to approach the World Bank for a fresh loan which will require to be guaranteed by the Government. But its own resources are now ample. Adequate provisions have been made to service and to repay the loans in due time. It has decided to raise fresh capital by the issue of right shares. That means that the Company has decided to execute the second plan for expansion.

Shareholders will expect the Chairman to discuss the issue of dividends in his annual address. It is evident that the dividend can be maintained even though the right issue will involve a doubling of the share capital. On the present share capital, the dividend of a rupee absorbs about Rs 52 lakhs. After the right issue, the same dividend will absorb Rs 104 lakhs. As against the extra Rs 52 lakhs which the Company will require, one should take into consideration the additional Rs 78 lakhs provided for reserves this year.

Right Issue

At the moment, Lyons Range is more interested in the forthcoming right issue. As in the case of the dividend, it is also now clear that the right issue will have to be offered at a premium of Rs 3½ per share. Will the issue be successful? That depends, to some extent, on certain factors. Lyons Range hopes that the Chairman will give some assurance, in his annual address, that subscribers to the right shares will receive some preferential treatment so far as next year's dividend is concerned. It is hoped that the right share-holders may be assured of a higher dividend on the *pro rata* basis. That should have a tonic effect on Indian Iron.

Such an assurance will be welcomed on the eve of the flotation of the right issue. Other developing factors are not unencouraging. During the slack season this year, there has been a larger return of funds into the banking system. Currency contraction continues. As money flows back, banking resources are expanding. By the end of November, when the right issue is expected to be offered, money market conditions are likely to remain congenial for the IISCO right issue.

Teas, Steady

One of the features of recent trading on the stock market here has been the steadiness in Engineering shares. There are prospects of an early end of the coal strike. This should have a "bullish" effect on Engineering shares. Among Engineering shares, the Mundra group has been consistently firm. Strength in this group is partly due to interested buying support. Some of the companies in this group are doing well. So, market expectations may materialise.

Even while equities in general were falling under the impact of the set-back in Indian Iron, Tea shares were firm. This was mainly due to the rising trend in weekly auction prices. But the bumper northern Indian tea crop may have a softening effect on auction prices. To some extent, the higher auction prices may be due to the fact that there would be no weekly auctions during the Puja holidays. Even so, Tea shares may continue to be steady after the holidays if equities in general resume the expected upward movement.

Jute Outlook

Jute shares are not falling. But the activity in this group has subsided. This is partly a reflection of the downward trend in jute goods. Sackings are relatively steady because of reports of Government purchases of heavy goods. But hessian prices are relatively quieter. Mills have ceased to be active buyers of raw jute. That indicates that the industry is well stocked with its requirements of the raw material. This is one of the reasons why raw jute prices are quiet. There are indications that restrictions on exports of raw jute from Pakistan may be gradually lifted. As Pakistani raw jute arrives in adequate quantities, raw jute prices may fall further. Therefore, despite the falling trend in jute goods, Jute shares may remain steady.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1430.57	1417.71	1440.18	1301.45
2. Rupee Coin	119.74	118.80	116.02	110.56
3. Deposits				
a) Central Government's	54.56	67.43	58.86	51.15
b) Banks'	50.37	52.55	56.16	67.25
c) Other Governments'	10.22	23.95	16.73	9.59
d) Others'	12.67	13.81	18.01	16.36
4. Foreign Securities	586.74	596.74	596.74	646.97
5. Balances held abroad	23.70	26.40	34.22	69.43
6. Rupee Securities	703.72	693.72	703.65	513.79
7. Investments	27.31	42.37	51.81	50.11
8. Loans and advances to Governments	3.74	2.84	5.32	2.67
Scheduled Banks				
1. Demand liabilities (net)	627.16	622.13	637.71	598.27
2. Time Liabilities	457.50	461.05	461.32	417.58
3. Cash on hand	35.46	35.98	37.58	32.34
4. Borrowings from Reserve Bank	63.24	67.66	30.99	9.18
of which against Usance Bills	36.37	40.65	22.00	7.80
5. Advances and Bills discounted	707.92	706.01	689.27	547.73
of which State Bank's	130.38	133.21	124.22	96.29
6. Invst. in Govt. Sec.	375.61	373.48	361.42	384.51
of which State Bank's	108.10	107.41	106.18	111.02
Cheque Clearance	127.39	127.74	170.33	144.04

†For Reserve Bank and Cheque Clearance week ended 5-10-56. Scheduled Banks week ended 28-9-56.

Bombay Money Rates	5-10-56	28-9-56	7-9-56	7-10-55
Inter-Bank Call Rate	3¼	3 3/16	3 3/16	2⅛
3 months deposits	3⅜	3⅜	3⅜	2⅞
6 months deposits	3⅜	3⅜	3⅜	3

Bombay Bullion — In Rupees and Annas

	11-10-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	104-1	103-0	103-3	94-8
Forward	103-14	103-3	102-8	†
Silver (per 100 tolas)				
Spot	172-1	173-12	173-1	167-14
Forward	172-5	174-2	173-9	†

† no trading

COTTON STATISTICS

MILL CONSUMPTION

(in '000 bales of 400 lbs each)

Description:	July	June	May	Apr	Mar	Sept '55 to July 56
Indian	384.7	351.1	349.4	341.8	347.8	3995.8
Foreign	56.0	52.2	55.2	51.2	51.9	554.1
of which American*	1.79	1.77	1.94	2.33	2.21	30.4
Egyptian	16.05	15.14	17.42	16.42	18.53	174.3
E. African	25.87	24.20	24.02	20.67	18.17	227.9
Sudan†	11.56	9.86	10.58	11.27	11.72	113.4
Pakistan	—	—	—	—	—	—
TOTAL	440.7	403.3	404.6	393.0	399.7	4549.9
Consumption in corresponding periods a year ago:						
Indian	376.1	345.1	335.8	345.9	350.1	3775.9
Foreign	49.5	47.7	48.1	47.2	51.1	588.4
TOTAL	425.6	392.8	383.9	393.1	401.2	4364.3

* Includes United States, Mexican and Peruvian cotton.
† Includes both Sudan Egyptian and Sudan American

MILL STOCKS OF COTTON

(in '000 bales of 400 lbs each)

	July	June	May	Apr	Mar
Indian:					
1956-57	1556.5	1705.6	1687.2	1512.6	1359.9
1955-56	1551.9	1637.4	1587.4	1478.4	1346.4
Foreign:					
1956-57	228.0	223.8	219.8	213.3	211.5
1955-56	180.7	161.1	145.9	138.9	145.8

Source : East India Cotton Association

COTTON IMPORTS

(in '000 bales of 392 lbs each)

Source	June	May	Apr	Mar	Feb	Sept '55 to June 56
USA	1	1	2	—	1	7
East Africa*	38	42	29	29	7	180
Egypt & Sudan	22	22	12	37	88	328
Other countries	8	1	1	3	5	23
TOTAL	69	66	44	69	101	538
Total imports in corresponding months of 1954-55						
1953-54						

*Includes Kenya, Tanganyika and Uganda.

Source : Indian Trade Journal

COTTON EXPORTS

(In bales of 392 lbs each)

from 1st Sept to Sept 20 1956

Destination	† 1956	1955	1954
United Kingdom	462	4,624	750
Continent	10	17,428	1,904
China	..	34,451	..
Hongkong	..	8,610	111
Japan	4,844	22,164	2,256
USA	..	756	..
Other countries	160	1,195	50
TOTAL			

‡ Excluding Zoda and yellow pickings etc.

Source : East India Cotton Association

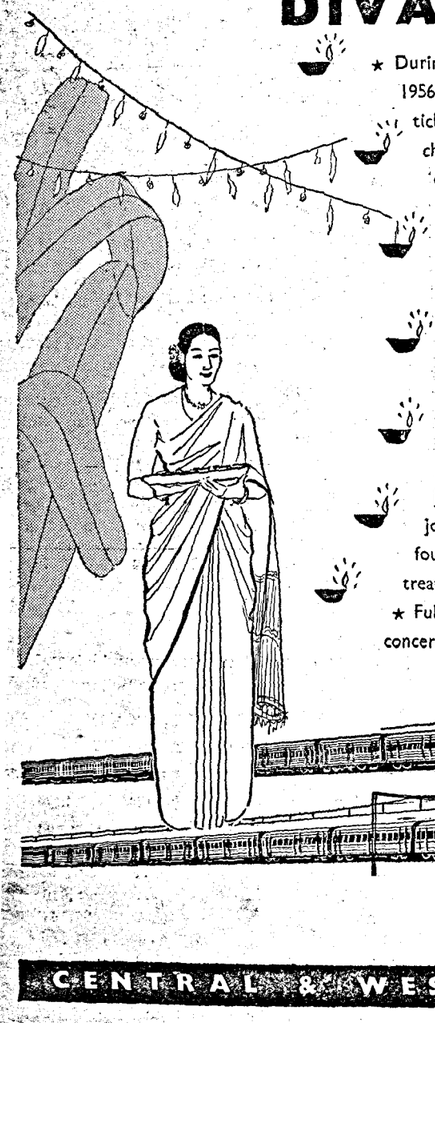
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Suez Deadlock

FOR the 78th time, Russia exercised her veto in the Security Council against that part of the Anglo-French resolution which endorsed the 18-nation plan for international control of the Suez Canal. Foreign Ministers of Britain, France and America have admonished the Soviet Union for using the veto. But informed world opinion will approve M Shepilov's action as a positive gesture of peace. This is not the first time that Russia has succeeded in easing the tension, or averting war, by the use of her veto. Even without the Russian veto, the second part of the Anglo-French resolution could not have been enforced by the Security Council or by a combination of the supporting Powers without resort to force. By using the veto, Russia has succeeded in enhancing the prestige of the Security Council as an organisation whose prime function is to attain and to maintain peace.

Five years ago, the Security Council issued a directive against the Egyptian blockade of Israeli ships through the Suez Canal. That directive went unheeded, and was not enforced. Through the Russian veto, the Security Council has been able, this time, to maintain peace in West Asia, instead of exhibiting its ineffectiveness, as in the case of the Egyptian blockade of Israeli ships. Only on one occasion, when the Russian boycott deprived the Security Council of the safety-value of the veto, it took a decision, which later information had proved unjust. Experience confirms the continued necessity of the veto.

Both Mr Dulles and the British Foreign Minister have emphasised "the strong moral force" behind the Anglo-French resolution. This is a biased interpretation of the voting in the Security Council. It is absurd to maintain that the nine affirmative votes for the Anglo-French proposal for international control of the Canal mean a moral victory for Britain and France. America has voted for this proposal in return for the Anglo-French acceptance of Washington's policy of restraint. Britain and France are the two main aggrieved nations. Apart from Britain, Australia is the only other Commonwealth nation which actively supports the Anglo-French plan for international control of the Canal. Belgium's vote for the Anglo-French plan is more a reflection of her European origin and association than liberal inclinations of her Foreign Minister. Formosa and Peru and Cuba, along with other Latin American countries, are tied to the apron strings of America. This detailed analysis of the voting in the Security Council disproves the Western Powers' claim that the majority vote in favour of the Anglo-French resolution is a moral victory for Britain and France.

Like the World Bank and the Monetary Fund, the United Nations have not fulfilled the original optimistic expectations. On many occasions, the United Nations have fallen short of the ideal. Even so, the Suez Canal crisis has, again, demonstrated the utility of the United Nations as also the justification for continuing the right of veto in the Security Council. It would be unjust not to appreciate America's efforts toward direct negotiation between the parties directly concerned in the dispute. It would be equally unfair to ignore that direct contacts between Britain, France and Egypt could not have been possible had Britain and France not referred the issue

to the Security Council. One of the main assumptions behind the United Nations is that there can be no dispute which cannot be reconciled through negotiation. Egypt has not accepted the whole of the Anglo-French resolution. Russia has vetoed the second part of the proposal. There are still fundamental differences between the two sides on the Suez Canal issue. But it is to the credit of the United Nations that, under the auspices of the Security Council, the basic principles of an agreed solution of the crisis have been formulated through direct negotiations between the two sides. Even those who feel disappointed with the United Nations will concede that the agreement reached on the general principles which should be taken into consideration in devising a solution of the crisis is no mean achievement for the Security Council.

Egypt's conciliatory attitude will be widely appreciated. In recognising the principle that "the operation of the Canal should be insulated from the politics of any country", Egypt has conceded the main issue in dispute. Britain's Foreign Minister is right in echoing Mr Dulles that this is the 'heart of the problem". Egypt has also yielded on two other important matters relating to tolls and charges and to provisions for development of the Canal. While Britain and France recognise the sovereignty of Egypt, the six principles indicate clearly that Egypt respects the rights and privileges of users, and that Cairo is willing to co-operate with them in ensuring their legitimate interests. From the deliberations of the Security Council, it would appear that Egypt is not unwilling to co-operate with some form of association of users. But it is clear that not only Russia and Egypt, but many other users of the Canal will regard the Suez Canal Users' Association, sponsored by Britain and France during the London Conference, as a narrow organisation which does not represent all users of the Canal. M Shepilov accepts the principle behind SCUA, but rejects it in its present form as an unrepresentative association. Russia's attitude to SCUA is shared not only by Egypt, but by many other users, including India, of the Canal.

Once Egypt accepts the principle that "the operation of the Canal should be insulated from the politics of any country", it is difficult to appreciate the Anglo-French insistence on international control of the Canal. In demanding internationalisation of the Canal, Britain and France disown the principle of sovereignty of Egypt, which both have explicitly endorsed as one of the basic requirements for an agreed solution of the crisis. Even while the British and French Foreign Ministers were endorsing this principle, Sir Anthony Eden informed the Conservative Party Conference that Britain will never accept unfettered control of the Canal by any one Power. It will not be denied that the Canal cannot be left in "unfettered" control of Egypt alone. Cairo must agree to co-operate with a representative association of users in operating, maintaining and improving the Canal. Such co-operation has been accepted by Egypt. Such acceptance involves Egypt's readiness to refer any dispute about the rights and privileges of the users, under the 1888 Convention, to an organisation which must consist of users and function under the auspices of the United Nations. With the creation of such a machinery, the main purpose behind the Anglo-French demand for internationalisation of the Canal can be attained without any prejudice to Egypt's sovereign rights. At the instance of Iran, Britain and France have agreed to consider any alternative proposal to the 18-nation plan for international control of the Canal, which can ensure the six requirements as effectively as the Anglo-French plan for internationalisation of the Canal. Egypt has made certain concrete proposals to satisfy the Anglo-French demands. There will, therefore, be hope that further negotiations will continue. But neither Sir Anthony's address before the Party Conference nor the reaction of the British and French Foreign Ministers to the Security Council debate on the Suez Canal issue encourages hopes about a negotiated settlement of the crisis. But the world now knows that if the Canal crisis continues, or the tension increases, it will be because of the combative Anglo-French policy to the Suez Canal.

Shifts in Cabinet Set-up

THERE have been some important changes in the organisation of ministries at the Centre. The Ministries of Commerce and Industry, which had been separate in the past and had been combined for better co-ordination of policy and more efficient working, have now been split up, but not into two separate ministries of Commerce and Industry as in the past. By stages, several fissions and reformations have taken place. In the process, some of the responsibilities of the Ministry of Production have been detached and tagged on to those of the Ministry of Industry to form two separate ministries, the Ministry of Heavy Industry and the Ministry of Iron and Steel. When heavy industry and iron and steel separated from it, Commerce and Industry still continued as one; at least the designation of this ministry was not changed. And as all four were represented in the Cabinet by one and the same minister, growth by fission was a natural as well as a logical development.

The changes that occurred when the minister in charge of all four took over the finance portfolio, however, did not follow the same logic of growth by fission. When the Minister of Commerce and Industry became the Minister of Finance, he did not relinquish his charge over the Ministry of Iron and Steel. Now this should have been normally the responsibility of the Minister of Production from whom it had been taken away on the ground that as import and distribution of steel was an important responsibility of the Minister of Commerce and Industry, the latter should be made responsible for the production of steel also, in order to ensure co-ordination of policy in regard to steel. Finance and Steel cannot be combined very well for purpose of administration. but in view of the keen interest the Minister in charge had taken in his new baby and the competence with which he had handled it made it undesirable to risk a change. Nevertheless the combination is rather unusual, and does not follow any logic of organisation.

But iron and steel apart, the other functions which had come to be grouped together under the Minister of Commerce and Industry had both cogency and logic. The ministerial changes, however, did leave the existing arrangements undisturbed. There followed a series of splits—heavy industry came to be represented in the Cabinet, 'of people', by the Minister of Home Affairs, whose present charge of Home and Heavy Industry is as unusual a combination as that of steel and finance, but lacks the justification which past association and experience provide in plenty in the latter case. In fact, the present arrangement makes so little sense that it is difficult to tolerate it except as a stop gap.

The story does not end here. Along with the above changes the designation of the Ministry of Commerce and Industry has been changed into that of the Ministry of Commerce and Consumer Industry. This is perhaps as it should be, for what else is left of the Ministry of Industry when heavy industry is taken out from it? When the ministry is left only light industry, the more popular appellation for it could well be that of consumer industry. But after the separation of heavy industry, were the responsibilities of this Ministry any more onerous than in the past? Why, then, this change of name? Again, it makes little sense that the Ministry of Commerce and Consumer Industry should be represented by a Minister who has other and fairly heavy responsibilities. And it could only be a makeshift arrangement. Indeed, all this is so unintelligible that it may give the impression that the Government is showing the usual inhibition of a care-taker Government in that it is reluctant to attempt a more logical organisation of its business. This impression, however, would be misleading in the extreme. For at the same time certain changes have been effected relating to food, agriculture and community projects which are becoming more and more the focal points of attack against stagnation in agriculture which suggest a sensible build-up in striking contrast to the steady and deliberate weakening of the commerce and industry set-up.

The series of changes in food and agriculture began when the Community Projects Administration was made into a separate Ministry. It ended the long standing hiatus which had been created when the Planning Commission, otherwise an advisory body, had come to assume the responsibility of administering these projects which was an executive function. The change is not merely a matter of correct form. The success of the Second Plan has come to depend more and more on the achievement of a higher target of food production without a corresponding or even a substantial drain on resources. This naturally demands the closest coordination between the Ministry of Food and Agriculture on the one hand, and the newly formed Ministry of Community Projects and National Extension Services on the other, agricultural extension being the vital means of attaining this objective. By making the Minister of Food and Agriculture represent the latter ministry in the Cabinet, unity of policy has been largely assured.

The announcement this week of the separation of the Ministries of Food and Agriculture, as in the past may be unwelcome in that it takes us back to the days when food problem was acute and needed a separate set-up for its proper handling. But it does not presage any weakening of the administration of food and agriculture, as the same Minister continues to be in charge of both Ministries in the Cabinet and there is thus no division and, therefore, weakening of responsibility. On the contrary it is a case of strengthening by fission since all questions relating to food will be concentrated and will have, the advantage of having a Secretary devoting his undivided attention to food alone.

The explanation of the apparent divergence in the developments relating to commerce and industry on the one hand and food and agriculture on the other have unfortunately to be sought in the present uneasy balance of power within the Cabinet. No one pretends that the Prime Minister is the **primus inter pares** or that any of the ministers in the Cabinet are there in their own rights, ie to say by virtue of their standing in the party or on the strength of their following in Parliament. The shifts in the Cabinet and transfer of portfolios, therefore, follow no principles at all. The present shifts, however, are particularly unfortunate in that they leave Commerce and Industry very poorly represented in the Cabinet to which may be traced, for example, much of the confusion and lack of consistency in the textile policy of the Government. One can see an attempt at working out a policy in food, but none at all in cloth. The unexpected shifts in the latter, moreover, spell dissipation of resources which need to be carefully preserved and directed to the fulfilment of Plan objectives.

Two-Nation Theory

TWO questions arise out of the Pakistan National Assembly's decision to introduce joint electorates in Eastern Pakistan but to hold elections in Western Pakistan on the basis of separate electorates. This dual basis of elections for the two wings of Pakistan has, for the moment, averted a political crisis in that State. But the implications of the decision need to be appreciated. In defending the system of joint electorates, Mr Suhrawardy emphasised the sinister consequences of the system of separate electorates. Such a system of electorates can only be based on the two-nation theory. Mr Suhrawardy had the wisdom to warn the Assembly of the dangers of such a conception. Insistence on a system of separate electorates may, in the long run, force the exodus of four and a half crores of Muslims from India. Rightly, though belatedly, Pakistan's Premier publicly confessed that such an exodus, as a logical sequel to the Pakistani insistence on the two-nation theory, can only drive Pakistan into the seas. This aspect of the two-nation theory is not widely realised either in Karachi or in the capitals of some Western countries.

By accepting a compromise formula, Mr Suhrawardy has been able to secure the support of the Republican Party. But Dr Khan Saheb's recent announcement that the Republican Party is committed to a system of separate electorates poses certain significant problems. To carry Mr Suhrawardy's arguments to their logical conclusion, the two different systems of electorates for the two wings can only lead to the eventual emergence of two nations in Pakistan. Spokesmen of the Muslim League have emphasised this aspect of the Assembly's compromise decision. They have stressed that they will continue to agitate for a system of separate electorates in Eastern Pakistan also.

In his speech before the Assembly, Mr Suhrawardy was in a confessional mood. There are, Mr Suhrawardy admits, political, economic and administrative discriminations against the minority community in Pakistan. Insistence on separate electorates by all the major political parties, with the exception of the Awami League, is a visible reflection of the inferior status of minorities in that State. That is why, the migration of Hindus from Eastern Pakistan continues. One hopes that Mr Suhrawardy's emphatic assurances will minimise the outflow of Hindus from Eastern Pakistan.

Weekly Notes

Enter Shri Chavan

IT is a pity that the Congress Party in the Bombay Legislature should have come to be deprived of the high-principled, mature leadership of Shri Morarji Desai, and that too at a time when the State is about to embark on its bigger, bilingual enterprise. Shri Desai's stand that, he would not be the first to break the 19-year old practice of unanimous election in the Party certainly does credit to his sense of tradition and concern for Party cohesion; but it has little significance to the sound evolution of democratic processes as such. Indeed, from the latter angle a contest may have more to commend it than a unanimous choice; and the fact that Shri Desai's self-denial has not succeeded in preventing a contest or preserving an established convention leaves the gesture with no more than its intrinsic value. And if this act of self-denial has had any positive result, it is to be seen in the emergence of a very young politician as leader of the Party. Shri Y B Chavan, the new leader, is just 42; but he has to face responsibilities greater in magnitude than those tackled by his predecessors in office, Shri B G Kher and Shri Morarji Desai, both of whom had more years of experience to fall back upon.

Shri Chavan however, does not enter upon his new duties without certain advantages on his side. For one thing, he has been known to enjoy the confidence of his former leader, Shri Morarji Desai, and also the benefit of close association with him, which may well ensure a certain degree of continuity in policy in the enlarged State. He has also earned the good opinion of other top leaders and of linguistic minorities in general by refusing to yield to parochial extremism and courageously striving to put national interests above those of particular regions. The large majority of votes he won over his rival, Shri B S Hiray, in the contest for the leadership of the Congress Party is both a tribute to his past attitude and an assurance of success to the new obligations he is to shoulder now. In a sense, there is something to be said for a Maharashtrian being at the helm of affairs in the new bilingual State, particularly in its formative years, if only to initiate and establish a pattern of administration that will be reassuring to minority regions.

In one respect, however, public concern is bound to continue for some time. It may be long before the new Legislature Party, enlarged by the admission of Congress members from various States and regions with no common background of policy or action, starts developing that sense of discipline and oneness which was such a marked characteristic of the old Party in Bombay—at least before the outburst of linguistic fury. To allay the passions and suspicions roused over that issue and to weld the present heterogeneous assemblage into a union of common interests and aspirations is a job which may well be said to call for a strong personality like Shri Morarji Desai, commanding extensive esteem. So far Shri Chavan is concerned, his abilities in this direction are yet to be proved. But meanwhile one may well take solace in the fact that a task that seems to be cut out only for a strong man may well be performed successfully by a meeker and milder one through methods of persuasion that may be as firmly binding as those of awe-inspiring eminence. The history of political parties is replete with such instances.

The State of the Plan

THE Second Plan started functioning six months ago. It would be interesting to enquire as to whether the assumptions in regard to the behaviour of the economy underlying the analysis of the Plan have proved realistic in the light of experience. While the Plan assumed only a moderate rise in the price level over the whole Plan period, the wholesale price index has already risen by more than 10 per cent, and the working class cost of living index by about 7 per cent, since March 1956. This rise has occurred in spite of a seasonal contraction in money supply of about Rs 50 crores between March and August, 1956. It may be presumed, therefore, that the rise in the price level is the result of the increase in money supply that took place during the last year of the First Plan. Obviously under the existing circumstances, large additions to the moneysupply would tend to aggravate the upward trend of the price level. This has obviously important implications for the financial estimates of the Second Plan.

Further, durng this period of six months, it has been realised that the targets of additional production of foodgrains and cloth require a substantial upward revision. In other words, the Second Plan had grossly under-estimated the extent of additional demand for these commodities. It is now estimated that the requirements of food imports would run into 8 million tons during the Second Plan. If we draw upon our sterling balances at the rate at which we have been doing during the last six months, how are we going to find the foreign exchange resources for meeting the additional demand for the import of food, machinery, etc.? The question could well be posed as to whether it would not be advisable to spend considerable investible resources on expansion of agricultural output, and make good the gap through increased production at home, rather than spend substantially larger amounts of foreign exchange in order to import foodgrains.

If the crucial assumptions on which Plan estimates are based tend to go wrong, can the situation be remedied by revising the estimates? Is there not an urgent need for a re-questioning of the assumptions underlying the Plan estimates? After all, is there any reason to hope that the experience of the ensuing months (and years) would tend to be radically different from that during the first half year? This could be so only if agricultural output were to go up by a substantial amount as a result of windfall factors. But the most that can be expected of favourable monsoons is a marginal improvement; it would hardly be prudent to hope for any substantial upward spurt in production. A substantial inflow of foreign aid could, of course, change the picture favourably but if recent experience provides any lesson, it is this: That any one banking on such a possibility is merely basking in moonshine.

Israel's Border Clashes

IT would be wrong to assume that Mr David Ben Gurion is more war-minded than Mr Sharett. Though Mr Ben Gurion is more tolerant to the "activist" group, he is not opposed to a full or limited settlement with Arabs. Mr Sharett is an accomplished diplomat. His policy was to minimise counter-action so as not to antagonise world public opinion. Mr Gurion is not unaware of the need for discouraging provocative local skirmishes. But, when he again became Premier in November last, he said that "if the armistice lines are regarded as being open to the passage of murderers and saboteurs on one side, they can by no means remain closed to the defenders of the other side..... It is my duty to tell the Powers that rule the world—all of them without exception—that the people of Israel will not be led like cattle to the slaughter". These are indications of a change in tactics since resumption of power by Mr Ben Gurion. But the recent major engagements between Israeli and Jordanian forces cannot be explained by the argument that Mr Ben Gurion is in favour of a strong policy to Arabs.

Israel's borders have been drawn in such a haphazard manner as to make border clashes frequent, if not inevitable. Some time ago, Iraq proposed a readjustment of borders based on the 1947 U N resolution. Jordan has also made efforts to the de facto territorial settlement of 1949, on the basis of proposals relating to the Palestine mandate. Israel is not opposed to any readjustment of the present boundaries. But Israel maintains that any such readjustment of borders must be made on a de novo basis. This is not an unreasonable or hostile attitude. The ideal solution would be for Israel and Arab States to start negotiations for an agreed settlement of their dispute without any intervention from the Big Powers. But recognition of Israel by Arab States is a condition for any such negotiated settlement. There are indications that President Nasser's growing influence among Arab States is making the fulfilment of this essential condition more difficult.

Syria and Lebanon have jointly decided to ask for a special meeting of the Security Council to consider "recent aggressions" by Israel. Despite the tension between Israel and Jordan, recent developments are not more ominous than the frequent border skirmishes between Israel and her neighbours in the last few years. Certain developing events may aggravate the tense situation. Jordan has sought, and received, Iraqi assistance under the treaty of 1947. Iraq's aid is welcomed by Britain and France as a stabilising influence. It is argued that Iraq's help may dissuade Israel from any major military action against Jordan in the hope that Cairo's preoccupation with the Suez Canal crisis may prevent any material aid to Jordan by Egypt. But it is unlikely that Israel would start a major offensive against Jordan as it would invoke the Anglo-Jordan treaty of 1948. Mr Ben Gurion may be too optimistic in his assumption that, because of the strained relation between Britain and Jordan as a sequel to the dismissal of Glubb Pasha, Britain may be reluctant to discharge her obligations under this treaty. Meanwhile, it is evident that the Israeli military action against Jordan has strengthened the alliance of Arab States against Israel.

More Aid to Handlooms

UNDER the Second Five Year Plan, the handloom sector has been allotted an additional production of 1,000 million yards of cloth, 700 million yards to be produced from mill yarn and the remaining 300 million from Ambar Charkha yarn. To enable the handloom sector to fulfil its target, the Government has decided to increase the quantum of financial assistance to handloom weavers for their working capital requirements and for the purchase of improved equipment.

Under the new financial measures announced by Government, the limit of loans for working capital for looms in cooperative societies working on cotton, has been raised from Rs 200 to Rs 300 per loom. Government has also abolished the previous distinction between looms already in the cooperative fold and those newly brought into cooperatives for the purpose of eligibility for loans. All looms now qualify for the loan up to Rs 300 each. At the same time, the amount of loans which can be granted to the Central Handloom Cooperative Societies from the Handloom Cess Fund has been doubled.

So far loans were granted up to five times the paid-up share capital of the societies. The limit has now been increased to ten times their paid-up share capital. For the purchase of better equipment for their looms, weavers have so far been given grants for specific items of equipment. Government have now decided to simplify the administration of these grants by sanctioning an outright sum of Rs 218 to each weaver. This represents the value of different items of equipment. The amount can also be utilised for purchasing a new frame-loom, provided with the necessary accessories. The production on frame-looms is, as is well known, appreciably higher than on the old type of looms.

Government has also sanctioned a loan of Rs 14.5 lakhs to the Madras Government for setting up a workshop to manufacture handloom accessories and equipment to meet the increased demand for better type of equipment. This workshop to be set up near Madras city, will be run by the State Government, and its entire cost will be covered by the Central loan. The workshop will turn out take-up motion attachments, hand-operated warping machines, flanged warp bobbins, standard reed, pedal loom, country dobbies and accessories, varnished healds, wire healds for cotton weaving and jacquards. The production of this factory will meet the requirements of weavers in the southern States.

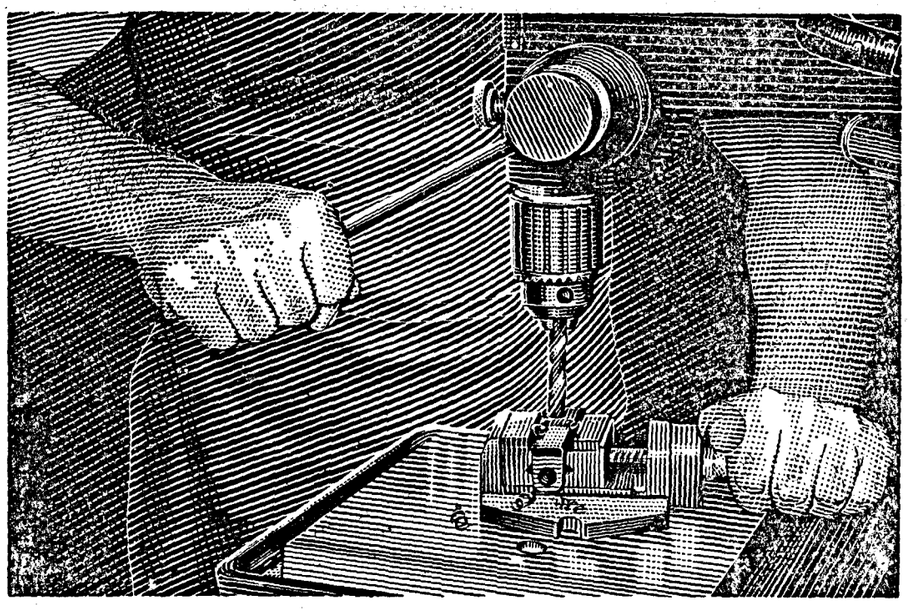
This increased assistance is to be welcomed for the provision it makes for technical improvements in handlooms and for the replacement of pit and throw-shuttle looms by less primeval devices. There is, however, still no official line on the measures proposed to be taken for persuading handloom weavers to produce as many as 300 million yards of cloth from Ambar Charkha yarn.

Status of Jammu and Kashmir

THERE has never been any doubt about the representational character of the Kashmir Constituent Assembly. But the Assembly's delay in deciding the question of the future of the State has caused misgivings in some quarters in this country. These apprehensions have been removed by the presentation of the draft Constitution to the Assembly. One of the provisions of the Constitution seeks to legalise the accession of the State of Jammu and Kashmir to the Indian Union. In the Bill, there is a provision in which "the people of the State of Jammu and Kashmir" solemnly confirm "the accession of the State to India which took place on October 26, 1947". It is further provided that "the State is and shall be an integral part of the Union of India". New Delhi's supremacy is reaffirmed in

the provision that no Bill or amendment can be introduced in the State's Legislature which seeks to alter the future status of the State as an integral part of India. Its implications are obvious. It is a clear reminder to Pakistan that the question of a referendum or a plebiscite to decide the will of the people of Jammu and Kashmir no longer arises. While this implication of the draft Constitution will be relevant in this country, many eyebrows will be raised at one of the provisions of the draft whereby the State will have 'a separate flag".

Not only the Constituent Assembly's sovereign right to decide the future status of the State, but the definition, included in the draft Constitution, of the territorial boundaries of the State is a stern reminder to those who flirt with the idea that the Kashmir dispute can be solved by reorganising the cease-fire line as the final boundary of the State. One of the provisions of the Bill lays down that the State's territory shall be the same as it was on Independence day, August 15, 1947, under the sovereignty or suzerainty of the ruler of the State. This is a clear expression of the will of the people that parts of Kashmir now under the illegal occupation of Pakistan belong to the State, and that Kashmiris are determined to regain the unity of the whole of Jammu and Kashmir under the Indian Union. Twenty-five per cent of the seats in the new Legislative Assembly will be increased for the representatives of the people who are now unable to exercise their franchise because they are in the Pakistan-occupied areas of the State. Karachi can no longer be in doubt about the will of the Kashmiris relating to the territorial integrity and the future status of the State.

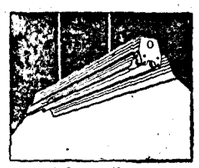


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Bombay and Family Planning

THE refusal of the Bombay Government to offer responsive co-operation in connection with the planning programme of the Central Government raises a number of issues. The Government's action could perhaps be justified on the score of the moral scruples of those in power in the State but it should be emphasised that there is hardly any economist either in India or abroad who does not favour some measure of population control under Indian conditions. Actually, even some Communist countries are thinking in the direction of some measure of family planning. Surveys conducted in different areas in India have revealed that the people are not averse to, though they may be ignorant of, measures for family planning. The only excuse with which the State Government can justify its action is that family planning would tend to lead to a deterioration in moral standards. There is, however, no reason to believe that the moral standards of the people in countries which have adopted family planning are demonstrably lower than of those who have not done so. Can we, for instance, reasonably claim a higher level of personal and social morality than, say, the citizens of the U K? And, further, assuming that State-sponsored family planning on a large scale might create opportunities for moral laxity, are there not enough empirical reasons to believe that the present ubiquitous sale of contraceptives, either openly or disguised as prophylactics in large towns, is already creating wide opportunities for moral laxity on the part of those who would normally be excluded from the benefits of State-sponsored schemes? Moreover, is not the continuance of an appalling level of poverty a more serious cause of moral degradation than State-sponsored family planning could ever be? One wishes that the attitude of the State Government would raise enough enlightened public controversy to clarify the issues involved in this important matter.

Industrial Finance Corporation

SHRI K R K MENON'S speech from the chair at the Eighth Annual General Meeting of the shareholders of the IFCI, which appeared in our last issue, indicates a visible sense of relief at the end of the Sodepore episode. The transfer of the whole net profit of Rs 22.50 lakhs made during the last year to the reserve for bad and doubtful debts, it is anticipated, would clean the slate so far as to enable the Corporation to pay the guaranteed dividend without a call on the Central Exchequer next year. Apart from this legacy of history, Shri Menon gave a fairly satisfactory account of the considerable increase in business recorded during the last year.

The private sector's earlier fears about the working of the Corporation after the resignation of Lala Shri Ram appears to have been fully dissipated by now, for the amounts of loans applied for last year reached a record figure of Rs 27.70 crores, which is one and a half times the total amount applied for in the previous year and more than treble the average of the previous seven years. The loans actually sanctioned during the year under review aggregated to Rs 15.13 crores, an amount more than double that of the previous year and a little less than four times the average of the last seven years. Shri Menon sees no reason why this satisfactory performance should not be maintained, if not improved, in the future. The target set for the Corporation's loans to industry in the Second Plan is, however, only Rs 15 crores, and it is, therefore, proposed to approach the Government to make an upward revision of this target.

While the main emphasis of the Corporation's activities continues to be in four main industries, viz, textiles, engineering, chemicals and sugar, it is heartening to note that during the last year the flow of funds to the industrially backward States has been stepped up considerably. Loans to enterprises in Andhra, Assam, Punjab and Travancore-Cochin, which had amounted to only Rs 2.26 crores till the end of 1955, would record an increase to as much as Rs 6.92 crores by the end of the current calendar year.

Loans to Coop Sugar Factories

ANOTHER noteworthy feature of the Corporation's activities during the last year has been the sanctioning of a total amount of Rs 5.50 crores to co-operative sugar factories. This has been done more or less under the direction of the Central Government and in collaboration with State Governments. Unfortunately, Shri Menon's speech does not provide any indication of the financial problems which Co-operative Sugar Factories are facing, for there are reports that funds collected by these enterprises have not yet reached such a state of sufficiency as to enable them to go full steam ahead. Care would obviously have to be taken to prevent this latest aspect of the Corporation's activities from becoming either another Sodepore to the Corporation or a pre-fab housing to the Central Government.

Shri Menon's comments on the audit system to which the Corporation is subject should be of great interest in this post-Appleby era. It appears that the Corporation enjoys the audit of as many as four different agencies:—(i) internal audit which is claimed to have been put on a satisfactory working basis during the last year; (ii) a firm of Chartered Accountants elected by the shareholders; (iii) another firm of Chartered Accountants appointed by the Central Government in consultation with the Comptroller and Auditor-General.

Both these firms have given a clean bill of health to the Corporation but the fourth agency namely the Directorate of Commercial Audit, under the control of the Comptroller and Auditor-General, seems to have raised some objections, most of which, however, have not survived the replies of the Corporation. No wonder Shri Menon has been constrained to remark that "we have a multiplicity of audit, somewhat in excess of real requirements. One might also be tempted to take the view that if the bulk of the items of original audit objections was withdrawn, there must have been created quite an appreciable quantity of work at all levels, most of which would have been eventually proved to be infructuous". Now that the management of the Corporation has passed into the hands of the civil service ,it would be very interesting to watch this tug of war within the public sector.

Our Delhi Letter

A Policy for Oil

THE return of Shri Keshav Deo Malaviya, Minister for Natural Resources and Scientific Research, to India after a tour of Canada and the United States is likely to give a fillip to the formulation of an integrated oil policy for the country. Shri Malaviya has lost no time. He has been having a series of conferences with his officers to put up concrete proposals before the Government. The formation of a Ministry of Oil and Fuel is still far off but the idea continues to hover on the horizon. Presently, four Ministries —Production, Natural Resources and Scientific Research, Works, Housing and Supply, and Commerce and Industry—are dealing with oil. Progress in this field is inevitably handicapped by the resulting confusion. Besides there is the onerous legacy of neglect. No one has really given thought to the many important aspects of the oil problem for decades. The prices of refined products, for instance, are determined by a Deputy Secretary and a Petroleum Officer, slightly below the rank of an Under-Secretary, in the Ministry of Works, Housing and Supply. An outmoded formula, involving a heavy and avoidable burden on the Indian consumer, is used to determine the prices of refined petroleum products. It has been in force for nearly 8 years.

The emergence of the Cabinet Secretariat as an active agency for framing an oil policy is however a happy development. It is taking the initiative at coordination. The Cabinet Secretary, Shri Y N Sukthanker, has the advantage of expert advice from Shri K K Sahni, Adviser on Oil in the Planning Commission. The appointment of Shri Sahni, who was till recently a senior officer of Burmah Shell, in charge of the Company's aviation service in New Delhi, was suggested by the Prime Minister himself. He has direct access to Shri Nehru who has begun to take personal interest in the oil question. A recent visit to the West European countries and the U S has given Shri Sahni a thorough background of the latest trends in the oil world. Between him, Shri Malaviya and the experts who accompanied the Minister of Natural Resources and Scientific Research on his recent tour, the Government can hope to get enough knowledgeable and up-to-date advice on such policies as it may wish to pursue.

The oil question however is a multi-headed hydra: it has to be tackled simultaneously at several points. Exploration, exploitation, transportation, refining and pricing of oil—each present a complex of technical difficulties. Oil is a highly competitive and organised business; the presence of big international oil cartels is another complicating, if not a perplexing factor. India faces an acute dearth of all types of oil technicians. Besides no attempt has yet been made to study the relative economies of utilising oil and coal and electricity. It has been seriously mooted, for instance, that to pipe crude oil all the way from Assam to Saurashtra would be cheaper than transporting coal from Bihar to that area by sea or surface routes. But who is to find out? Apparently it is necessary to create a technical cell to conduct research on this and allied subjects.

Similarly India's pricing policy should be compared with that of the other countries. In Iraq, petroleum products are reported to be priced at less than one-half of the Indian level. In England, motor spirit sells at 1 shilling seven pence a gallon exclusive of taxes, against the comparable price of nearly two shillings in India. This, at least, is one view of our pricing system. The Ministry of Works, Housing and Supply, dealing with this problem, however, denies the existence of any wide disparity that cannot be accounted for by distance from sources of supply, and freight. It is contended that Iraq being a producing country and England having a large refinery capacity are in a position to sell petroleum products more cheaply than India. But, in fact, the difference between the port prices in India and any other port in the West, after eliminating the freight factor, is no more than one anna. Detailed study of the pricing system is, thus, urgently required to resolve this issue, since a more rational schedule of oil prices could provide immense help to the development of indigenous industry and transport.

An important factor to be considered in relation to prices is the country's production of crude oil. Some of the Western nations are in a position to manipulate petroleum prices and keep them low for their own consumer because they either produce their own crude oil or have a large surplus of refinery capacity or both. India, unfortunately, has neither. Western Europe has developed refinery capacity for processing 135 million gallons of crude oil while its own consumption is about 75 million gallons. More refinery capacty continues to be built. In India, the proved and known oil reserves of Assam can yield only about one-half of the country's requirements of crude oil by the end of the Second Plan. The country is already surplus in motor spirit and furnace oil and would be more so when the Caltax refinery goes into production. Yet there are proposals to start a refinery in the eastern region under the public sector and another privately owned refinery in Saurashtra. Shri Reddy too may ask Russian aid for setting up an oil refinery. These are welcome developments. But the Government should streamline awkward laws, and announce their oil exploration and exploitation policy, particularly since the visit of Shri Malaviya and his team to the United States and Canada has enabled the collection of a large amount of data. The expert view is that we should concentrate our limited resources in the most promising areas of Assam and West Bengal while preliminary surveys continue in the rest of the country. Simultaneously, attempts should be made to train personnel on a large scale; as it is, the chances are that even Rs 11.5 crores provided in the Second Plan for oil exploration may not be spent owing to the paucity of trained staff. Many young Indians studying in the United States are qualified enough to be recalled and put on the job at home. All this points to the need for creating a Ministry for Oil and Fuel to formulate an integrated oil policy and execute a coordinated programme.

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From the London End

The British Balance of Payments

THE publication of the White Paper on the Balance of Payments for the first half of 1956 follows closely on the speech of the Chancellor of the Exchequer to the bankers of the City of London this week. The picture presented is by no means as encouraging as a first reading of the White Paper would make. While the Current Account of the sterling area reflects rising earnings on the part of the United Kingdom, thus placing the sterling area as a whole in a more favourable position than it was in the first half of 1955, the Capital Account, by contrast, reflects a steady deterioration in the flow of United Kingdom investments abroad. The export performance of the British economy is however noteworthy and if account is taken of the trade statistics for the third quarter of this year it is likely that United Kingdom exports in 1956 will show a rise of about 10% over that of 1955.

Current Surplus

The surplus of the United Kingdom on its Current Account, which amounts to £ 144 million, for the first half of this year would suggest that a possible annual rate not far short of the £ 380 million target set by the Treasury may be achieved in 1956. The Current Account of the United Kingdom in the first half of this year compares most favourably with the now revised surplus of only £ 18 million in the first half of 1955 and the revised deficit of £ 107 million in the second half of last year (Tab I) The Chancellor of the Exchequer in his speech at Mansion House believed that the improvement in the foreign balance was the result of a combination of three factors: "a substantial expansion of export earnings, a slight fall in import costs and some revival in invisible earnings". Indeed, the White Paper and the more detailed trade statistics now published for the United Kingdom by the Board of Trade show that each of these factors did contribute towards the favourable balance of £ 144 million achieved in the first half of the year. According to the Board of Trade, U K exports in the first nine months of 1956 have been running at a level which is 10% above that of last year. Net earnings from British shipping transactions in all areas have now recovered from last year's decline, and oil receipts continue to grow. The net oil yield is currently almost as high as that of 1953 and 1954. There has been some expansion of American and Canadian military expenditure in the United Kingdom. All these factors have provided the United Kingdom with an invisible surplus of £ 192 million in the first half of this year.

A notable fact on the credit side is that in the first half of 1956 exports to countries outside the sterling area rose by £ 147 million, compared to the same period of last year. This rise of 18% was more than sufficient to outweigh the slight increase in imports. On the same comparative basis, the balance of trade with the sterling area countries in the first half of 1956 remained practically unchanged. It must therefore be clear that the increase of £ 95 million in the sterling area's gold and dollar reserves during the first six months of 1956 was achieved entirely by the United Kingdom itself. The balance of payments of the whole sterling area with the outside world was in surplus by £ 128 million. Of this the United Kingdom contributed £ 125 million.

Sterling Balances

The difference between the rise in the gold and dollar reserves (£ 95 million) and the balance of payments surplus of £ 144 million is largely accounted for by the fall in the sterling balances of non-sterling area countries. In this regard the state of confidence of the non-sterling world in sterling appears to have remained unchanged between 1955 and 1956 in spite of the attractive market rates of interest that rule in London. In 1955 the reserves had fallen to a greater extent than the sterling area deficit; then the sterling area deficit of £ 167 million with the non-sterling world occasioned a fall of £ 229 million in the reserves. Even the rise in the sterling balances of the Colonial territories seems to have now been halted. For the year ending June 1956, the British Colonies added only £ 8 million to their sterling balances in London compared to the rise of £ 110 million for 1954-55. It could very well be that the Colonies are devoting more and more of their export earnings towards internal development expenditure; alternatively, as appears to have been the case actually, the commodity earnings of Colonial produce have been less during the past year compared to previous years.

Tab II—U K Long Term Investments

£ million

	In rest of the world	In overseas sterling area
1953	175	150
1954	200	175
1955	125	100
1st half '56	50	25

Investment Overseas

The White Paper brings out very clearly the fall in overseas investments in the first half of 1956. Estimates of these movements

Tab I—United Kingdom's Balance ofPayments

£ million

	1955 1st Half	1955 2nd Half	1956 1st Half
With Dollar Area	— 76	— 131	+ 61
Other American countries	+ 6	— 6	—
OEEC Countries	— 2	— 49	— 38
Other Non-Sterling countries	— 17	— 27	+ 12
Sterling Area	+ 12	+ 107	+ 113
International Organisation	— 5	— 1	— 4
Total	+ 18	— 107	+ 144
Financed by—			
Change in Reserves	— 29	— 200	+ 95
Change in Sterling Balances	— 38	— 95	— 23
Net Investment (plus) or Borrowing (minus)	+ 9	— 2	+ 26

are, of course, subject to a considerable margin of error but the data given in Table II at least presents certain pertinent orders of magnitude concerning the size of Britain's overseas investments. While, for the whole of 1955, United Kingdom long term investments abroad amounted to £ 225 million, the flow of similar investment funds in the first half of 1956 amounted to not more than £ 75 million or at an annual rate of £ 150 million. The shrinkage of investment in the overseas sterling area appears to have been sharp. The credit squeeze in the United Kingdom has certainly made it difficult and expensive for loans to be raised in London. Indeed there have been occasions in the past six months for a number of sterling area countries to maintain funds in London to earn the higher rate of interest rather than to devote such funds in their own territories. The weakness in the United Kingdom overseas capital account must therefore be conceived as the result of the deliberate policy of "dear money" as has been pursued by the United Kingdom authorities and this, the **Financial Times** claims, has made "the policy work like a charm". It nevertheless makes the flow of investments by the United Kingdom in 1956 reach a post-war low. While it may have brought some relief to the strain on Britain's capital resources, at a period when sterling has certainly been under pressure, it nevertheless tells on the confidence which overseas countries are expected to possess in their expectation of capital flows from London.

Cheaper Money or Status Quo?

The rise in British exports over the past nine months and the stagnating tendency that has come to characterise British industrial production has suggested to a number of commentators that the time has now come for some relaxation in the policy of monetary stringency. Mr Roy Harrod has recently written that the "time to relax is now". The difficulties in the automobile industry and short time working in a number of other industries that are in one way or another allied or associated with motor car production, has given this suggestion some sense of urgency. It has been suggested that the conscious curtailment of the home market for a number of products in the face of stronger competition for similar products in foreign markets has been largely responsible for the stagnation in industrial production. The Governor of the Bank of England, speaking at Mansion House this week, pointed out that the variability of the bank rate was an ever conscious aspect of British policy—it may be changed as and when the British authorities decide.

In contrast to this "relaxation viewpoint" the OEEC report, which has just been issued and which concerns the British economy, recommends a continuing "dear money" policy and, more importantly, a "stabilisation of wage rates". The report claims that if the improvement in external payments is to be maintained, the most "urgent need" is to achieve stability in wages and prices. It states that voluntary price stabilisation on the part of manufacturing industries will only be useful if it "coincides with a period of greater stability of wages". Failing that, there will result a major release of additional real demand which can only damage the balance of payments. The OEEC goes further. It recommends to the British authorities that a "tougher" budget be introduced next year—designed to restrain home demands further and in a manner which goes considerably beyond that which budgetary policy has so far achieved. It views the increasing competition in foreign markets with favour: such competition provides stimulus to economic flexibility and to labour mobility. Both these requirements are sadly lacking in Britain. It is not known how far the political situation would warrant a tougher budgetary policy or for that matter whether the political repercussions of a crisis in the automobile industry would not call for some economic relaxation. If the speech of Mr Macmillan is indicative of British economic policy, then, however, it is more likely than not that "Britain will not relax".

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Official Papers

Light on Small-scale Industries

Sports Goods, Sewing Machines & Parts, Bicycles & Parts (Northern Region.) Small Scale Industry, Analysis and Planning, Report Nos 1, 2 and 3. Development Commissioner, Small Scale Industries, Ministry of Commerce & Industry, New Delhi. Pp 37, 37 and 53. Prices not mentioned.

Reviewed by **R K Hazari**

THESE are the first three of a series of reports prepared by teams of economists and engineers in the Office of the Development Commissioner for Small Scale Industries, which are being brought out by the Ministry of Commerce and Industry. The reports have been prepared under the direction of Dr Eugene Staley, Consultant on Industrial Economics, and Shri S Nanjundan, Deputy Development Officer.

A central team of economists and engineers was set up in July 1955, to work under Dr Staley. The team surveyed four industries in the Northern Region in the first instance viz (1) Sports Goods (2) Sewing Machines and Parts (3) Bicycles and Parts and (4) Leather Footwear. The reports have been prepared with a view to assist Government in determining what types of small scale industry should be promoted and what should be the main lines of their growth.

Based on rapid field studies at important centres of the industry in the North, the surveys are non-statistical; "speed, consistent with reaching reasonably valid conclusions on which to base practical action," to quote the authors, being more important at this stage than scientific thoroughness. It is indeed commendable that the first two reports were submitted to Government as early as October 1955, i e, within three months of the teams being put on the job.

Perhaps the most important feature of the reports is the attempt made to evaluate the prospects and the suitability of particular industries for development on a small scale though not in a de-centralised manner. For this purpose a rating system has been adopted, based on evaluation of demand outlook, employment outlook and competitive outlook. Rating A has excellent prospects and it is proposed that industries with this rating should be given all help. Industries rated as B have moderately good prospects, or good prospects with special circumstances e g a large number of household producers whom it may be difficult to bring into technical improvement schemes; in their case while all help should be given, caution would have to be exercised to prevent lopsided development. Last of all comes rating C indicating poor prospects, in which case the Small Industries Service Institute may assist firms in the industry to shift to other activities. All the industries covered by the reports under review have been rated A. It is expected that output in the sports goods industry would expand at an annual rate of 20 per cent, that domestic consumption of sewing machines and parts made by the small scale industry will double during the next five years, and that the bicycle parts industry would increase at an even more rapid rate of development of 25 per cent per annum which would mean a tripling of production over the next five years.

The reports contain factual analyses of the general status of each industry with reference to output, employment, personnel, capital output and capital employment ratios, and its comparative position vis-a-vis large scale industries. Some of these data are collated in Tables I, II and III.

A notable fact about the analyses and recommendations in these reports is that they take up a thoroughly positive and practical approach. The industries selected are those for which internal demand is expected to rise considerably during the immediate future and for which there is scope for markets abroad. Further, the growth of these industries would not lead to displacement of labour in any other sector. They possess sufficient innate strength on account of their low overheads and labour costs, skill, initiative and effective supervision by management, to stand competition from the large scale sector of the industry in question. This, of course, holds for industries other than sports goods in which there is practically no large scale enterprise. The reports do not favour

Table I—Sports Goods

	No of mfg units	No of workers employed	Value of output in Rs lakhs 1954
Jullundur	125	2500	35
Meerut	25	2000	40
Delhi	25	150	5
Batala	23	150	5
Other Centres in the region (including Jammu)	10	150	3
Total—Northern Region ..	258	4950	88
Total—Other Regions ..	17	408	9

Table II—Sewing Machines

(Numbers)

Year	Production		Import	Export	Estimated consumption
	Large-scale	Small-scale			
1947	5,860	N.A.	53,385	—	59,245
1948	20,019	N.A.	56,938	—	76,957
1949	25,029	1,000	49,043	390	74,682
1950	30,892	5,000	23,425	4,611	54,706
1951	44,461	10,000	28,872	6,142	77,191
1952	50,045	20,000	20,003	8,138	81,910
1953	62,419	25,000	13,920	11,025	90,314
1954	80,198	30,000	13,976	7,240	116,934

any restrictions on production in the large scale sector and the aids they recommend to the small scale industry are explicitly stated to be an attempt merely to remove the handicaps which the latter suffers from.

In refreshing contrast to the quixotic programme for schemes like the Ambar Charkha, the proposals for these industries give considerable evidence of horsesense. Their location in the North is based not on the nearness of raw materials or of important markets, but on the availability of skilled workmen, entrepreneurial initiative and external economies due to the existence of established light engineering industries in the various centres. It is on these favourable—and one should say fundamental—factors that the recommendations in the reports are based. The fair success of the community development and extension service approach has suggested a similar policy in the field of small industries as well. It is proposed that Industrial Extension Officers should be appointed to act as links between the Small Industries Service Institute and the industrial units. Their function would be mainly educative. They would be expected to work in close collaboration with the co-operatives for buying and selling and trade associations (to be set up) which would voluntarily enforce quality standards and trade marks. Since the investigating teams found that the non-availability of adequate and proper premises was one of the major handicaps of these industries, it is recommended that they should be allotted sites and premises in industrial areas and newly set up industrial estates. A system of hire purchase of machinery from the Government has also been suggested and this is followed by the inevitable —as well as fashionable—recommendation that the Government should give preference to these units in the purchase of its stores.

It has been recognised that, except for sports goods, these industries cannot be de-centralised away from urban areas where skilled labour external economies and proposed Government aid are or can be made available. The need to create quality standards, for which three grades are proposed to be established in the initial stages to smoothen the process of standardisation, makes it all the more essential that these industries should have a modicum of centralisation. One wishes that those dedicated to the ideology of cottage industries would also pay some heed to this important consideration.

There is one point in the recommendations on which opinion may differ for certain fundamental reasons. It has been suggested that State Governments should enforce the provisions of the Factory Act rather leniently in respect of these industries since the investigation teams received widespread complaints from various units about the inconvenience caused to their management by them. While one cannot but be in sympathy with the management for the burdens of Government interference which they have to bear, it is also to be remembered that the law and its enforcement in their very nature do not permit of deliberate discrimination. If these burdens on the management of small units are considered excessive, the proper way to lighten them is to make appropriate changes in the law rather than dilute its enforcement.

Table III—Bicycles and Parts

Name of State	Approximate number of small-scale units	Approximate number of workers
Punjab	330	4,030
P E P S U	35	550
Delhi	25	275
U P	51	900
Total, Northern Region	441	5,755
Other Regions (West Bengal, Bombay, Madras, etc.)	60	716
TOTAL, ALL INDIA	501	6,471

Production—Quantity and Value

	Northern Region (1955)		All-India (1955)	
	No	Rs Lakhs	No	Rs Lakhs
Small-scale Sector:				
Complete Bicycles (assembled by units not registered under Industries Act ..	20,000	24	20,000	24
Parts and accessories ..	—	175	—	200
Large-scale Sector:				
Complete Bicycles ..	NA	NA	5,00,000	750
Parts and accessories ..	—	NA	—	155

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The Tsangpo in Tibet and Brahmaputra in Assam

Kumud Bhushan Ray

TIBET is the highest plateau in the world, lying 12,000 feet above sea level. It lies to the north of the Himalayas, which act as a barrier, to the monsoon air currents from the Indian Ocean. Central and Western Tibet receive little rainfall, and the region is barren. Moist currents of air from the Pacific Ocean, however, have access to Eastern Tibet, which is well watered and fertile. No water escapes to the sea from Central and Western Tibet. The troughs contain a series of lakes, into which the rivers empty their water. The Tsangpo is the only river which has access to the sea through the Dihong and Brahmaputra.

Heinrich Harrer, a Tibetan explorer, in 'Seven Years in Tibet', states that "in former times rainfall in Tibet must have been heavier. There used to be great forests, which made for rainier and cooler weather". Burrard and Hayden, in 'A Geography and Geology of the Himalaya Mountains and Tibet', have given a similar opinion on the rainfall in Tibet. South of the Himalayas lie the river basins of the Indus, Ganga and Brahmaputra. The reclamation of the ancient sea, between the Himalayas and the Vindhyas, by the deposit of silt transported by river water from the crumbling of the hills, has created the alluvial plains of India. Monsoon currents of moist air from the Indian Ocean have access to these plains. The combination of the rich alluvial soil and rainfall have made the river basins highly fertile.

The Great River

Tsangpo in Tibetan means "any river, but usually a large one; especially the 'great river' of Tibet from west to east".

The Tsangpo rises in Tibet, a few miles east of the Gurla Mandhata peak, between the Ladakh and Kailas Ranges, at an altitude of 16,000 feet. At its eastern end, a few miles east of Gyala Sengdong, the Tsangpo turns south and crosses the Himalayas into India.

Some of the tributaries of the Tsangpo—the Kyi Chu, Shang Chu, Shap Chu, Nyang Chu, etc,—flow in a direction opposite to that of the main river. Burrard and Hayden state that this remarkable feature has given rise to a belief that the Tsangpo "must at no distant date have flowed from east to west in Tibet". The authors write:

"It is not possible to express an opinion at present as to where it (the Tsangpo) escaped through the Himalayas; it may have flowed through the Photu Pass through the defile of the Kali Gandak; it may have passed through the basin of the Karnali, and it may have flowed through the present Himalayan course of either the Sutlej or the Indus; arguments can be adduced to show that each of these hypotheses is worthy of future investigation, but with our present knowledge no conclusion can be reached".

From the ancient books of Tibet and India, it appears that a part of Tibet was under a sea-like lake. The Kailas on the north shore line of the lake tallies with the existing Kailas Range. The Gandhamadan on its south shore line is probably the Ladakh Range; the Jarudhi on its west shore line is probably a spur connecting the Kailas and Ladakh Ranges; and the Sambartaka on its east shore line is probably the eastern end of the Nyenchintangla Range. All these ranges have altitudes of over 16,000 feet.

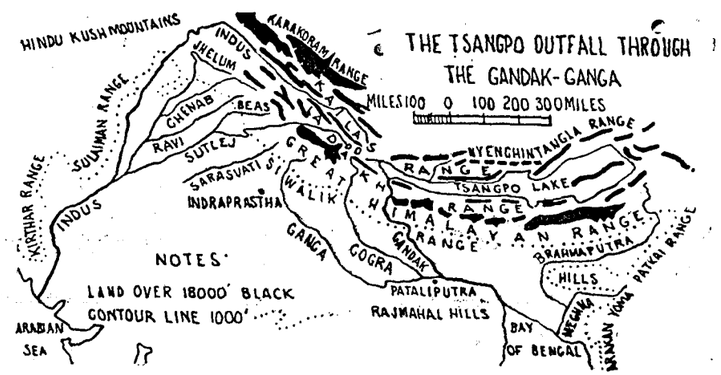
The ancient Tsangpo Lake probably extended on the west to the source of the Indus, and covered the Mansarowar and Rakhas Lakes, and on the east to the extreme end of the Eastern Himalayas. Its northern shore line was the Kailas and the Nyenchintangla Ranges, and its south shore line the Ladakh Range.

Tsangpo Flows from East to West

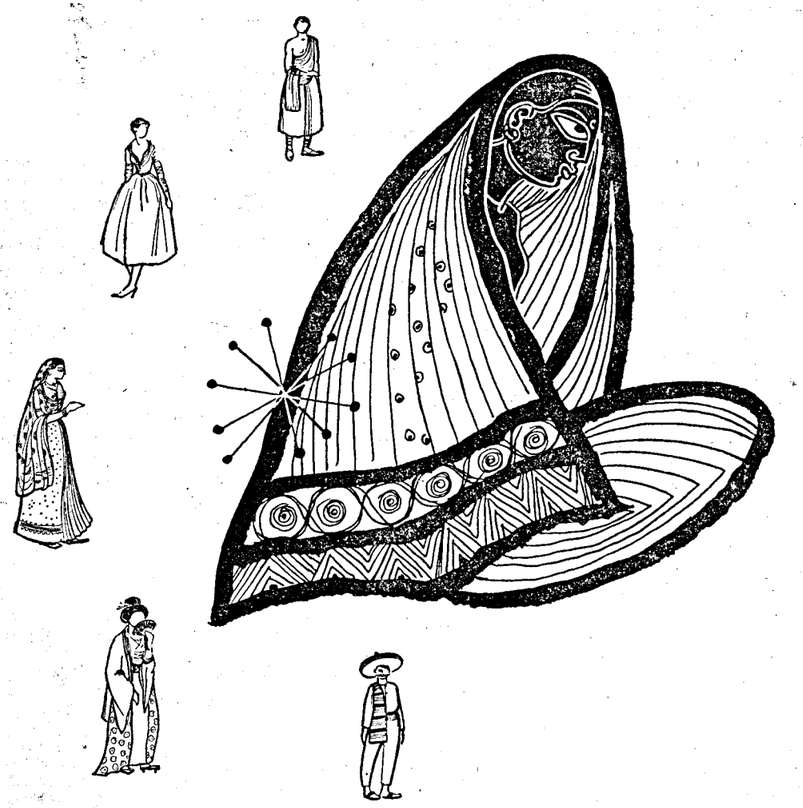
Near Bunji, north of the Nanga Parbat peak, the Indus flows between precipices of 20,000 feet height, through a gorge 17,000 ft deep. Such a deep gorge could not have been cut, if only the water from the catchment of the Indus in the Himalayas had drained through it. Similarly the great Sutlej canyon across the Himalayas could not have been created by "the small stream that now trickles along the floor of the canyon". On the same reasoning, the gorges of the Karnali or the Kali Gandak could "hardly have been cut by the volume of water from so small a catchment as the river now possesses behind the Great Himalayas".

Burrard and Hayden have not, however, mentioned the Sarasvati as being one of the channels through which the waters of the Tsangpo might have once escaped. This is probably because the Sarasvati at present is an insignificant stream near Kurukshetra, losing itself in the desert lower down. For an escape of Tsangpo water through the Indus, the watershed joining the Ladakh and Kailas Ranges, at an altitude of 16,000 feet, need crossing. The water level in the ancient Tsangpo Lake must thus have been above 16,000 feet, so that the region, where Lhasa now stands at an altitude of 12,000 feet, was under 4000 feet of water. With the addition of Tsangpo water, the discharge during the flood season made the Indus look vast as the sea, which justifies

Fig I



We don't all wear the same type of clothes; but,
here or thousands of miles away, clothes are a basic necessity.
A simple piece of cloth is everywhere the symbol
of one of man's fundamental needs.
For the fulfilment of this need we must depend
on the joint effort of many; in India industries and
development projects all form a part of this joint effort,
speeding the nation's progress.
A constant supply of our petroleum products
to such enterprises is fundamental
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the name Sindhu (sea) given to it in Vedic times.

The Sarasvati, extending its channel by cataract action along the present Sutlej across the Himalayas, reached the Tsangpo Lake. Its water thus flowed through the Himalaya mountains along the Sarasvati to the Arabian Sea. With the flow through the Sarasvati, the level was lowered in the Tsangpo Lake, so that flow of its water through the Indus ceased. Later on, with the extension of the Karnali channel by cataract action across the Himalayas to the Tsangpo Lake, its water flowed through the Karnali-Gogra-Ganga into the Bay of Bengal. The level was further lowered in the Tsangpo Lake, so that flow of its water through the Sarasvati into the Arabian Sea ceased.

Thus the water from the Tsangpo Lake changed its outfall, from the Arabian Sea into the Bay of Bengal. With the cessation of Tsangpo water flow and the subsequent capture of its channel in the Himalayas by the Sutlej, the Sarasvati was deprived of its upland water supply and dwindled down to its present insignificant condition.

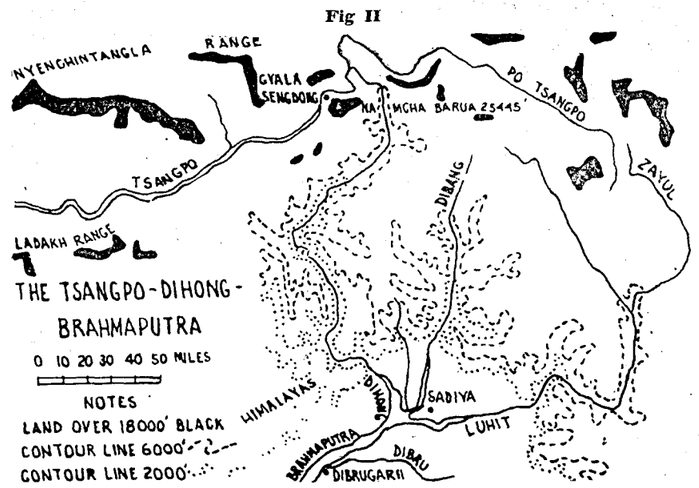
The extension of the Kali Gandak channel across the Himalayas by cataract action to the Tsangpo Lake, caused a flow of its water through the Kali Gandak-Gandak-Ganga to the Bay of Bengal (Fig 1). The level in the Tsangpo Lake was further lowered, so that flow of its water through the Gogra-Ganga ceased. Up to this time, the Tsangpo water flowed from east to west.

Tsangpo West to East

The extension of the Dihong channel across the Eastern Himalayas by cataract action to the eastern shore of the Tsangpo Lake, caused a flow of its water through the Dihong-Brahmaputra-Meghna into the Bay of Bengal. The level was lowered in the Tsangpo Lake, so that flow of its water through the Gandak-Ganga ceased. Tsangpo waters now flowed from west to east. Fig. 2).

Drainage through the Dihong lowered the level in the Tsangpo Lake, until land in the Tsangpo valley emerged above water. The deposit of silt from the water of the lake for ages made the soil fertile, while moist currents of air from the Pacific Ocean provided sufficient rainfall. Large forests grew up in

Fig II



the sparsely populated country. With a prosperous cultivation and abundant crop production, civilisation and culture grew up and appear to have flourished in Tibet from the 7th century A D.

On the other hand, although Kamarupa under King Bhaskara Varman had diplomatic relations with China and "attained considerable power and a fair degree of civilisation," the fact remains that "so few materials of their time have come down to us." The reason, given by Gait in his History of Assam, is "that nature vied with man in destroying them." The decline in power and civilisation in Kamarupa, started after the death of Bhaskara Varman in 650 A D.

The building of the Potala Palace in the capital city of Lhasa, and the growth of civilisation and classical literature in Tibet, started from the 7th century A D. The decline in power and civilisation of Kamarupa also started from the 7th century A D. It may, therefore, be inferred that the drainage of the Tsangpo Lake through the Dihong, which caused the emergence of considerable areas of land in the Tsangpo Valley and destructive floods in the Brahmaputra Valley in Assam, started about the 7th century A D.

Conditions in Modern Tibet

The cataract action in the Dihong channel across the Himalayas is continuing. It has been mentioned that the hills on the eastern shore of the Tsangpo Lake had an altitude of over 16,000 feet. Along the channel of the Dihong, there has been a lowering of these hills to 8,000 feet at Gyala Sengdong. About 40 miles lower down, the Dihong channel bed has an altitude of 6,000 feet (Fig 2).

In the vicinity of Lhasa, the Tsangpo has still a wide and shallow channel with a sluggish flow. It is one of the rare instances of a navigable river at such a high altitude. On May 28, 1882, Sarat Chandra Das* came to a chain bridge across the Tsangpo, where its channel was about 400 yards. As it was the dry season, there were sand banks for several hundred feet beyond the ends of the bridge. His party and ponies were taken across the river in a roughly made boat. On August 26, during the flood season, he found that the waters had submerged the wide sand banks. On October 28, during the dry season, the water had gone down, so that he had to walk over nearly 2 miles on soft sand before he reached the ferry boat. The Tsangpo here has thus all the characteristics of an alluvial river.

With the extension of cataract action, from the Dihong to the Tsangpo, its alluvial characteristics are changing. The wide and shallow channel, having a sluggish flow, and which formerly extended nearly up to Gyala Sengdong, is now gradually becoming narrower and deeper, while the current is becoming swifter. Between Sadiya at an altitude of 442 feet and Gyala Sengdong at 8,000 feet, the distance along the river being about 210 miles, the fall in the Dihong is about 36 feet per mile. In its natural tendency to flatten this steep slope, the deepening of the channel bed is gradually ex-

* 'Bhota Prakash' by Vidhu Sekhara Bhattacharya.

tending upstream in the Tsangpo. In this process in the course of a few centuries, the Tsangpo will flow through a deep gorge, similar to the 4,000 feet deep gorge of the Indus.

The draining of the water through the Dihong had at first reclaimed from the bed of the ancient Tsangpo Lake extensive areas of land in the Tsangpo Valley. Heavy silt deposit made the soil very fertile, while moist currents of air from the Pacific Ocean provided sufficient rainfall. Forests grew and there was ample production of food crops. But with the deepening of the Tsangpo channel, and its gradual conversion from an alluvial to a torrential river flowing through a deep gorge, river-side lands are becoming desiccated, by seepage of sub-soil water through the sides of the deep gorge. Thus inspite of the rainfall in this region, with the gradual desiccation of the land in the Tsangpo Valley, Eastern Tibet will become more and more barren, similar to the lands in Central and Western Tibet.

Conditions in Assam

The colossal amounts of debris, formed in the process of lowering of the Dihong and Tsangpo channel beds, and from the landslides in the sides of the river gorges, are adding to the silt load transported by the Dihong waters. But when the wide and shallow Brahmaputra is reached, owing to its lower velocity a considerable part of the silt load is deposited on the channel bed. As the river bed rises, flood waters overflow and deposit silt on the river banks. South of Sibsagar, the palace of the ancient Ahom Kings are buried in silt up to the first-floor level.

The rise in river bed and banks has created other problems. The high dry-season water level in the river prevents drainage from river side tea gardens, villages and towns. It may be mentioned here, that it has become necessary to construct a channel 14 miles long to a point downstream of Dibrugarh, to ensure an outflow for the town's drainage into the river, at a cost of Rs 14 lakhs. Owing to the high water level in the flood-season, the submergence of paddy and tea garden lands, and villages and towns, has become an annual occurrence.

Conclusion

The deepening of the channel bed of the Tsangpo in Tibet, and the deposit of colossal amounts of silt on the bed and banks of the Brahmaputra in Assam, are the primary causes of the rapidly deteriorating conditions in Tibet and Assam. It is not known if the Government of Tibet is taking action to prevent, or minimise, the desiccation of the soil in the Tsangpo Valley. In Assam marginal embankments are being constructed along rivers, to prevent the submergence of river-side lands; but, as is now well-known, such embankments are very temporary palliatives.

Before the Sara Railway Bridge (now in East Pakistan) was constructed, the width of the Padma from bank to bank at high water level was 16,500 feet, or over 3 miles. Although 15 x 359 feet spans are provided in the bridge, in its natural tendency to concentrate in a narrow and deep channel not more than 7 x 359 feet spans or less than one-half mile of waterway passes the whole of the flood season discharge. With the narrowing, the depth of the channel has increased to a maximum of 130 feet, and the velocity to 13 feet per second.

At Pandu, the Brahmaputra has a width of 2,560 feet, the velocity in the flood season in this reach being up to 12 feet per second. But in the other reaches, the width varies from 1 to 9 miles. It needs narrowing, deepening, canalising and stabilising of its channel to a width of less than one-half mile, so that a high velocity is developed, which can transport the whole of its silt load to parts of its wide bed to form new parallel river banks, having in between a narrow and deep channel with a stabilised alignment.



Labour Cost ... of Commonsense

Amartya Kumar Sen

MY note on Labour Cost and Economic Growth has drawn forth some comments from Dr Brahmanand and Mr Srinivasan in The Economic Weekly of Oct 13, 1956. The points raised in the former's rejoinder may be dealt with first.

Consumption Multiplier

1. Dr Brahmanand's suggestion that my example can be fitted into their "generalised formula of the Consumption Multiplier" by reducing the value of the marginal propensity to consume below unity, does not appear to me to be very satisfactory, to say the least. The marginal propensity to consume in my example was unity and the recovery of previous consumption was done by taxation. To put it as if the recovery comes about through a low marginal propensity to consume involves the suggestion that the recovery is due to the savings of the rural population, which is not the case. If Dr Brahmanand is keen on having a general formula, I should suggest the following:

$$\frac{1}{g+(d\times q\times mpc)} \text{ instead of } \frac{1}{g+(d\times mpc)}$$

where q is the proportion of the previous consumption not taxed away. Thus in my example we would find that mpc = 1 and q = ½ and not that mpc = ½, as Dr Brahmanand suggests, since the rural population were consuming all they could.

2. I find nothing in Dr Brahmanand's arguments to believe that the rural population would have a significant part of their income as some members of the family move out. The common characteristic of nearly all low-income groups in the world is a mpc "very near one".

Techniques and Reinvestment

3 and 4. Coming to the choice of techniques, Dr Brahmanand succeeds in making his examples so complicated, that with only a little help from the press, they are almost absolutely incomprehensible. It appears, however, that what he is driving at is the following. He starts with two techniques with the following particulars:

	(In Rupees)	
	Technique I	Technique II
Capital ..	100	100
Wage-bill ..	5	1-2|5
Net output ..	10	6-2|5

He points out that for the same amount of investment, Technique II has less recurring wage-costs (due to less employment) indicated by "even a glance at the above illustration". This saving of wage-costs "will be available for employment in the investment sector". Hence, argues Dr Brahmanand, "aggregate amount of employment would be the same, whatever the technique adopted". Also, according to him, this makes Technique II preferable, as we have greater investment, leading to fresh migration and fresh release of wage goods, further investment and further release and so on.

This would have been so, had the output been the same with both the techniques. But another "glance at the illustration" will show that the case is different. The rate of reinvestment is given by the difference between the net output and the wage-bill, so that just a saving of wage-costs does not mean a higher rate of reinvestment. Again even if we assume that there is a considerable lag between the application of labour and the delivery of the output, the advantage of less labour cost will be only of short term nature, since the output must eventually appear in the market. Also, if a long input-output lag is assumed, it is difficult to see why one should think that to make the additional investment by the saving of wage-costs, to get the labourers from the rural areas, to recover their past consumption, to re-invest to that extent, to get new labourers, to recover their past consumption, and so on and so forth, would involve no time. Dr Brahmanand seems to be making rather a lot of very dubious assumptions.

Finally, Dr Brahmanand concludes his note by pointing out that if the labour-intensive technique gives a lower rate of accumulation, one can choose it only if we discount the future heavily. I was, however, arguing for labour-intensive production when it gave a higher rate of accumulation. Thus Dr Brahmanand's point is interesting, possibly valid, but not relevant.

"GOOD-BYE TO SENSE"

IT would not have mattered very much had Mr Srinivasan merely misunderstood what I had said in my note. But since he has taken the trouble of writing a paper on it, he deserves to be taken seriously. So let us examine his points one by one. (I shall confine myself only to his criticisms of my note, though it can easily be shown that his critique of Prof Das Gupta's note is not any more sound.)

(1) Mr Srinivasan says, "The main core of his (i e, my) argument, as I understand it, is that the additional cost of labour in terms of his consumption consequent upon his transfer from the pool of disguised unemployed to the new investment being smaller, there is a pronounced bias in favour of labour-intensive techniques of production". This piece of enlightenment is very interesting, as the particular thesis mentioned, far from being the main core of my argument, is not even something I said. (Again the sentence does not make very much sense either. To say that the additional cost of labour is "smaller", without mentioning smaller than what, is not a statement that is terribly meaningful. It is like saying, Ram is taller.)

Had Mr Srinivasan read my note carefully, he would have found that my point was precisely the reverse of providing a general argument for labour-intensive techniques on the ground of small labour-cost. I quoted Prof W A Lewis and referred to Prof A E Kahn, supporting labour-intensive techniques on the ground of zero labour-cost in an economy with unemployment, and suggested that the relevant labour-cost from the point of view of the rate of growth, was the increase in consumption as a result of additional employment. Even in an economy with unemployment this would not be zero and hence it would not be wise to choose, as Prof Lewis and Prof A E Kahn seemed to suggest, the most labour-intensive technique available.

(2) Mr Srinivasan suggests that the "main core" of my argument is "based on" the idea that "to the society, the cost of labour is equal to the difference between the wage rate in new investment and his average consumption prior to his transfer". This is very confusing, since what I actually said was that the relevant cost of labour "is not approximated by the difference between the industrial wage and the rural average consumption, but by

the full industrial wage (unless the State intervenes with taxation or with other income-leakage-mechanisms)". Mr Srinivasan seems to have missed the word "not" (printed in emphatic type),—rather an important word to miss when one comes to think of it.

(3) Mr Srinivasan thinks that I have misstated the theory of opportunity costs. The reason for this charge is not quite obvious from what he says. But it appears that he holds that by opportunity cost one should refer to the alternative factor-income and not to the alternative marginal productivity. I agree that both the definitions are possible, and in orthodox economics they actually come to the same thing as factor-income is equated to marginal productivity. In the case of disguised unemployment, however, there would be a difference between the two, as due to the family-based social structure, someone might be superfluous for production and yet share the family income. Here the two definitions diverge, and what we call the "opportunity cost" depends upon whether we are looking at it from the point of view of individual income or that of social production. Prof A E Kahn, for example, in putting forward his Social Marginal Productivity criterion for choosing between techniques, employs the definition of opportunity cost in terms of alternative marginal productivity, (Quarterly Journal of Economics, Feb 1951).

In any case, however, my point is not dependant upon the theory I criticise being called the theory of opportunity costs. It is a real enough theory put forward by big enough economists to warrant a discussion on it on its own merits, whatever its name.

(4) Mr Srinivasan maintains that my criticism of Prof Vakil and Dr Brahmanand's 'Consumption Multiplier' arises from my misunderstanding of the concept. And what is this misunderstanding? I am supposed to have forgotten that in the absence of the release of the consumer goods which Prof Vakil and Brahmanand assume, "the multiplier would not simply function". Well, that I thought was precisely my point. In the absence of special taxation to do the job of recovering the old consumption of the new labourers, there would not be the discussed release of the consumer goods, so that a tax linked with the exodus from the rural area seems to be a pre-requisite of the functioning of the consumption multiplier. In putting forward their concept, Prof Vakil and Dr Brahmanand did not make this clear, even if we assume that they were conscious of this difficulty.

Mr Srinivasan seems to accept the logic of the situation regarding taxation, but then wonders, "how can it make the foundation of the consumption goods multiplier dubious?" The Keynesian Multiplier, Mr Srinivasan is quick to point out, remains operationally useful inspite of the possibility of the marginal propensity to consume being zero. The comparison would have been legitimate, if in the absence of government intervention the marginal propensity to consume had nearly always been zero. This, fortunately for the Keynesian Multiplier, is not the case, and it does not need the help of the government to function.

In any case, however, the important point is that the assumptions on which the functioning of the so-called Consumption Multiplier is based, were not clearly stated, as the originators of the concept seemed to conceive it as a more or less automatic process.

(5) Mr Srinivasan's last criticism of my note is that my point on the effect of recovery of old consumption on the choice of techniques is arrived at only through my arithmetical example*. This is just not true. Mr Srinivasan's confusion arises due to his assumption that I am out "to prove the profitability of the labour-intensive methods of production". It would be pointless to try to build up a universal case for choosing labour-intensive techniques on the basis of some algebra and a little arithmetic. It escaped Mr Srinivasan that I used the algebra and the arithmetic to study the direction of the effect of recovery (if possible) of old consumption, on the choice of techniques. And I found that if alternative techniques exist, this would tend to make us choose "less" capital-intensive methods of production, as recovery in its effect was similar to lower wages. And this does not depend on my arithmetical example, as an equal addition to the numerator (surplus per unit of labour) must increase the value of that expression relatively more which has the lower denominator (capital cost per unit of labour). Thus the taxation policy of the government should influence our choice of techniques, if there are alternative techniques. Mr Srinivasan's claim that "one may just as well arrive at the conclusions opposite to that of Mr Sen, with different but equally plausible sets of figures" does not, therefore, seem to be well-founded. And of course since he assumes that I am trying to prove something which I am not, Mr Srinivasan's point does not appear to be very richly endowed even with the virtue of relevance.

Finally, while going through Mr Srinivasan's economics, I was wondering whether it was really fair to describe economics as "commonsense made difficult". An eminently more suitable definition, in this particular case, seems to be—"good-bye to sense—common, uncommon and half-common".

* Mr Srinivasan's claim that I did "not take into account the duration of the capital equipment" is grand, as he must have thought that I had used the word "ent" in the expression "net product per unit of labour" for sheer fun.

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A Pilot Scheme for Workers' Education

S D Punekar and S Nilakantan

THERE is no uniform course of workers' education and the content of the education differs from country to country depending upon its political, economic and social development. In U S A workers' education is mainly carried on under trade union auspices and largely for the service of men and women in the trade union movement. In Great Britain and Scandinavia on the other hand, workers' education includes non-vocational education designed principally for the working class to provide 'objective' education to improve the students' understanding and increase their mastery of the world they live in, as well as to improve their personal culture. In France, workers' education is considered as one aspect of a wider movement of "Popular Education."

In India the literacy percentage is very low and the trade union movement is yet to be developed. Unfortunately workers have not fully understood their basic civic and political responsibilities and privileges. On the other hand, although the Indian worker is illiterate he is not ignorant of the things that happen around him. If given proper scientific training and guidance, he would not merely prove fit enough to shoulder any responsibility but could be an asset to the nation by rightly leading others in their endeavours. This aspect was amply demonstrated during the last general elections when a large percentage of workers exercised their franchise, understanding fully the significance of the whole business. So it is necessary that the workers' education, if it is to be organised on a sound footing, must be arranged to deal with the worker firstly, as an individual who is to develop his faculties fully, secondly as a partner in industry who must be able to do his job well and lastly, as a member of the community who has a responsibility as a citizen.

In view of this three-pronged approach to the worker as an individual, as a member of the working class and as a citizen (member of the community), the range of studies will be as follows: (a) primary education to satisfy the elementary literacy needs of an individual; (b) professional education comprising of vocational training and labour education, and (c) community education imparting knowledge in civics and citizenship. A fourth approach of looking at the worker as a member of the human race brings in the international aspects of workers' education, which however, is not of relevence in a pilot scheme.

Workers in India are not all equally advanced in their mental pursuits. It is therefore necessary to group them viz: completely illiterates for whom education must be started from the primary stage; those who have undergone some fundamental education; and those who have passed the secondary stage of education. This naturally brings in some changes in the objective of education for these three different groups. While preliminary education opens the horizon, secondary education brings with it further avenues of development and advanced education is designed to make them leaders of the community and the industry.

A chart giving details regarding objectives, duration of courses, conditions for admission, curricula, etc. is given at the end of this article. The chart is of an illustrative type and may serve as a basis of discussion. It divides the whole programme into three stages (a) preliminary, (b) middle, and (c) advanced and lays down the various standards accordingly.

The duration and the scope of the courses cannot be modelled on the school or college type—either as comprehensive or as prolonged. It must be understood that students here are primarily workers who have to support themselves as well as their families. It is expected that a three months' course will enable the worker to sufficiently understand his role. This time is enough to awaken 'the hidden genius'. If some workers show a special interest and ability they could very well undergo the advanced courses and later may be granted some assistance to go through college education. However, no link of the workers' education scheme with the University is contemplated at this stage. It is necessary to prescribe some minimum qualification for admission to secondary and advanced courses for without it, uniformity of courses cannot be achieved.

Workers beyond a certain age come to accept things as they are. They do not exhibit any enthusiasm to learn new things and they consider their lives as 'spent ones'. The only education that could be imparted to them is through the medium of audio-visual aids. To lead a better life they are only to see things by themselves rather than being taught. Hence, it is necessary to fix a maximum age. As for raising the minimum in the case of students of secondary and advanced courses, it is hoped that the worker will attain some amount of maturity to look at things 'objectively' and have a more 'balanced' outlook.

The method of selection of students may be done through the active co-operation of the trade unions and employers in the field, after giving adequate publicity in factories and among trade unions. If there is too much rush for the preliminary course, two sessions might be started on alternate days. As the courses advance, it is necessary that the number of students are to be limited as there must be a direct contact between the teacher and the taught. The teacher could only then take a personal interest in the students, and make out of them leaders and teachers.

It need not be emphasized that the co-operation of the employers for the success of the scheme is of an utmost necessity. The employer need not grant any concession to those undergoing the primary education. The advanced course students, however, might be given permission to attend late or leave early by an hour. In a mill or factory employing hundreds of workers, such concession to a dozen or so will not hinder production. Only in the case of full time students, the employers might make a sizable concession by firstly treating the whole period of absence as on leave and granting pay for 6 weeks from his pocket. But he will be rewarded and the industry shall profit by having the educated workers who will not only understand their own problems but also the problems and difficulties of the employers. This is a good compensation for the monetary sacrifice, of the employers.

No doubt, the worker sacrifices his three weeks' leave to educate himself but to give the worker a status

An Illustrative Chart Showing the Pilot Scheme of Workers' Education

(Continued from the previous page)

Particulars	Primary Education	Middle Standard (Secondary Education)	Advanced Courses (Special Education)	Remarks
Scope of Curriculum	1. The teaching of the three R's. 2. Basic civic, political and economical rights and duties. 3. The local art, music and other cultural activities. 4. Some knowledge of Indian History.	1. Regional language, culture, and music. 2. Civics. 3. History-Indian with special emphasis on regional History. 4. Economics. 5. Labour Problems 6. Principles of Politics and Law. 7. Science-Human physiology. 8. Geography. 9. Vocational Guidance.	1. General applied economics and sociology. 2. Trade Union Studies. 3. Labour Laws. 4. Industrial Relations. 5. National & International Politics. 6. Current Indian & World History.	1. Utility in practical life is the key note of education. 2. Theorizing to be kept to a minimum.
Medium of Instruction	Regional Language.	Regional Language and Hindi or Elementary Hindi.	Regional Language and English.	
Methods of Education	1. Audio-Visual Education 2. Academic Teaching 3. Cultural Activities	1. Academic Education 2. Group discussions and seminars. 3. Cultural and recreational activities. 4. Visits to various centres of interests.	1. Academic Education. 2. Organisation of camps, lectures and seminars.	As the courses advance the academic education is emphasized.
Agencies	1. Adult Education Centres 2. Primary Schools	1. Schools. 2. Workers' Education Centres of the Trade Unions.	1. Labour College of Workers' Education Association. 2. Labour Research Bureau.	In all these cases, the Workers Education Centre remains the pivot of the whole Education Scheme.
Teachers	1. Adult Education School Teachers.	1. Trained Teachers specially selected for this purpose. 2. Teachers already trained by the Asian Trade Union College.	1. Trained persons specially suited to their jobs. 2. Trained teachers from Asian Trade Union College. 3. Experts from other countries. 4. New recruits specially trained for this purpose.	Special care is taken to recruit those with an interest in such work.

Around Calcutta Markets

Market Factors

Wednesday Evening

LYONS RANGE remains closed for the Puja holidays. But kerb dealings indicate an easier trend. This is partly a sympathetic reflection of the weakness in Dalal Street. But there are deeper influences behind the recent downward trend in equities. If these influences persist, the expected upward movement after the Puja holidays may not materialise. It is now clear that neither Lyons Range nor Dalal Street has recovered from the recent shocks. Current indications are that the post-holiday recovery in equities may not be prolonged, even if equities do move up slightly as Lyons Range reopens after the Puja holidays.

Immediately, the extensive flood damage in northern and eastern India is causing anxiety to stock markets. There has been considerable flood damage to life, crops and property in these parts of the country. There were hopes that, as the prices of foodgrains and of industrial raw materials fall, industrial production costs may go down gradually. These hopes may not now materialise because of the flood damage to crops. So, one of the reasons behind the expectation of a rise in equities may no longer be valid or in operation.

Dividend Policy

Gradually, though slowly, the implications of the Government's attitude to dividend payments are dawning upon stock markets. There may be a case for ploughing back profits. There is a case against frittering away of resources through higher dividend payments. Genuine investors are aware of the importance of the growing financial strength of companies. But they are not unconcerned about current yields. More than that, New Delhi's insistence on its right to lay down the dividend policy is causing worry to the private sector.

This is not the only source of anxiety to stock markets. Soon the busy season will start. In recent years, the slack season has not only been of short duration, but average money rates have remained relatively higher. In the busy season, money rates have been comparatively higher. Besides, there has been a scramble for funds. Fears, therefore, prevail that, as the busy season gets going, the money market may not have enough surplus resources to feed stock markets. This is a factor which may affect speculative activity.

New Issues

This raises the problem of the forthcoming capital issues. It is likely that the Indian Iron Company will offer the right issue by the end of the next month. This issue will involve considerable investment of funds. There are other companies in the queue. Hindustan Lever and Guest Keen Williams will soon enter the market. These two companies will be converted into public limited companies through offers of part of their capital to the Indian public. There are many other companies waiting to float bonus or right issues.

It has been apparent for some weeks now that Lyons Range is diffident about these forthcoming capital issues in the private sector. Some of the recent new issues have not been popular. There is not enough surplus cash available with investors. New issues by sound companies may be easily subscribed. But second-rate companies may experience difficulties. Besides, these new issues may cause further tightness in the money market. Stock markets are, therefore, worried that they may be starved of funds.

Jute Shares

While Lyons Range remains closed for the Puja holidays, quotations for only National Jute, a clearing share, are available. Movements in National Jute indicate that Jute shares may remain steady to firm in the coming weeks. Until a few days ago, hessian was going down while sackings were steady. Data about mill stocks of jute goods at the end of September, recently released by IJMA, explain the contradictory behaviour of hessian and sackings.

Sackings have started to move up again. There are reports of considerable buying of heavy goods by the Government. Data of burlap consumption in America are encouraging. There are hopes that burlap consumption may move up further this month. Improvement in gunnies should help the expected spurt in jute shares. True, raw jute prices remain firm. But the spinner's margin is no longer as unfavourable as "bears" of jute shares would seem to think.

Coal Strike

With the end of the coal strike in Raniganj, Coal shares may steady up. Continued weakness in Coal shares has had a psychologically adverse effect on Tea, Paper and Jute shares. Moreover, the end of the coal strike will enable industry in and around Calcutta to function again at top gear. For about a month, the coal strike has affected industrial production in this port town. Lower industrial production has had adverse effects on industrial shares.

Not only coal shares, but Engineering shares will also steady-up as the coal strike ends. If the expected spurt in Engineering and Miscellaneous shares materialises, it may have a sustaining influence on the whole market. Investors in Tea shares will welcome such a conjunctural development, as it would be a contributory factor to the anticipated improvement in these shares.

Gypsum for Sindri

THE entire requirements of gypsum, one of the main raw materials for ammonium sulphate, produced by the Sindri Fertilisers Factory, are being met from the various mines in Rajasthan. The principal mines are at Jamsar in the Bikaner and Kawas in the Jodhpur Divisions.

The factory was planned with the mines at Daudkhel in West Punjab as its main gypsum supplier. After partition, the mines in Rajasthan have taken over that role. Mining in Kawas was started in 1951. Total deposits were then estimated at about half a million tons of gypsum. This estimate has been justified and nearly 500,000 tons have already been mined. But Kawas is not yet exhausted and will probably yield another lakh tons or so of gypsum, before running out completely.

It was planned to work the Kawas deposits first and the deposits at the nearby Uttarlai afterwards. Accordingly mining at Uttarlai has been taken up by the Sindri Fertilisers Factory.

and a direct right to demand education, it is necessary to charge a nominal fee for the secondary and special education. This and a further addition is paid back to him, when the Workers' Education Centre shoulders the responsibility to pay his wages for three weeks.

When designing the curricula of the courses, it must be borne in mind that practical utility in day to day affairs of the workers is the key note of the education; it is therefore, necessary to avoid theorizing and dealing with abstract subjects as much as possible. It is essential that the medium of instruction must be primarily the language of the region, though Hindi and English is of some importance for the secondary and advanced courses. The curricula are drafted, keeping in view the major objectives of education to different groups.

Uniform methods to impart education cannot be adopted for in the case of preliminary education, the audio-visual aids are emphasized, while in other cases academic teaching are relied on. It is easier for an uneducated mind to understand things 'by seeing by oneself' rather than by being told. The former is easily expressed and comprehended and an 'impression' is made. As the workers advance, the academic education and group discussions are stressed and a greater emphasis laid on them. Material aids in the form of books and pamphlets (specially written for the workers), charts, maps and other graphic illustrations, cinema, gramophone, radio, etc will have to be utilised. The methods of education may also take a variety of forms, such as lectures, discussions, exhibitions, observational tours and visits, debates and other methods of self-expression.

As regards management, it is desirable to entrust the work on a State level to a Workers' Educational Board or Association, specially constituted in consultation with the State Education Department, Municipal Schools Committee, Universities and employers and workers' associations. Most of these bodies, along with the general public, may be approached for financing the scheme.

Workers' education is a vast problem, if tackled on a national level. It is, therefore, advisable to start a pilot project in a concentrated industrial area like Bombay or Calcutta. Meticulous details will no doubt have to be worked out, before even the pilot scheme is launched, because the whole future of workers' education will be affected by the success or failure of such a scheme. If the outline given herewith serves even as a draft for discussion for the formulation of a pilot scheme, which may pave the way for the education of the unfortunate millions in this country, we will consider that our labours have been more than worth the trouble.



AN ILLUSTRATIVE CHART SHOWING THE PILOT SCHEME OF WORKERS' EDUCATION

Particulars	Preliminary Course (Primary Education)	Middle Standard (Secondary Education)	Advanced Courses (Special Education)	Remarks
Objectives	1. To make the worker literate. 2. To provide a basic knowledge about the events that occur around him. 3. To follow the elementary principles of Civics, Politics and Sociology.	1. To develop the individuality of the worker fully. 2. To understand and follow his duties & rights as well as rights and privileges as a worker. 3. To make him a useful citizen who can shoulder some responsibility in the community.	1. To train the worker to be a leader in the industry and the Society at large. 2. To make the worker (if he is willing to become) a teacher in the Workers' Education Centre.	It must be understood that if the same worker shows a special interest, he is given promotion to the next immediate course after the completion of the first course.
Duration of Course	Part-time 2 hours a day, 3 days a week for 12 weeks.	Full time 6 hours a day, 6 days a week for 12 weeks.	Part-time 3 hours a day, 6 days a week for 12 weeks.	Only 3 Sessions are conducted in one year.
Minimum Qualification	..	Must have passed at least the eighth standard or preliminary course.	Must be at least a Matriculate or must have passed middle standard of this course.	It is necessary to have a minimum qualification in case 2 & 3, for the worker must have some basic idea of education.
Age Limit.	16—40 years	20—40 years	20—45 years	It is difficult for a worker to begin the primary education beyond the age 40.
Methods of Selection.	Through voluntary calling of names.	1. Trade unions and employers nominate the students. 2. Those who have passed the Preliminary Course.	1. The candidates are selected by a Board specially constituted for this purpose. 2. Those who have passed the Middle Standard.	It must be remembered that the choice of selection is done in collaboration with the Trade Unions. As the course becomes advanced, the No. of students may be limited because only then can the teachers have a direct personal touch with the Students.
Period of Training.	Timings are so arranged to suit the workers. No concession granted by the employers.	The total period of training is treated as on leave. 6 weeks is paid by the employer as on leave with pay. 3 weeks is debitable to the worker's leave and 3 weeks are paid by the workers education centre.	The employer grants a definite concession for those attending the course to attend the mills late or to leave it early as it might be necessary.	The co-operation of the employer is of utmost necessity. His contribution per worker will be roughly Rs 100/-. The worker must also be prepared to sacrifice something. The worker's education centre actively encourages in lessening the burden of the worker by bearing a portion of his loss in earning capacity.
Fees for full course.	..	Rs 10/- from the worker. Rs 5/- from the Trade Union.	Rs 15/- from the worker Rs 5/- from the Trade Union.	The worker must understand that he is paying for his education. That alone gives him a status and a right to demand education.

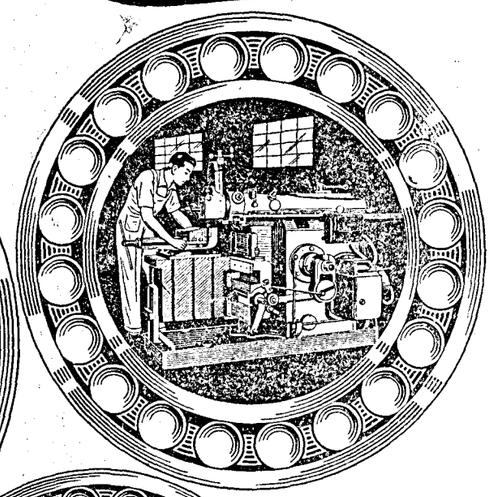
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Around Bombay Markets

Doldrums in Equities

Thursday, Morning

EQUITIES continued to be hesitant during the week under review. Compared to the previous week, however, the undertone was firm, particularly in the Textile section where buying revived following Government's announcement of a rebate of six pies in the cloth excise duty.

This was reflected in the improvement of Bombay Dyeing from Rs 620 to Rs 630-10 over the week; other Textiles also participated in the recovery. Scattered short covering was observed whenever a diffident tone appeared in the market. The Miscellaneous counter displayed sympathetic price movements with a hesitant undertone. ACC lost 3 points and National Rayon slided down to Rs 256. Other leading scrips like Belapur, Premier Constn. and New India also recorded a decline after moving to higher levels. Sentiment in Bombay-Burmah was at first depressed by a sizable bull liquidation but later the announcement of a new scheme to increase the authorised capital caught the fancy of the market and the scrip closed at Rs 743-12 compared to Rs 728-12 last week.

In contrast to the doldrums in the equities, the 4 per cent Bombay Municipal Loans, for which the lists were opened on Monday, were oversubscribed the same day, the total subscription totalling Rs 179 lakhs as against the total issue of Rs. 1.50 crores. It should be noted, however, that the bulk of the support came from the banks and the Life Insurance Corporation.

In Brief

National Electrical Industries Ltd have reported a profit of Rs 4.28 lakhs for the year ending March 1956, compared to Rs 4.06 lakhs in the previous year. The dividend has been maintained at Rs 4-8 per share.

Tractors (India) Ltd have decided to increase their authorised capital from Rs 20 lakhs to Rs 50 lakhs in order to facilitate future issues of capital as and when the need arises. The Company has submitted an application to the Controller of Capital Issues for permission to make a cash issue of one new ordinary share of Rs 10 for each ordinary share held by the existing shareholders. This will raise the paid up capital of the Company to more than Rs 23 lakhs. The shares are currently quoted at around Rs 35.

Cotton

Bearish Trend in Futures

THE cotton futures market presented a distinctly bearish trend during the course of a week of only four days' trading. Weighed down by doubts and fears about possible Government intervention in trade, operators were in no mood to be active and were not inclined to extend their commitments.

A notable feature of the week's trading was the sharp rise of more than ten points in Vijay contract, which rose on the opening day itself from Rs 775 to Rs 785-8, on account of the reported damage to the quality of the crop, especially in the Punjab and other places, following continued and heavy showers. This, however, proved short-lived since the contract closed at the end of the week at Rs 760-8, the lowest level of its short career.

Curiously enough, the excise rebate had little or no effect on the market, though the announcement was welcomed if only for the reason that it presaged further relaxations by the authorities. The impression has gained ground that the Government admits itself to be open to correction and is not dogmatic about imposing its will on the market.

The spot market at Sewri continued to attract mill interest in the purchase of the new cotton crop. About 3,500 bales of Berar Jarilla 25/32" were reported to have been bought on behalf of a leading group of mills in Bombay at around Rs 65 on for January delivery, while reports were current to the effect that a fair quantity of Punjab 320 F had also changed hands at moderately rising prices. Apart from mills, cotton merchants were also in the market for ¾" staple and below, presumably in anticipation of the announcement of an export quota for this staple in the near future. The rumour round the market was that the authorities would shortly announce an export quota release of the order of 150,000 bales of ¾" cotton and 50 to 70,000 bales of Bengal Deshi. It was also expected that the export duty on Bengal Deshi would be raised from Rs 50 to Rs 75 per bale, without disturbing the duties on other varieties, for obvious reasons.

In view of the prospect of an imminent announcement of a quota, the export section was naturally quite active. Prices of Oomra, Kala and Wagad improved by five to six points. Since India has to contend with such strong competitors in the export market as the U S and Pakistan, the Government would be well advised to take immediate steps to boost up our raw cotton exports by granting a quota well in time when the crop has started moving in full swing, and also following it up by a reduction in the export duty on such varieties as are keenly sought after by overseas buyers. Besides guaranteeing an improvement in exports, these measures would also indirectly help the market to recover its lost balance and re-establish a steady trend in prices generally.

Oilseeds

Improved Outlook

INCREASED activity was observed in oils and oilseeds during the week under review. Continued inquiry for Indian castor commercial oil from the U S A and steady purchases by shippers in the local market to cover their sales abroad, coupled with buying by groundnut millers and vanaspati interests, were the highlights of the week's trading.

New York castor oil prices ruled firm during the period under review. Shippers' quotations, consequently, moved up in sympathy. More business with America is anticipated by exporters in the near future.

Exports of castor oil during September were at a satisfactory level, amounting to as much as 3,200 tons. Through September this year's export of oil has amounted to 26,500 tons. If this level of overseas demand continues, exports this year should be much higher than those in the previous year.

Castor May futures appreciated by about five points this week while Groundnut February looked up by nearly three rupees. Linseed futures closed the week steady with fractional gains.

In the ready section, castor and groundnut, together with oils, ruled firm throughout the week.



Up

go coal prices —but cement stays the same

The cheapest (and the best) cement is still supplied by the ACC group of Free Enterprise factories. Meanwhile coal and other prices go up.

And does anyone suffer by this refusal to increase cement prices? Certainly not. Cheap cement means low cost building of everything from homes and roads to dams and factories. Cheap cement means better living for millions.

How does it stay cheap? Simply by improving methods of manufacture—i.e. *by efficiency!* Only thus could the ACC have kept down its price of cement despite the following price-raising factors which have come about in recent years:—

- Higher wages
- Higher royalty charges
- Higher freight charges, & NOW
- Higher coal prices

By this very efficiency and refusal to add to inflationary trends, the ACC is contributing to a new era of history—an era of wealth and prosperity, undreamed of even twenty years ago.

THE ASSOCIATED CEMENT COMPANIES LTD.

The Cement Marketing Co., of India Private Ltd.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1430.57	1417.71	1440.18	1301.45
2. Rupee Coin	119.74	118.80	116.02	110.56
3. Deposits				
a) Central Government's	54.56	67.43	58.86	51.15
b) Banks'	50.37	52.55	56.16	67.25
c) Other Governments'	10.22	23.95	16.73	9.59
d) Others'	12.67	13.81	18.01	16.36
4. Foreign Securities	586.74	596.74	596.74	646.97
5. Balances held abroad	23.70	26.40	34.22	69.43
6. Rupee Securities	703.72	693.72	703.65	513.79
7. Investments	27.31	42.37	51.81	50.11
8. Loans and advances to Governments	3.74	2.84	5.32	2.67
Scheduled Banks				
1. Demand liabilities (net)	627.26	627.16	629.67	599.19
2. Time Liabilities	454.22	457.50	459.04	421.42
3. Cash on hand	39.56	35.46	35.51	32.92
4. Borrowings from Reserve Bank	65.71	63.24	52.25	8.05
of which against Usance Bills	38.20	36.37	24.40	6.60
5. Advances and Bills discounted	712.17	707.92	711.88	544.01
of which State Bank's	131.36	130.38	133.93	91.82
6. Invst. in Govt. Sec.	374.28	375.61	366.38	385.93
of which State Bank's	107.86	108.10	106.29	113.66
Cheque Clearance	129.66	127.39	141.05	132.98

†Reserve Bank, Scheduled Banks and Cheque Clearance week ended 5-10-56.

Bombay Money Rates	12-10-56	5-10-56	14-9-56	14-10-55
Inter-Bank Call Rate	3½	3¼	3½	2⅝
3 months deposits	3⅛	3⅜	3⅜	2⅞
6 months deposits	3½	3⅜	3⅜	3

Bombay Bullion — In Rupees and Annas

	18-10-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	103-10½	104-1	103-1	94-14
Forward	103-6½	103-14	102-13	†
Silver (per 100 tolas)				
Spot	173-1	172-1	173-12	169-12
Forward	173-0	172-5	172-8	†

† no trading

All-India First Estimate of Groundnut

Area in 000 acres

	1956-57	1955-56 1st estimate	+ or —
Andhra ..	476	420	+ 56
Bombay ..	2,462	2,416	+ 46
Madhya Pradesh ..	503	505	— 2
Madras ..	217	206	+ 11
Orissa ..	57	57	..
Punjab ..	99	100	— 1
Uttar Pradesh ..	301	294	+ 7
Hyderabad ..	2,496	2,156	+ 340
Madhya Bharat ..	460	329	+ 131
Mysore ..	300	319	— 19
Pepsu ..	40	33	+ 7
Rajasthan ..	103	102	+ 1
Saurashtra ..	1,399	741	+ 658
Travancore-Cochin ..	29	29	..
Bhopal ..	2	3	— 1
Cutch ..	10	10	..
Others ..	1	1	..
Total ..	8,955	7,721	+1,234

Source: Ministry of Food and Agriculture.

ALL-INDIA FIRST ESTIMATE OF JUTE

Area in 000 acres

	1956-57	1955-56 (adjusted 1st estimate)	+ or —
Assam ..	362	371	— 9
Bihar ..	518	279	+ 239
Orissa ..	91	105	— 14
Uttar Pradesh ..	42	34	+ 8
West Bengal ..	600	616	— 16
Tripura ..	21	20	+ 1
Total ..	1,634	1,425	+ 209

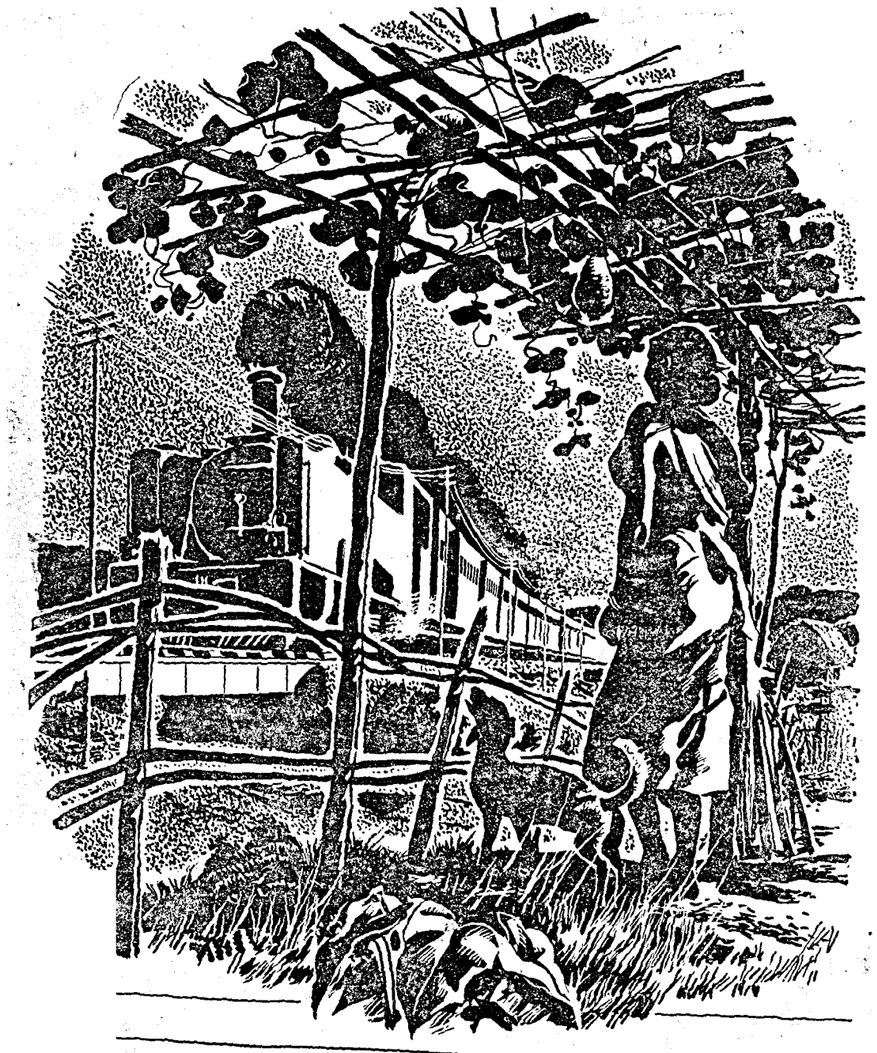
ALL-INDIA FIRST ESTIMATE OF MESTA

Area in 000 acres

	1956-57	1955-56 (adjusted 1st estimate)	+ or —
Andhra ..	60	57	+ 3
Assam ..	4	4	..
Bihar ..	25	35	— 10
Bombay ..	14	13	+ 1
Madras ..	1	1	..
Orissa ..	12	10	+ 2
Mysore ..	1	1	..
Vindhya Pradesh ..	4	4	..
Total ..	121	125	— 4

Source: Ministry of Food and Agriculture.

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Divali

HOW much of metaphysics do we need? Not much surely, but one cannot do without it altogether. One has normally to assume the incentives which make the world go round. But in the midst of all this festivity, one cannot help pondering what is all this rejoicing about? Divali has come to us as the festival of lights from some long forgotten festival of seasons hailing the advent of autumn, of harvests and of fruitfulness. There is no national festival which is celebrated in all parts of India at the same time, but Divali is the nearest to it, at least for the Hindus. What gives it this wide currency is not the religious part of the celebrations, but the annual stock taking, for which the time is most appropriate.

There is annual stock taking on this occasion, exchange of presents as also conventional annual payments. On this night Lakshmi is worshipped in many parts of the country and Lakshmi is not only the Goddess of Wealth but also the Dispenser of Well-being; besides Lakshmi, Goddess Kali is also worshipped in some parts and so is Krishna, the slayer of Narakasura. But the Bahi Puja on the Divali night which symbolises the ceremonial and ritual opening of the financial new year is naturally of the greatest interest and importance to the trading community. For it is not worship of the books in which our knowledge and wisdom are stored, but only of books of account. We are reminded, that it is in trade that Lakshmi resides and trade is still the key stone of the traditional economic pattern of our society. True, agriculture comes next as a source of wealth but it follows a long way behind and the crafts, in which we take so much pride to-day are not even mentioned among the recipients of the favours of this fickle Goddess!

True, Saraswati has also her day. But this night of nights belongs to her sister. There is also a day for Astra Puja but that is on the Maha Ashtami day, when Taantrik Bengal dedicates the family weapons to the Goddess Durga and Maharashtra reminds itself of its past military glory by decking the horses with flowers and anointment, to mark the launching of military campaigns of the forgotten days, campaigns that started when the rains had gone and the crop had been gathered. Thus had the seasonal underemployment of the Indian peasant once found a solution that later wisdom ruled out and for which it is still trying to work out a solution. What about the craftsmen and their tools? They are not forgotten either. But Viswakarma, the Guardian of the Heavenly Workshop, keeps aloof when the trader balances his accounts and the scholar seeks the blessings of the Goddess of learning. That our craftsmen worship their tools which the Mujik of a generation ago had to be taught to take care of, is something in our past culture and tradition on which we can count and draw upon. But how to combine all these worships into one in one festival which will draw in people from all walks of life and give meaning and content to what they live by and live for?

The multi-purpose projects, Pandit Nehru once said, were the new houses of worship. To-day probably he would yield the pride of place to the community projects instead. For if we are to enlist the vast masses of this country into the effort of building a new India, we could not very well leave out the rural sector. The people of the village have to find some meaning in our efforts. And the meaning gets lost when it is drawn too thin, through tenuous lines, covering too wide an area.

The points of impact even of the multi-purpose projects are too few; the villages to be covered are too many. Also tenuous are the bonds in the integration achieved by the Administration which tends to lose its effectiveness when its resources are spread thin over too wide an area. Popular participation in the great developmental effort therefore awaits. To quote the Planning Commission "the need for creating a well-organised democratic structure of administration within the district is now being widely felt"

If it is being felt, it is not being met. For all that one can see, the district administration continues to revolve around the Collector, a remnant of the old colonial administration, who far from being displaced by elected representatives is being assiduously 'built up' to co-ordinate the various activities at the district level. There is also a new build up of the Congress party which makes a striking departure from the immediate past, when Government was still sought to be of the best available talents in the country rather than that of the Congress party.

At the time of the Divali the reorganisation of the States will be formally implemented. This may not be the end of the process, but it will mean a spectacular change when all the States attain the same status and Part 'B' and 'C' States disappear altogether from the map. The Transfer of Territories Act also comes into force from this day. The changed map of India one may look up and ponder over. The picture of the Indian people, this multiple society with its tribal mosaic fringing the border is not so easy to visualise. Pandit Nehru has lately been to the tribal frontiers in the north east which, he said, much to the disappointment of the tribals themselves, would be integrated in due course with Assam. But he said some thing about the culture and life of these people which applies equally to the whole of India. It is not the policy of the Government, he said, to preserve the tribes as museum pieces; nor was it its policy to integrate them with the rest of the people of India all at once. Talking about NEFA administration, he emphasised that "we cannot leave this big area underdeveloped" But he also added that he wanted "the people to develop on their own lines and not pushed and hurried too much even for development". It is time for him to consider that people would better be left alone than be hurried. But they may also like to hurry themselves.

Railway Delegation for Washington

THE Finance Minister's reply to the President of the World Bank lacked the pyrotechnics that one has come to associate with him. But judging by reactions, it seems to have done the trick. The studied moderation of his reply has been favourably commented upon, and the Journal of Commerce, official organ of the U S Department of Commerce, who shou'd know, has reported good progress and hints at the possibility of a new loan for India early next year. A Railway Mission, New Delhi has announced, will be leaving for Washington this week-end to negotiate with the World Bank. Though no amount has been mentioned, it is known that the railways have a heavy budget and also that the import content of this budget is heavy, too. As India does not expect more than Rs 200 crores from the World Bank in the next five years anyway, it is immaterial whether the World Bank finances this part of the Plan or any other.

The World Bank Mission gave high priority to transport and felt seriously concerned about the inadequacy of transport to cope with the requirements of a large Plan. The Plan allotted Rs 900 crores for railway development in addition to contributions to the railway depreciation fund. Of course, the railways wanted much more—they had planned for a total outlay of Rs 1480 crores but even of the reduced outlay, approximately Rs 425 crores will be required in foreign exchange, for locomotives, other rolling stocks etc. So there is a wide enough range for the World Bank to pick and choose.

Shri P C Bhattacharya, who was until recently the Financial Commissioner, Indian Railways, and who had been instrumental in inviting an American Export Team to study our railways, appropriately leads the delegation. The Team has submitted its preliminary report which is under examination It does not promise spectacular results but it is believed to have pointed out that substantial scope exists in our railways for improving operational efficiency without heavy capital investment. However when everything has been done to improve efficiency, a substantial investment would still be necessary to bring up the carrying capacity to the required level.

A programme of railway-cum-port development with mechanical handling at the terminals to move out ores should not only be self-liquidating, judged by the stiffest criterion of bank credit, but should also earn the necessary foreign exchange, if the World Bank is still as anxious to ensure servicing of loans in terms of the currency in which the loan is contracted as it used to be in the past This is cited only by way of an example, in case the World Bank chooses to apply a criteria of credit worthiness different from that it applied when it gave a loan of $ 250 million to France or $ 100 million to Australia. It appears to have different standards for different countries according to the economic climate of the country concerned.

Indeed in some ways the Bank and the Fund have been carrying on a Punch and Judy show. The Economist was unkind enough to mention the World Bank loan to Yugoslavia when Tito broke off with Moscow but stuck to his brand of communism. The Fund sent a Mission to Yugoslavia at that time which fixed a par value for the Dinar which, it was claimed on the high authority of this expert Mission, would harmonise state trading with free enterprise and communism with capitalism! So in banking on the World Bank Mission Report on India instead of hitching their wagon to the stars, the Forum of Free Enterprise is not banking judicially on a sure winner, for even the great Bank is susceptible to climatic influences The climate of development in underdeveloped countries, unfortunately, favours public enterprise.

Divali Greetings

We wish all our readers and patrons a Happy Divali and a Prosperous New Year.

There will be no issue of The Economic Weekly on November 3 on account of Divali holidays. The next issue will be out on November 10.

A Russian Commonwealth

NATIONALISM is one of the few political discoveries of the nineteenth century which has not lost its appeal in this century. Ever since its birth, there have been attempts to disown or to minimise the logical implications of national sovereignty. Capitalism is no less international in character than Socialism or Communism. In a world dominated by capitalist economy, sovereign, national States have waged wars against each other for reasons of economic or political expansion. After the first World War, the League of Nations was established to ensure amity among nations. It foundered on the rock of nationalism. One of the main reasons why the United Nations have not fulfilled its original expectations is the virile insistence on national sovereignty by member-States. Some of the ominous consequences of national sovereignty are now widely realised. But it is no less evident that nation States are not prepared to shed sovereignty. That is why there is no prospect of a World Government in any foreseeable future. That also explains why the American-sponsored Western European Federation is less popular among Western European nations.

These reflections are prompted by recent developments in Poland and in some of the Communist Eastern European States. Communism was the first, and only, serious challenge to nationalism. Post-war events in Asia proved that the challenge was not very successful. Nationalism has been one of the main antidotes to Communism in Asia. But the developments in Communist Eastern European States are more convincing proofs that nationalism is a stronger political influence than Communism. In the West, Tito and Gomulka have been hailed as influences leading to the disintegration of Communism. This is a wrong interpretation of the triumphant return of Gomulka to power in Poland, or of the recent demonstrations and disturbances in Eastern European States. These events demonstrate the urge of nationalism in these countries. Gomulka or Tito is as much a Communist as Khruschev. Neither Gomulka nor Tito is interested in disowing Communism. These States are insisting that their relations between Russia should be based on their equality and sovereignty.

Sooner or later, events now occurring in Eastern European States would have happened. Denunciation of Stalinism has hastened these developments. Not only in Poland, but in all Eastern European States, excluding the Balkan States, there is now an active campaign against centralism, uniformity, censorship and terror. Khruschev's denunciation of the personality cult has been widely welcomed in Eastern European States. There has been a campaign for liberalisation of regimes in these States. Russia's Eastern European neighbours, with the exceptions of Balkan States, are more sincere and insistent in their desire to disown Stalinism. It would be idle to pretend that Tito or Gomulka is anxious to introduce democracy in Yugoslavia and Poland Not only Poland, but almost all Eastern European States are, and have been, unfamiliar with democracy. In these States, monarchy was replaced not by parliamentary democracy, but by some form of military-cum-feudal centralised administration. When Gomulka demands democratisation of the regime in Poland, he does not mean introduction of a parliamentary system of government. But he insists on the formation of a national Communist regime, and the removal of the Polish born Russian General as the head of the Polish Communist Party.

Unlike Washington, Moscow is aware that Gomulka or Tito is not a threat to Communism in Eastern Europe. But it would be unrealistic to ignore Moscow's dilemma. Not de-Stalinisation, but Moscow's recent recognition of "different social systems and different forms of socialist development" has created and aggravated this dilemma for Russia. If there is a Tito way to Communism, it follows logically that there may be other than Russian or Yugoslav ways to Communism. This is the main significance of the re-emergence of Gomulka. Today, with the denunciation of Stalin, the rigid Comintern cannot be re-introduced. Even the milder device of Cominform, which perpetuated Russia's control and domination of Communist movements and parties outside the Soviet Union, is resented, and has been liquidated. On this major issue, there are discussions within the Kremlin. One school of thought is in favour of reasserting Kremlin's monolithic control over Eastern European States. There is another school of thought which is in favour of gradual liberalisation.

Suggestions have been made that Russia should emulate Britain in adopting the Commonwealth as the basis of relationship between the Soviet Union and other Communist States. Necessary political and economic ties exist between Russia and almost all other Communist States to facilitate the introduction of the Commonwealth concept. But the presence of Russian troops in Eastern European States is a major obstacle to the creation and extension of a Russian Commonwealth. There are no Russian troops in either Communist Yugoslavia or in Communist China. With NATO and with American troops garrisoned in Western Europe, there are strategic reasons for the presence of Russian troops in Eastern European countries. There are, besides, fears of the consequences of Germany's revived military might. It is neither a mere coincidence, nor is it without significance, that, along with the demand for equality and sovereignty by Poland and other Eastern European States, Moscow has requested Bonn to conclude a treaty with Russia and her allies renouncing the use of force. Conditions for the creation of a Russian Commonwealth are not non-existent. But the Kremlin will need vision and statesmanship to form such an association of like-minded States.

ERRATA

THERE were two printing mistakes in the article "Labour Cost . . . . of Commonsense" by Professor Amartya Kumar Sen which appeared in the last issue. On page 1247, first column, paragraph two, third line, the word 'have' should be 'save'. (. . . rural population would save a significant part of their income, not have). In the foot-note on the next page 'ent' is misprint for net.

The author had two separate things in mind, one was a reioinder to "Commonsense Made Difficult" and another a reply to "Labour Cost and Economic Growth." For reasons of space, the two had to be combined; the caption under which his article appeared, however, was not given by the author.

Weekly Notes

Dim Prospects of Sugar Export

THE manufacture of sugar is being developed in a big way. In the Second Plan, the target of production and capacity for sugar have been raised to 2.25 million tons and 2.5 million tons, respectively from 1.5 million tons and 1.13 million tons. Financial provision has also been made by the Planning Commission for this expansion. Indeed sugar factories have come to monopolise the loans from the Industrial Finance Corporation and great encouragement is being given to co-operative production of sugar. In fact of the 17 new sugar mills to be established in Bombay State, 14 are to be on a co-operative basis. Along with the new units which are to be set up, existing factories are also to be expanded. Now with such a programme of expansion on hand, and the acute foreign exchange problem that the country has to face, it is natural to ask, what are the prospects of exporting sugar in the near future? The confident expectation that production of sugar cane will exceed 20 lakh tons in the current season, gives a sharper edge to it.

When the President of the Deccan Sugar Technologists Association says in his address at the Annual Convocation of the Association that given the right fillip, the time is not far when India can be a major exporting country, one naturally feels greatly relieved. But on going through his address, one is left guessing what precisely is necessary for attaining this very desirable consummation. As a technologist, Shri Somaiya argues in favour of larger units of production. Granted that units have to be larger and granted also that this will improve the rate of recovery from sugar cane, would we be in a position to export if this prescription is carried out faithfully? Doubts begin to assail one's mind when one goes through his address, for the answer to this question does not appear to lie in the economic unit of sugar production but the cost of cane, which of course the appropriate size of sugar mills can do nothing to reduce. On the contrary, Shri Somaiya complains that "our cane is becoming very expensive year after year". What chances are there, then, of developing exports?

Cooperatives and Cane Supply

SHRI SOMAIYA would like to have compact and large plots, and mechanised cultivation of cane on plantation scale. The encouragement to co-operative production of sugar and the general trend of land reform both are directly opposed to the consummation of his dreams. Co-operatives come in for special criticism, particularly the policy of encouraging them with no regard to existing interests and the difficulties of the existing factories in obtaining cane. Shri Somaiya complains that over-enthusiasm in pushing co-operative crushing is seriously interfering with the freedom of the cane grower to sell the cane where he likes. What he says is so serious that it should better be given in his own words:

"What is worst is that the cultivator is forced to join a co-operative sugar factory because of the economic sanction against him. If he fails to do so, his acreage is pruned from 25 acres to 6 acres and his guarantee from 12 years to 6 years. To me it is a restriction on a fundamental right of a person as to how he would like to utilise or dispose off the product he grows. Removal of such restriction would go a long way to solve the present impasse

"The cane from the very village in which a factory is situated goes to the new factories about 8-10 miles away. What a waste of national energy, transport and roads!"

If the facts stated are correct, then we must be living in a fool's paradise, hoping that in the near future, India will emerge as a sugar exporting country.

Shri Somaiya has covered many of the important technical aspects of sugar production, gone in detail into the engineering problems of the industry and has also discussed utilisation of bye-products. But he has not touched the practical problem of devising a simple means by which the statutory prices of sugar cane could be linked to the sugar content of cane, so that a direct and powerful incentive could be given for improving the quality of cane and thereby help to bring down the cost of sugar. Until cost is brought down, export prospects will continue to remain dim and obviously hopes lie more in improving the yield of cane by better cultural practices than in expanding the size of sugar mills or in technical improvements relating to the crushing part of the industry, though recovery is also important.

Russia and Japan

TOKYO'S immediate reaction to the Russo-Japanese agreement has been unfavourable. This is not as much a reflection of Russia's intransigent attitude as of Japan's over-optimistic hopes. Negotiations between Russia and Japan have continued for more than sixteen months. The present agreement would not have been possible without a change of government in Japan, or without the political developments in Russia since Stalin's death. Mr Yoshida's critical attitude to the Hatoyama mission to Moscow is understandable. It is evident that Mr Yoshida wants to make political capital out of Mr Hatoyama's failure to secure a more generous and liberal agreement. Ever since its emergence, the Liberal-Democrat coalition in Japan has been an uneasy alliance. Some of the provisions of the Russo-Japanese agreement are resented by Mr Yoshida and his followers and associates. Big Business and some of Mr Yoshida's party members may encourage him to make a bid for power. They will certainly try to exploit Mr Hatoyama's anti-American and pro-Russian sympathies.

A closer examination of the agreement suggests that Mr Hatoyama has not been quite unsuccessful in his Moscow mission. With his predecessor in office, diplomatic relations between Russia and Japan might not have been re-established. For eleven years, Russia and Japan have been technically at war. That anamolous relationship has now been ended. In the joint declaration, Mr Hatoyama and M Bulganin claim that "peace and good neighbourly and friendly relations are re-established". This agreement is to be followed by a peace treaty. Meanwhile, Russia assures that every State, including Japan, has the "inevitable right to individual or collective self-defence". Russia implicitly accepts Japan's sovereign status by her agreement not to interfere in the internal affairs of Japan for any economic, political or ideological reason. Russia promises to "release and repatriate all Japanese citizens still held in the Soviet Union". There are known differences between Tokyo and Moscow about the number of such Japanese prisoners of war. But Moscow has agreed to "clear up" the fate of those Japanese who cannot be traced, or are supposed to have disappeared. Habomai and Shikotan islands are to be returned after the conclusion of a peace treaty. But Mr Hatoyama's political opponents will certainly accuse him of capitulation over Etorofu and Kunashiri islands in the Southern Kuriles. These are strategic islands which Russia has refused to return to Japan.

Mr Hatoyama will stress two points in defence of his claim that he has conceded nothing substantial to Russia, but has, on the contrary, wrested major concessions from Moscow. Russia has agreed to support Japan's membership of the United Nations. It was the Russian veto which debarred Japan's entry into the United Nations. Russia has also renounced all reparation claims on Japan. These are substantial political concessions which have been negotiated by Mr Hatoyama. No less creditable for him are the promises of enlarged trade and commercial relations between Russia and Japan. Since the war, Japan has been deprived of her natural sources of supplies of industrial raw materials. Before the war, Japan secured her supplies of industrial raw materials from her neighbours, China and Russia. Since the war, Japan has been dependent on America for these supplies. This has, naturally, raised Japan's costs of industrial production. Enlarged trade relations between Russia and Japan will be welcomed all the more in Japan because these commercial arrangements will enable Japan to resume indirect trade relations with China, Japan's natural source of supplies of coal and other industrial raw materials. These are the advantages of the Russo-Japanese agreement which will be emphasised by Mr Hatoyama to overcome the opposition of his political opponents.

Division of Functions

IN a recent Press Note, the division of functions of the two ministries relating to industry has been set out in detail. The Ministry of Commerce and Consumer Industries would deal with the following:

1) Plantation Industries.
2) Textiles (i e Cotton, Jute Silk, Art Silk, Coir, etc., but excluding synthetic fibres and yarns).
3) Food, Drink and Tobacco Industries.
4) Domestic ware and household requisites including
   a) Electricals (other than refrigerators and air-conditioning equipment),
   b) Hardware,
   c) Crockery, Glass and Sanitary ware.
5) Cosmetics and toilet requisites.
6) Stationery and office equipment.
7) Sports-goods.
8) Leather, Rubber, Plastic and Celluloid goods.
9) Drawing, Mathematical, Scientific and Surgical instruments other than precision instruments.
10) Timber Plywood and hardboard.
11) Paints and varnishes.
12) Agricultural implements and tools.
13) Bicycles and sewing machines.
14) Musical instruments.
15) Drums and Containers.

This Ministry would also be concerned with all small scale industries.

The Ministry of Heavy Industries will be concerned with the following (except those units which are carried on a small-scale):

1) Cement and Iron and Steel Industries.
2) Automotive industries including Aircraft, Locomotives, Motor Vehicles of all types, Road Rollers, Tractors, etc., and their accessories including tyres and tubes.
3) Electrical Engineering Industries, i.e., Motors, Transformers, Generators, Switchgears, Cables and Wires, Insulators, etc.
4) Engineering Industries including Ball bearings. Machine Tools and other tools, Castings, forgings and Structurals, Bolts, Nuts and Screws, Drums and containers.
5) Chemical Industries including Power Alcohol Drugs and Pharmaceuticals, Dyestuffs and Coal Tar products, fertilizers, etc.
6) Pulp, Paper, Board and Newsprint.
7) Films, for Cinema, X-Ray and Photography and Photographic Chemicals, Apparatus and Accessories.
8) Refractories, Crucibles, Electrodes, etc.
9) Arms and Ammunition; and
10) All other industries not shown under the Ministry of Commerce and Consumer Industries.

The Ministry of Heavy Industries will also deal with all applications under the Industries (Development and Regulation) Act 1951.

Europe and Back by Leyland Comet

EXAMPLE is always better than precept. If this old maxim were to be translated into the language of the present-day, one would have to add to the excellence of actual demonstration as a method of education, the undoubted publicity value of practice as opposed to precept. The Delegation from India which attended the International Road Transport Congress held at Stockholm last June did exactly that. Being in road transport business themselves, in one way or another, they had the bright idea of actually demonstrating that road transport is as good a means of transport as any other. It can be as cheap, if not cheaper and much more interesting, though it may not yet be as comfortable. This, it should be noted, applies not only to cross country but trans-continental travel, for the team covered 16,500 miles by road across 19 countries of Europe and Asia, and all this on a standard Leyland 'Comet' diesel bus, assembled in India, and not in a very special vehicle which is beyond the reach of the ordinary road traveller. The party went all the way to Sweden and covered a good bit of Europe on their way back and not only Western Europe, but Warsaw, Moscow and Tehran, without a single breakdown.

Incidentally, this demonstration of the attractions of road transport brought out two things, namely, that the best way to know people is to travel by road and that India may be able to get more of foreign tourists than what Government publicity is likely to achieve, if the facilities of travelling cheaply by road are properly organised with official help and encouragement. The leader of the 14 man delegation, Shri Kundan Lal, Secretary of the All-India Motor Union Congress, returned confident from this successful trip abroad that "a motor coach service for tourists could be run profitably between India and various countries of Europe".



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Our Delhi Letter

N I D C

THE National Industrial Development Corporation is at the cross-roads. It is exactly two years this month since it was incorporated. It has nothing to show on the ground though on paper its achievement is considerable. Where to sacrifice care in planning to speed of execution is an under-developed country's most baffling problem. The N I D C has confronted the dilemma from the start. The nation does not want to repeat the wasteful failure of the New Delhi housing factory. Nor does it want to throw away precious time, as four crucial years were allowed to lapse through sheer indecision before the construction of vital steel plants was seriously taken in hand.

The question really is whether the Corporation has bitten more than it can chew. It is simultaneously processing projects for the establishment of steel foundries, forges, and the capacity for the fabrication of steel structurals. The manufacture of intermediates for drugs and dyestuffs, carbon black, sulphur from pyrites, printing machinery, air compressors, fractional horse power motors, refractories, and aluminium are within its scope. It is considering the production of synthetic rubber, phosphorus, raw film, newsprint and phosphatic fertilisers. Rolls and rolling mill equipment, mining and heavy earth moving machinery are within its purview. It will scrutinise applications for loans to rehabilitate jute and textile mills.

The fact that so much is within the sphere of the Corporation is having mutually incongruous consequences. The Corporation is finding it difficult to get all the funds that it needs and it cannot spend even a recognisable fraction of the funds it can get.

The shortage of resources that generally inhibits the Second Five Year Plan affects the Corporation most vitally because of the Plan's avowed emphasis on heavy industry. The Planning Commission allotted, very apologetically, Rs. 55 crores to the Corporation. Between Rs. 20 crores to Rs. 25 crores were earmarked, from this sum of money, for the replacement of the worn-out machinery of cotton and jute mills. The Plan stated that "the extent of the gap between the resources actually required and the provision of funds now proposed will ultimately depend on the pattern of financing adopted and the size of the Government's holding in the overall investments in various projects". The articles of association of the Corporation provided that it could execute a project on its own, through a subsidiary company entirely owned by itself, or in varying degrees of collaboration with private enterprise. At one time, protagonists of the public sector in the Cabinet seriously mooted the proposal that bodies like the Industrial Credit and Investment Corporation and the National Industrial Development Corporation should give no credits to privately-owned concerns at all and that their aid to such enterprises should take the form of equity participation. It was soon realised, however, that few entrepreneurs would share control in management in return for financial accommodation, and in most cases Government would have to fall back entirely on its own resources, if it insists on any such condition.

The Plan however did envisage a degree of pressure on the limited funds of the Corporation that might force it to draw up priorities in regard to projects for implementation. It laid down that "the highest priority will have to be given to schemes for the manufacture of heavy machinery or directly related thereto". Occasion to make this choice has not arisen because the NIDC schemes have still to emerge from the stage of "processing".

As far as is known, the foundries, forges and structural shops will need Rs. 15 crores, a raw film plant Rs. 7 crores and a newsprint plant Rs 5½ crores. Another Rs 8 to 10 crores will be necessary for one or two aluminium smelters. It is obvious that the available money will not suffice for more than half of the projects that the NIDC is contemplating.

Nevertheless serious doubts have arisen as to whether the Corporation will be able to spend the money that has been allotted to it. The projects for the manufacture of raw film and newsprint are in an advanced stage. An agreement may be signed with the East German firm of Agfas for the former and a decision on the latter will be taken as soon as the detailed project report of an Italian firm is forthcoming; the Government has already received one project report on newsprint manufacture from a West German firm. In regard to the other projects, contracts have yet to be signed with selected or still-to-be-selected foreign firms for obtaining detailed technical reports.

NIDC's dilemma is explained partly by the shortage of technical personnel and partly by the slow-moving, unenterprising character of Indian business. It is obvious that large number of technicians have to process the ventures of which Indian personnel at the disposal of the Government have little or no knowledge. The services of foreign experts have to be obtained with care and application, because able technicians are needed in their own countries. Though the recruitment of technical personnel was among its avowed objectives, the NIDC has so far appointed only two advisers: one for forges, foundries and structural shops and the other for intermediates for drugs and dyestuffs. The machinery of the Development Wing is proving grossly inadequate to deal with the tasks which confront it. An all-out bid to obtain foreign technical personnel therefore seems inescapable if the NIDC is to achieve a fraction of the results that it aims at.

Secondly, the co-operation of private business is essential. NIDC's objective is to fill the gaps in the industrial map of the country; it will supplement private enterprise in the fields in which the latter is too shy to venture. It is essential for entrepreneurs, in the larger national interest, to make up their mind and give the green signal to the Corporation to go ahead, wherever they are unwilling to take any risks. Thus the Corporation, for instance, has decided to establish capacity for the manufacture of intermediates for drugs and dyestuffs but "only after the programmes of various firms already in the field are clearly known and determined". It is for them, rather than the Corporation, now to expedite matters.

Lastly, the Corporation should limit the area of its operations to manageable proportions while continuing to survey a large domain with an eye on the Third Five Year Plan. It must learn to bite only what it can chew.

Letters to the Editor

Appleby and Audit

SHRI R DWARKADAS deserves praise for his fine article "Appleby Again" in the "Economic Weekly" of the 6th instant. It is true, as we have felt, the Appleby Report has not been accepted by many of our Parliamentarians in its true spirit and it has been subject to misinterpretation and misunderstanding. But the bottlenecks in our Government departments could not have been pointed out except by an outsider. This is because no encouragement is ever given for any such freedom within the departments and the atmosphere for the exercise of such freedom is not congenial. The coldness shown to proposals for reform and readjustment of the procedures spells stagnation. This is perpetuated by a dismal lack of incentive for merit which is crippled by many many books of Code, Rules and Regulations and a heavy volume of procedural office orders which show little foresight or comprehension.

We have failed to draw upon the accumulated wisdom of other countries, particularly the U S A, where the willing co-operation of the workers has been sought and won rather than purchased. The shyness of the workers has been overcome by the latest management techniques and workers now freely put forward new ideas and plans and are rewarded for them. Anyway, it is hoped that Appleby's Report will not be respected in the negation.

While one can hardly disagree with most of the points raised, I think a proviso needs to be added regarding the function of audit. As is the practice in this country today, it is the function of audit to see whether the formulated policy of the Government is translated into action, within the limits of the financial powers granted to the Executive. In fact it is not the practice in India, to impede the progress of the Executive. As a friend, philosopher and guide to the Executive, the Comptroller and Auditor-General helps in realising the objective with the minimum of expenditure necessary. Many of the Codes and Rules are made by the highest rung of the Executive only the execution of which the C A G watches. As such, the objections to audit are vastly exaggerated. The blame lies on other shoulders in reality.

Pareshnath Chatterjee

Flat No. 5,
49|5A, C G R Road,
Calcutta-23,
October 21, 1956.

Commonsense on Unemployment

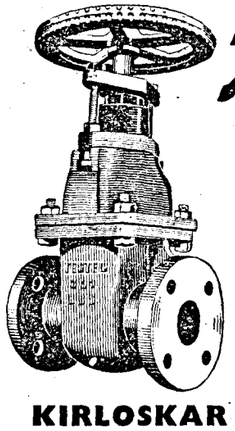
IN his article "Commonsense Made Difficult", in your issue of Oct 13, 1956, Shri M Srinivasan raises an entirely unnecessary point of dispute by his sharp distinction between disguised unemployment and the unemployment caused by growth of population. To draw a distinction between these two is much more like contrasting "black" with "cold" than like contrasting consumption with savings. Disguised unemployment can be distinguished from open unemployment, seasonal unemployment, etc, and the distinction would be useful in discussing the level of wages required to attract different sections of the labour force, or the proportion of their wages which would be met by a reduction in existing consumption.

Again, unemployment caused by the growth of population can be contrasted with that which is the continuation of past unemployment or with that resulting from rationalisation. This distinction would be useful in discussing policies to prevent future unemployment, e g, by preventing population growth. But for the next 15 years (assuming that this is the minimum age of work) the growth in the labour force caused by growth of population must be taken as given. Given an increase in unemployment, it is only a matter of historical interest (except for the considerations discussed in the previous paragraph) how it was brought about. Men, whether they are boys of 16 who have just joined the labour force, or men of 30 who have been unemployed (whether openly or in disguise) for 15 years, must eat, and the increase in consumption caused by employing them can therefore be less than their wages.

The absurdity of Shri Srinivasan's distinction can be seen in the fact that disguised unemployment in any period is itself at least partly the result of population growth. Indeed, all this is so obvious that one is tempted to believe that Shri Srinivasan meant to contrast existing unemployment (whether disguised or otherwise) with the increment which will arise from population growth. But if he did, what is his quarrel with Prof Das Gupta about?

D K

Bombay,
October 19, 1956.



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A Kabul Diary-II

More on the Afghan Ally

MY second spell in Kabul turned out to be longer than I had bargained for, thanks to a hiatus between Aeroflot and the Indian Airlines Corporation (both state-owned), and the least I can do in return for the five pages of my passport filled by the Afghanistan Government is to write a second piece on the country. It is not a matter of unmixed satisfaction to me that my second thoughts are more supplementary than contradictory to my first observations. If in the latter there were discreet indications of disquiet, the former will be even less cheerful. I left Kabul, where I saw Babur's tomb and even I, no historian, could not help thinking of what had happened to India through the centuries and why, some of the basic assumptions of India's foreign policy seemed less solid than the rocky hills in and around Kabul. It is necessary to add immediately that in my opinion Pandit Nehru's foreign policy is, for all its idealistic core and coating, based on certain rocks of realism. Where wishing comes in is that there be more such rocks and that we know, even if we do not always parade the knowledge, the nature of every such rock; that we know how long to lean on this rock or that without fear of falling down. The next thing to say is that the Government of India is entirely right in seeking the friendship of the Government of Afghanistan. To have in fact secured it is no mean achievement.

It cannot have been easy. There has not been a census in Afghanistan very recently, as far as one can gather, but the 12-million population is overwhelmingly Moslem; there are no more than three or four thousand Hindus, and a Christian Afghan must be a very lonely man if he exists at all. Now, one need not be a Hindu communalist to believe that the Afghans' natural sympathy would be with Islamic Pakistan than with secular India; there is all history to show that Moslems are made that way, and, given the same kind of origin and development, the Hindus might not have been far different. (What I mean is that I have stated a fact and not expressed an opinion.) To aid these natural inclinations, there is Pakistani propaganda. There are no English newspapers, and all the Persian newspapers are owned or directed by the Government. The foreign visitor thus falls back upon the bulletins daily issued by the Embassies, and here is a typical passage from the Pakistani sheet: "The National Reconstruction Movement... have fervently hoped that King Saud and President Nasser will help the oppressed Muslims of India in their darkest moment and save them from the vengeance of Hindus who are out to wipe out the name of Islam." We deceive ourselves in thinking that this kind of muck has no effect at all on the half-educated English-reading Afghan who, in his turn, tells his totally illiterate countrymen.

* * *

What India is doing in Afghanistan is perfectly justified. If I understand the basic principles of India's foreign policy at all, then the most basic of them surely is that India seeks the friendship of every country, Afghanistan included. Another unstated objective of our foreign policy must be the creation and preservation of as many independent states as possible between ourselves and the two giants flanking India on the east and the west, Russia and China; and one such country is Afghanistan. The defection of Pakistan from the Bandung group, in all but name, and this neighbour's continuing hostility to India, make it the more necessary that we remain friendly with Afghanistan. So far so good. Even at the risk of offending the Government of Afghanistan and possibly the External Affairs Ministry (which has already been praised for its policy) the question must now be asked whether there is between the Government of Afghanistan and its people that minimum identity which it is polite to take for granted. Let me repeat, no change is indicated in India's policy towards Afghanistan. The present is the only sensible policy, to be friendly with the Government in Kabul and not look too closely into the nature of the Government. It is not a foreign government's business anyway.

A journalist may be forgiven if he interprets his duty slightly differently. He is under no diplomatic constraint, and he speaks for himself—not for his Government. Civility for him is a virtue, but not if it has to be practised at the cost of the truth as he sees it. Not a fair parallel in every respect, but Britain knows that the Berlin correspondents who sent home truthful despatches about Hitler were not less patriotic than the editors who withheld their publication because of a mistaken notion of loyalty to the Chamberlain Government. These ethical principles of journalism apart, whilst it is enough for a foreign government to accept a regime for what it is, a journalist owes it to himself to enquire into the character of the regime. It is this kind of enquiry which finds the present Government of Afghanistan wanting in many respects. What follows is probably known to the Government of India. I do not see why the people should not know something of what the Government cannot say.

* * *

There is about as much democracy in Afghanistan as there is gold in an Indian one-anna coin. The people of the country enjoy nearly as much freedom as the Sahara enjoys its rains. There are about as many liberties in Afghanistan as there are snakes in Iceland. The rulers in Kabul are as fond of the principles of liberalism as were the Bourbons in France. Almost every department of life is controlled by the Government, and only in the International Club can one hear some frank criticism of the Government—besides getting a drink. Here gather men from the different Embassies; the whole country being "dry". Afghans not averse to a drink or two manage to come here as guests, and only then do they open up. It should not surprise the Afghanistan Administration to know that there are Afghans who do not think they have the best government in the world. They talk about the man who has just been given that good job and the boy who has got a scholarship for studies abroad; it may be perverse of them, but they seem to think that the latter is the King's fifth cousin's second wife's half-brother and the former is the Minister's third nephew's fifth child by the very first wife. They seem to think that there are better criteria for the distribution of jobs and scholarships. They tell you stories of corruption, some of which sound

true. Not all of them seem to like the Mullahs either who, they think, have less loyalty to Allah than to the Government—the people being a complete irrelevance. You ask in your naivety, why isn't something done about it? The Afghan friend calls for another drink—the host takes out his book of coupons—and you see two Afghan eyes burning. It is possible to meet optimists in the International Club who think the next Amanullah may not be long a-coming and that without history repeating itself. There must be subterranean fires inside those burkhas too.

Of course all the foreign Governments deal with the Daud Government, but not every Embassy can be under the illusion that they are dealing with a regime of unquestionable stability. I am not a dreamer; I think you can fool all people for a heck of a long time; and in any case it is for the Afghan people to get the government they want. Meanwhile one leaves Kabul with the impression that some of the foreign Governments are incurring popular displeasure by being a little too friendly with the unloved regime. About the only foreigners the Afghans like are the Germans. The Russians are building roads, the Americans dams—without either winning the Afghan's heart. I met Afghans who said they would like to go to Germany. I met at least one man who said he would like to see Moscow, another who would not mind going to New York. New Delhi was not mentioned. I was not in Kabul long enough to find out why, but it seems to me a question of some importance.

—Flibbertigibbet



no more the muhannad

FIRDAUSI'S EPIC POEM, *Shah-Namah* tells us that when Alexander invaded Persia in 331 B.C., swords and other weapons of steel were hurriedly sent for from India. Throughout the civilized world India was famous as the home of quality steel. In fact, the old Arabic word for "sword" is "muhannad", meaning "from Hind."

Today, once again, steel is very much to the fore in the nation's thinking, but with a different intent. The country's steel-making capacity is being rapidly enlarged, not for purposes of war, but for peace and development.

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From the London End

Britain in the Atomic Era

THERE is a certain sense of history in the opening of the first full scale nuclear power station in the world when the Queen pressed the button at Calder Hall the other day. This flow of electricity (generated from nuclear energy) has been described as the inaugurator of the second industrial revolution in Britain. And indeed, this is a truth of considerable significance. It is true that atomic power has already been produced in a number of other countries, principally the United States and Russia. Calder Hall, however, is possibly the first demonstration of the feeding of electricity from a nuclear reactor into the national grid system. From August 27th electricity generated from Calder Hall has been supplied to the neighbouring Windscale atomic factory. And thus a new stage has been opened in the peaceful development of atomic energy.

Ten Year Programme

The supply of electricity from Calder Hall is the beginning and is only a small part of the considerable programme that is now in active execution in the United Kingdom for the large scale generation of power through nuclear energy. Calder Hall is not only an achievement in its own right, but it also stands as the experimental model for the fulfilment of the programme set out in the Government White Paper **Programme for Nuclear Power** of February last year. The White Paper proposed the setting up of twelve power stations in the ten years up to 1965. It was not visualised that these twelve stations would be larger in size than the model of Calder Hall, but with one of the four Calder Hall stations now in operation, the output of electricity has been sufficiently large to make it possible, when the programme is completed, to expand the capacity of the twelve stations considerably beyond the 2,000 megawatts which was then set as a target.

Thus within a decade, the promise of large scale nuclear energy for Britain's industries is more than likely to become a reality. It may equally be a precursor to the revival of Britain's international economic solvency and thus to the achievement of the much publicised ideal of doubling the standard of living of the British people in the next twenty-five years.

The Calder Hall station which has now been opened, is not designed for the primary purpose of generating electricity through the national grid system. This and the other Calder Hall models are merely the prototypes to be built by the electricity authorities under the February 1955 programme; they are not part of this programme. The Calder Hall stations are designed with the primary purpose of producing fissile material—plutonium, and it is only a secondary function for them to act as electricity power stations. While only one of the Calder Hall stations have been opened, the other three are expected to come into full operation at a very early date. The generation of electricity, as a by-product, estimated about a year ago at 100—200 megawatts per station, may now reach as much as 300 megawatts each.

Second Industrial Revolution

The development of nuclear energy for peaceful purposes has been pursued on a three stage programme by the Atomic Energy Authority. The first stage encompassed the Calder Hall project, the first of which has been inaugurated. The second stage is the designing and construction of a gas-cooled type of reactor and it is understood that progress in this direction has been as exciting as in the electricity generating prototypes. Following this second stage, power stations of a different type are being designed and constructed, one of which is being built in the North of Scotland. These stations will have the breeder type of reactor for power generation. Thus beyond the achievement of Calder Hall, there lies not only the ten year programme of nuclear power stations as visualised in the White Paper, but the vast planning and execution of research (under these three stages) which, according to the **Times**, "stretches far into the future".

The provision for nuclear power as the stimulant to the second industrial revolution, was recently surveyed by Sir Edwin Plowden, Chairman of the United Kingdom Atomic Energy Authority. On the assumption that Britain's national income would double in the next twenty five years, he estimated that the fuel consumption in 1975 would have risen to some 370 million tons of coal equivalent. As against this, the plans of the National Coal Board visualise an annual output of no more than 250 million tons by 1975 and that, too, only at a cost of additional investment of perhaps £900 million. Thus if the trend of fuel consumption and of coal output assumed in these estimates prove to be correct, then by 1975 a deficiency of between 110 to 120 million tons of coal equivalent will have to be met by alternative fuels.

In 1955, of the total consumption of 250 million tons of coal equivalent of fuel, oil represented 35 million tons. And had there been no political and strategic complications in the supply of oil, this fuel could very well be regarded as the possible alternative which could in 1975 close the estimated gap of between 110 and 120 million tons. Having regard to the present situation in the Middle East, no Government in the United Kingdom can plan so far ahead on the assumption that oil would be the alternative fuel to coal. Thus the construction and expansion of nuclear power is not only an act of faith, but a principal political aim of the British Government. The fulfilment of the 1955 programme for the construction of 12 nuclear power stations by 1965 would provide the United Kingdom with some 70 million tons of coal equivalent fuel. This will go a long way towards meeting the expected deficiency in 1975, i e a decade hence. It may very well be that by 1975 the full accomplishment of the three stages referred to above may very well increase the amount of electricity generation in this country to the point of not only making up completely the deficiency, but also provide a sufficient margin of surplus of fuel in this country.

Relative Costs

One question which weighed heavily on the British authorities in their planning of nuclear generated fuel was that of relative costs of other sources of fuel. The cost of Calder Hall so far has been in the region of £16½ million. Including the initial supply of nuclear fuel, the cost of the first electricity authority station may be about £150 for each kilowatt of generating capacity.

This is between two to three times the cost of conventional power stations. The Atomic Energy Authority's economist has suggested that the gross cost of producing electricity in a Calder Hall type of power station would be about ¾ pence per unit. The sale of plutonium may reduce the cost to a ½ pence which is only slightly above the costs of coal-fired powered stations.

The capital cost of a nuclear power station at present is £ 120 a kilowatt. To this must be added the cost of the initial investment in uranium fuel which might be about £ 30 million. As against this, coal or oil fired stations of comparable size cost about £ 55 per kilowatt. The engineering progress is designed to bring down the costs of the former to the latter. On the other hand, the running costs of nuclear stations are likely to be only a half of those of conventional stations.

The threat of a fuel shortage has been a continuing one for the British economy. Today Britain is a net importer of coal and its oil imports have been rising with some speed. With the declared belief (as expressed at the International Conference on Peaceful Uses of Atomic Energy at Geneva in 1955) that there is a positive correlation between per capita incomes and per capita energy consumption, all present and future efforts to raise standards of living in Britain must be seen, among other things, against the sources of energy and here only nuclear power provides the prospect. And as the Times describes this prospect "— it is a world to conquer".



From the United States

American Elections

THERE seems to be almost no doubt that President Eisenhower will defeat Mr Stevenson in the elections on November 6th. Although the pollsters are understandably nervous about their own predictions, the polls of public opinion so far show fifty to fifty-five per cent of the people favouring Eisenhower, as against around forty per cent favouring Stevenson. The others are undecided at the moment, or so they say, but even if they voted as a body for Stevenson, it would still require a remarkable swing away from Eisenhower on the part of those who now believe they will vote for him. Everyone here, of course, remembers Truman's 'upset' victory, but the polls at that time were wrong by only a very small percentage, and so small a margin of error is important only when the vote is close. The polls could be five per cent off and Eisenhower would still have a majority.

The issues on which the present election is ostensibly being fought are neither very exciting nor very convincing to the voters, and the strong feelings current during the campaigns of Roosevelt, Truman, and 1952 are lacking. The Republicans are running on their "record" and Eisenhower as a man, emphasizing the end of the Korean war, the peace since Eisenhower came into office, the general prosperity of the country, and the virtually stable price level.

The Democrats are having difficulty in finding issues of general appeal in which to fight the present administration. Stevenson wants to make an issue of Dulles' conduct of foreign policy, but it does not seem to catching on as an issue. The President's health cannot be referred to directly, for obvious reasons of taste if not of public morality, but a substitute amounting to much the same thing has been found in keeping the public constantly aware that Vice-President Nixon is the next in line to the President. Otherwise, the Democrats have had to try to make capital of regional issues. Thus a strong campaign is being run in the rural areas where gross farm income has been declining. The Republican administration has substituted flexible price supports and conservation 'soil bank' payments for the rigid ninety percent of parity support prices which had existed. Stevenson has promised to restore the ninety percent parity and there is talk of one hundred per cent of parity support prices. There are areas in the country—Detroit, Michigan, where there has been a depression, the automobile industry is one—where there has been or is a degree of local unemployment. The smaller businesses have also been finding it more difficult to operate within the confines of tighter credit over the past four years, and at the same time mortgages and consequently housebuilding are contracting. The Democrats are using these difficulties in an attempt to build up a picture of the Republicans as friends of big business while the Democrats are the friends of the small man and the worker. There is some evidence that this has been successful, but by no means startlingly so.

The feeling among political reporters and columnists seems to be that these issues are having some effect in mustering support to the Democrats, but that a Democratic victory, if one comes will be more the result of a reversion to the voting patterns of the last twenty-five years than that of the specific campaign efforts of this year.

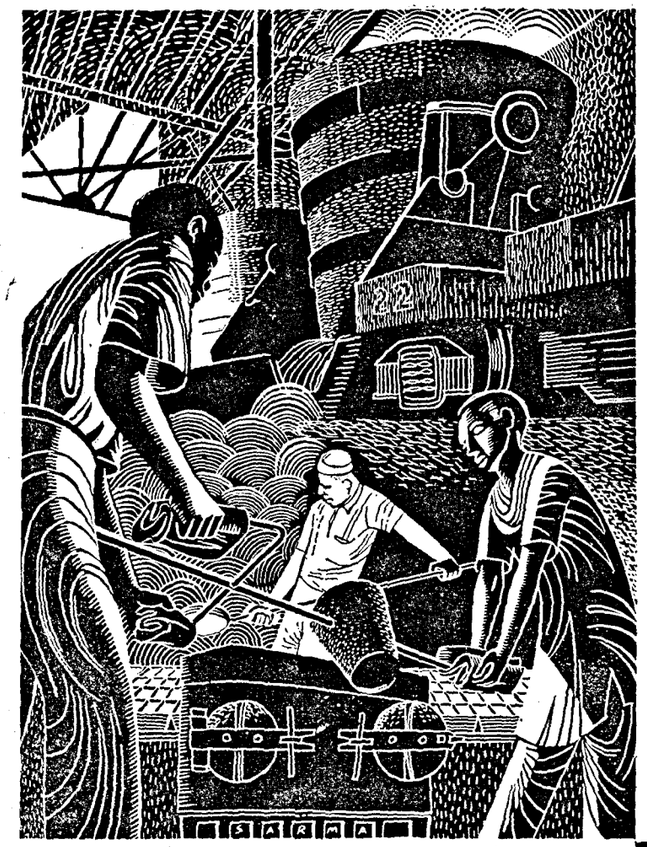
American elections are not straight party votes and the results require the most careful interpretation. Personalities and local circumstances play a large part, and men are seldom elected or defeated on the major policy problems which are naturally the focus of attention of people outside the States. It may be helpful to analyze the present situation so that the meaning of the results may be clearer when the results of the election come out on Nov 7th.

In an American election the voter chooses men for a rather large number of positions. This autumn he will vote for a president; in two-thirds of the states, he will also vote for a US senator; he will vote for a US representative in his district and perhaps for another representative-at-large from the state as a whole; in a number of states he will be voting for a state governor, a state senator, and a state assembly-man; and again in many places he will be voting this November for local officials of city, town, or county. In each case different sets of circumstances and different sets of motives come into play, and one cannot generalize from trends in one set of elective positions to the outcome for other sets. To illustrate:

In elections for president, senator, governor of a state, or mayor of a city the personalities and personal records of the candidates are very important. This is the clue to Eisenhower's huge popularity with the voters. In elections to the House of Representatives, state legislatures, and city councils party affiliation is much more important, but at any level a particularly strong candidate can run well ahead of the others on his party ticket and win, despite a more general victory for the opposing party in that locality. Conversely, a weak man or unpopular candidate may run behind his ticket. But it is also important to remember that a strong or a weak candidate can by virtue of his own qualities influence the vote for others running with him.

The most outstanding example of the force of personality in determining the outcome of an election is provided by President Eisenhower. By party affiliation alone the Democrats were definitely the strongest party in the States, but in 1952 the Republicans carried both the Senate and the House. Two things are noteworthy about this result. First, Republican control of the legislative branch of the government followed from Eisenhower's victory, not Eisenhower's victory from the vote for the Republican party. Second, despite a natural (and intelligent) tendency to vote to give the president a legislature of his own party, the Republicans barely squeaked into control of the legislature while Eisenhower was carrying the country by an immense majority. In view of the size of his majority, the smallness of the margin of control in the Senate and House could almost be considered a victory for the Democrats. The rest of the story was told in 1954 when, without Eisenhower on the ticket and despite his success in ending the Korean war (or so it is regarded here), the country returned a Democratic Congress.

But the effectiveness of personal reputation is not limited to the pre-



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IN INDIA'S LIFE AND PART OF IT

1272

sidency. In 1954 in the state of New York the Democrats won all the major state offices but one, and in that one Jacob Javits, a highly respected, competent and liberal Republican was running against Franklin D Roosevelt Jr for the attorney-generalship of the state. The combined effect of Javit's (good) reputation and Roosevelt's (not so good) reputation was to give Javits the attorney-generalship by a sizeable margin—one larger than that with which Harriman entered the governor's mansion. In the same year, with parties reversed, a similar event occurred in Connecticut where Abraham Ribicoff, a Democrat, became governor while the other statewide offices went to Republicans. In American parlance, both these men are known as 'vote-getters'.

The example of Javits in New York continues to be of interest, for he is now running for the US Senate, but in the present case his opponent is also a man of stature. Robert F Wagner Jr. has been a very successful Mayor of New York city and like Javits is a 'vote-getter'. And this is what will present the problem in interpreting the election results next month. Whichever man wins, how can one decide? If Javits wins, will it be because he is a Republican or because he is Javits? Or if Wagner wins, will it be because he is a Democrat or because he is Wagner? The only thing one can be sure of is that any claim that a victory for one or the other represents a true victory for the party will be based on the shakiest of evidence.

The state of Maine holds its elections two months early, to avoid the snow, and this year's results were unusual: Maine has always been a Republican stronghold, but this year the Democrats won the governorship and one of the three seats in the House of Representatives, while a second seat is still in doubt pending the outcome of a recount (the Republicans were first reported to have won the seat by the merest twenty-nine votes) Quite naturally the Democrats have been pointing to this result as indicative of the trend of the country, but a closer look shows how precarious are such inferences. In 1954 the present Democratic governor of Maine won the position from a Republican whose record was so poor that Republicans in large number voted for all the Republicans on the ticket except for the governor. Since that time the state administration has ben so good that no one particularly wanted to turn the incumbent out of office. Therefore one cannot call the gubernatorial race a party victory for the Democrats. The election to the House of Representatives is a different matter. So far as this writer has yet been able to ascertain, there were no local scandals, personality difficulties, or such like to swing Maine towards the Democrats, and elections to the House always being more of a party matter, there seems to be a clear implication that other things being equal, the voters of Maine, and perhaps elsewhere are realigning themselves with the Democrats.

This leads us to the question of who is going to win the Congressional elections. Opinion generally holds that the Democrats will keep control of the House despite the anticipated victory of Eisenhower, and holds that more likely than not the Democrats will also keep control of the Senate. If one were considering only the tenor of people's preferences for Democrats or Republicans in the houses of Congress, one would feel more confidence in predicting a Democratic Senate, but the elections for the thirty-five vacating seats in the Senate are subject to the evaluations of the men in each particular case, and here is where one must be most careful.

Another peculiarity of senatorial elections is that they are staggered over a six year period. At each biennial election one third of the seats become vacant. There being two senators from each state, at each election one senatorial seat in each of thirty-two states is up for election (the extra above thirty-two is due to the death of an incumbent). To add to the difficulties of prediction due to the man (for instance, Republican John Sherman Cooper always runs strongly in normally Democratic Kentucky) there is the difficulty arising from the fact that the seats becoming vacant at any given biennial election may not be subject to the same swings and changes as the country as a whole. Thus in this year 1956 the particular seats at issue are slightly more likely to go Democratic than Republican, but there are only thirteen seats where the issue is really in doubt, so one hesitates to predict. This effect is of course nullified over the whole six year senatorial cycle, but the principle of staggering the senatorial elections was just this: to even out the swings of public opinion so that there would be greater stability in attitude and policy in the government than might occur if all the personnel were subject to change every two years.

Perhaps a further word should be said on the matter of the American tendency to vote for the man rather for the issue for principle. If in calling it a vote for the personality I have given the impression that an election is a contest in smiles and friendliness, I have misled my readers. It is much more a case of voting for the "man for the job". If Americans were split on essential issues of social organisation—for and against nationalisation, for and against collective security through the United Nations—then there would be a lot more reason for voting for the party of one's principles. But they are not. Basically we are agreed on a system of free capitalist enterprise in which the government can interfere whenever we wish it to; on government responsibility for full-employment policies; on widening social security; on peace and collective security; on more and better free education for all; on progressive income tax; on conservation of national resources. Differences between the parties on these subjects are narrow, and are usually confined to arguments over the specific institutions which will carry out the policies or over the rate of expenditure on a policy. This means that the voter has little reason to pick one party rather than the other and consequently he is much more apt to vote for the man who seems most likely to carry out policies in the way the voter would like, or for the man who, the voter believes, will put most emphasis on furthering those policies which the voter thinks most important.

The president is elected for four years, a senator for six. Unlike a Prime Minister, a president cannot "fall" until his term expires. The voter cannot foretell what problems the country will face in three or five year's time. Neither can a presidential or senatorial candidate. How, then, is the voter to assure himself that the president three years hence or the senator five years hence will do what he, the voter wants done? Obviously he cannot, but his next best choice is to pick the man whose personality and record indicate that he is more likely than his opponent to react and think in a manner closer to that of the voetr. In

America party affiliation is a poor guide to this sort of choice. The spread of personalities, of personal preferences or attitudes, is far greater within each party than it is between the parties. There is some tendency for Republicans to be more conservative, but Mr Javits of New York is probably a "left" than the majority of Democratic senators, and Mr Mc Carran of Nevada, a Democrat, was probably America's most conservative senator. So when the American votes, he feels it is much more important to have the right man than the right party, at least in positions of power such as the presidency, a senatorial seat, or a governorship.

It must also be understood that where there are really basic differences in issues of policy, and racial integration in the schools is the only one which comes to mind,* the split is within each party and not between them. Both the strongest proponents and the strongest opponents of integration are in the Democratic party. Since Republican strength is mostly in the North and the West, and since these areas are historically pro-integration, the Republicans tend to be pro-integration, but in areas where there is a split on the issue, the split will run through Republican ranks as much as through Democratic ranks. In America there is very little correlation between "conservative" and "reformist" principles and the two parties. This is illustrated by the voting record of southern Democrats during the Roosevelt administration. The southern Democrats in the Senate and House were the backbone of New Deal social and labour legislation, but the main opposition to Roosevelt's efforts to end racial discrimination. The nineteen forties' senator Bilbo of Mississippi was the archtype of the anti-Negro southerner, yet he could boast the most consistent New Deal voting record in the Senate---better than that of Senator Wagner of New York, whose name is almost synonymous with New Deal labour legislation and who consistently favoured all forms of racial equality. As a final illustration of the inadvisability of using party as a guide to a congressman's voting behaviour, I cite the fact that administration programmes are put through Congress with support from both parties, and with opposition from both parties. Unlike the parliamentary system, there is no stable majority in either House of Congress. Eisenhower's foreign programmes are supported by more Democrats than Republicans. Truman's foreign programmes were guided through the Senate by Senator Vandenberg who was the Leader of the Opposition. A New Yorker can thus with complete consistency of principle vote for Stevenson and for Javits, someone in Oregon with equal consistency for Eisenhower and Morse (a Democratic senator).

As a result of these considerations, or complexities, or at least differences from parliamentary practices, one cannot interpret the outcome of the American election by looking at the total of the votes for president, or even the party composition of Congress. One must go more deeply into the particular question of what kind of men were elected, against what kind of opposition, and in what particular set of local circumstances.

* Even on this issue the opponents of integration say "not this century" and do not say "never", or more accurately, only a small wing of southerners say "never".

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The Administrative System
Of a Socialist Society in the Making

Gyan Chand

THE Indian administrative system of India had been criticized severely by the men now in power before they came to power and by their critics; and it has been freely admitted that its limitations are one of the most important bottlenecks which cannot but impede the development and transformation of our national economy. And yet hardly anything has been or is being done to create or develop an administrative system adequate to the new needs or objectives of the economy and the problem is not being examined in its proper context.

It is all the more important because social revolution is the avowed object of the changes now in progress, and its adequacy or otherwise, the need for changing it and its nature and urgency are to be examined with reference to this supreme objective. Our higher services have been well spoken of by a number of distinguished visitors; and in certain respects they are entitled to appreciation and admiration; but it is also well known, much more by our people than by the outstanding men on a short visit to this country, that they have been found seriously wanting in the discharge of some of the most important public functions, their power has in fact greatly increased and, broadly speaking, not been used in the best interests of the community.

If They Are Not to Fail

Apart however from the assessment of their role in the past, the more important consideration, to which earnest attention has to be given, is whether our administrative apparatus is suited to and can answer the needs of an economy which is intended and has to be radically changed in the interest of the masses and whether there is any prospect of the apparatus being altered or adjusted to the requirements of a socialist economy in the making. The next ten or even five years are going to be of momentous importance in our history and that of the world; and if the development and transformation of our economy are retarded or distorted by the inflexibility or the shortcomings of the administrative system, the repercussions are going to be serious and will make a very considerable difference to our future.

Our administrative services are, as is well known, important not only for the execution of policies but also for shaping and formulating them. That is unavoidable; and with increase in the importance, number and scope of Government functions we have to assume that these services will acquire even more crucial importance in the working and growth of our economy and their members will occupy key positions, in rapidly increasingly numbers, in our entire social set-up. It is necessary, as stated above, to examine the question of their future with reference to the social objective, to which the country is committed and which, by the force of events and the passage of time, will become more and more imperative in its impact and bearing. The standards of honesty, devotion to duty and application of the administrative services which, as is generally admitted, need to be greatly improved if they are not to fail the country in the very critical years ahead of us; and the attempts made so far to realize these objects are known to have more or less failed to produce the desired results. Much more, however, is needed in India than the qualities which the administrative services must possess everywhere and at all times for the stability and efficient working of a polity, if we are to face the tasks ahead with confidence and understanding of our paramount needs.

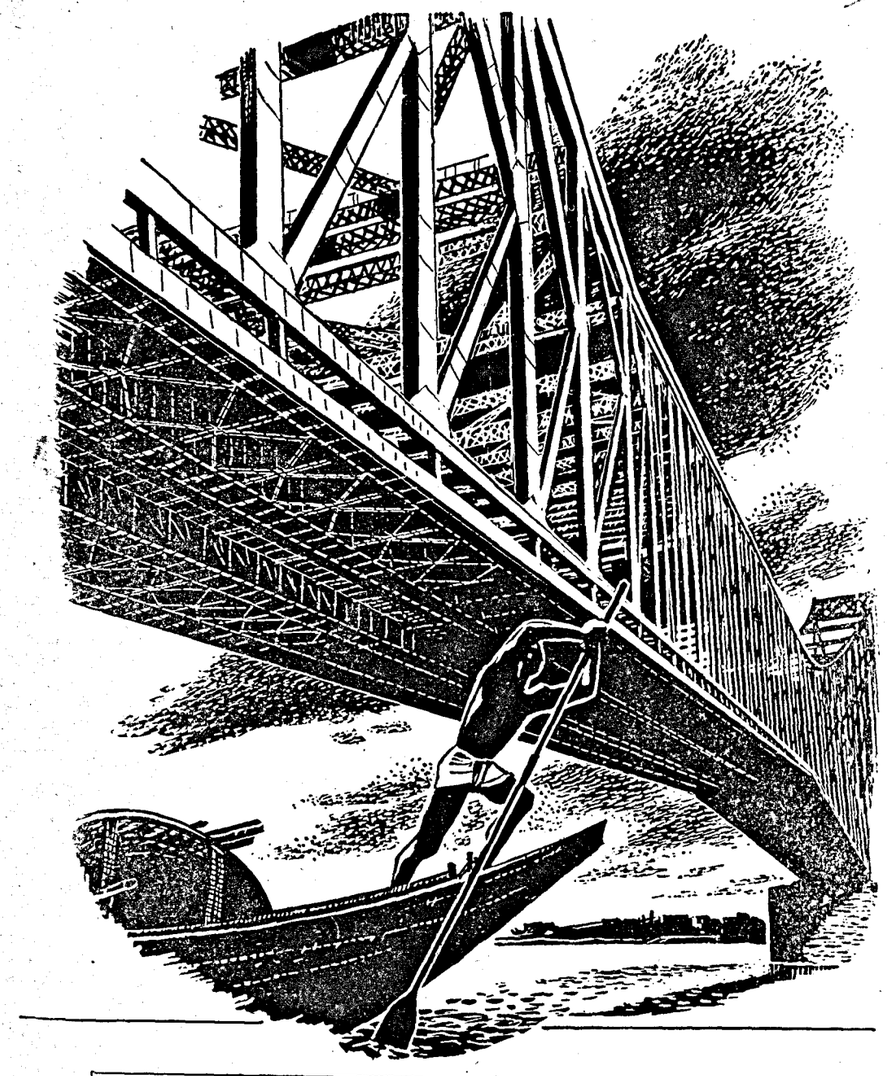
Agents of Social Revolution

As by choice and necessity our social revolution has to be brought about without resort to violence or any insurrectionary tactics, our administrative services have to participate actively and intelligently in the working and enfoldment of the revolutionary processes; otherwise not only will their intent not be realized but they will cause serious revulsion. The view that the services have to carry out loyally policies laid down by the Parliament and the Cabinet and cannot have any will of their own in regard to them is valid within limits in static times; but in practice it breaks down for the right execution of a policy in the spirit, and not merely the letter of the decisions, is essential for its success under all conditions. At a time of profound changes, however, this view is not valid even in theory. For executants of a revolutionary policy are as important as its makers, and unless they fully believe in it and are prepared to carry out not only in good faith but with earnestness and full mental exertion, the policy in implementation cannot but fall short of its object.

For the development of a socialist society, it is essential that the men with socialist convictions and a clear understanding of its primary needs should be in key positions in administration and be able and eager to put socialist policies into effect with determination, to remove, as far as possible, obstacles in the way of their execution and create an atmosphere in which they can be implemented with enthusiasm and devotion. Even the most ardent admirers of our administrative services will admit that this essential condition is not fulfilled at present; and unless the position is radically changed for the better, this condition is not likely to be fulfilled in the immediate future. Our services are credited with many qualities; but owing to the conception of their formation, their training, experience, traditions and well-established patterns of behaviour and re-action, it is known that they cannot be expected to be in agreement, much less active sympathy, with revolutionary ends and carry them out with competence and understanding. They are not lacking in ability to perform ordinary administrative duties efficiently and well. In general intelligence, they compare not unfavourably with similar services in any country; but what is in question is not their ability to perform ordinary administrative duties and general intelligence, but their capacity to function as one of the most important agents of social revolution. They cannot, of course, be only or the most important agent of revolutionary social transformation.

Basic Concern for Precedence

The whole nation has to be awakened to its necessity and logic; vehicles for carrying it out have to be provided at the basic level; and public leaders at all levels have to be thrown up who can live and live for social revolution. All these conditions are also non-existent and have to be created, but that increas-



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es, not decreases, the necessity and importance of having administrative services capable of serving and fulfilling revolutionary ends. Without revolutionary fervour of the masses, the means of channelizing it and genuine revolutionary leadership, social revolution cannot become an emergent reality; and an administrative system suited to the needs of a social revolution has to be planned and made a working proposition when a social revolution gains momentum and gets well under way. The need of such an administrative system has to be clearly understood and appreciated and appropriate measures have to be taken to build it up on the assumption and in the hope that revolutionary forces in the country would gather strength and give substance to the bold intention embodied in the theory of our Second Five Year Plan.

"It seems strange" in the words of Mr Paul H Appleby, "that basic concern for precedent has not been challenged by the present Government. The primary purpose of political leadership—and notably of leadership in a revolutionary stage is to incite a departure from precedent—for the sake of the achiveement of new valuee." This 'basic concern for precedence', departure from which has to be incited by political leadership, has been paralyzing action and initiative in our administration and is, of course, completely out of accord with the needs of a social revolution. The latter must necessarily call for all-round departures from beaten tracks, spirit of social adventure in action and willingness to face new conditions, new issues and new combinations of forces to achieve new values' with courage and resourcefulness. This spirit our services are known to be completely lacking in at present, and it has to be generated, fostered and developed in order to make them partners in initiating and carrying out revolutionary purposes.

A New Social Technique

As basic social changes are carried out, the problems of administration will acquire new meaning and importance and have a fascinating interest of their own. The rule of thumb and hum-drum methods would necessarily have to be discarded, and social ingenuity developed at all levels to deal with concrete problems and situations. Revolution would primarily mean replacement of old by new social relations, shifting of the centres of social gravity and dedication to new social values, but when that has happened or rather is happening, a new social technique as a continuing process will have to be developed and made operative in a changing and developing administrative system. The qualities necessary for this purpose have to be acquired and cultivated and their development made the object of conscious social research and endeavour.

Poise, dignity, capacity for inspiring confidence, breadth of outlook and flair for practical ends are qualities which are needed for good administration at all times and in all countries; but good administration, when social revolution is an urgent and inescapable necessity and has to be carried out without serious social convulsions and upheavals, needs creative achievement of a much higher order and can be attained when administration becomes social engineering and craftsmanship and expresses and fulfills a coherent revolutionary social purpose. That action on a different and higher level is called for has still to be even appreciated in our country and therefore the measures and methods needed for realizing this all-important object have not been given an earnest thought. Pedestrian administration and social revolution cannot go together; and their mutual repulsion has to be taken as an axiomatic fact to which we have to adjust our minds and policies.

Career-Minded Administrators

New values can be achieved in administration only when new values are achieved in the lives of the administrative personnel. Our administration is still authoritarian, largely incapable of touching human chords, transmitting any stimulus or pointing to new horizons because most of the administrators are almost entirely career-minded and the vistas now opening before the people mean nothing—even less than nothing—to them. The offices which they hold are coveted, besides of course for their monetary rewards, for the power which they bestow rather than the opportunities which they offer. The result is, as the people know, that the animating spirit of administration has hardly changed since Independence, and even the new services, which have been formed for promoting and realising the peoples' well-being, are as 'bureaucratic' as the services directly concerned with civil administration. Besides, corruption and worse evils are still common, there is no indication that the need for new approach in administration is even understood and its relation to basic social changes appreciated.

Needs of a Socialist Society

Our public servants do not express the new social ends in their personal life, and no effort is being made to stimulate earnest thought or endeavour among public officials. Not only are the higher services being paid salaries beyond our means as a nation, but their whole tenor of life, mode of behaviour and response to the changing situation in the country are lacking in those qualities without which social revolution would remain merely a utopian dream. These qualities cannot be acquired without our public officials embodying and expressing the ends of social revolution in their personal life and conduct and establishing a living contact with every day life of the people. This sounds commonplace but is, nevertheless, of fundamental importance. A revolutionary social order needs revolutionary administrators—men and women, like the public leaders referred to above, who live and live for social revolution. Esprit-de-corps, team work, standards of public conduct, which are all essential for good administration, acquire a new meaning and importance when they are set in a revolutionary context and related to the vital needs of a socialist society in the making.

Public Enterprises

Administration of public enterprises, which would necessarily acquire everincreasing importance as social revolution proceeds apace, requires, of course, new type of organization, mode of transacting business and much greater flexibility in policy-making and its execution than in public administration in general. The economic administrator even more than public administrator, has to be a carrier and accelerator of a new social purpose, his technical competence has to be of a high order, he has to be an innovator in pursuit of social ends and their realization, and develop capacity for co-ordination with other public undertakings, the economy in general and the tempo of social change. All this is needed and experience of private economic enterprises cannot be taken as a basis for the acquisition of these essential qualities.

The economic administrator has, however, to be primarily an architect of the new order, understand the implications and obligations of pro-

duction for use, rather than production for profit and learn to cultivate and develop deep concern for human and social needs of labour. Technicians have to be first-rate in their profession, but as technicians of a socialist society in the making, their technical competence can fulfil itself only if it has a broad and deep social content and is exercised in co-operation with others, with solicitude to learn from all including the workers and carry on the administration of enterprises entrusted to them with clear understanding of the need for removing all barriers to what the economists call horizontal mobility i e professional advancement of workers, however lowly placed, according to their work, worth and ability to acquire higher technical qualifications.

Bad Precedent

Public economic enterprises have to attain and maintain a high standard of business efficiency, orderly conduct of production and financial transactions and their accounts have to be in good order; but in this respect, again, they cannot merely reproduce or emulate the methods and standards of even the best managed private economic enterprises. Their problems and needs are essentially different; and though they have to adapt the best in the administration of private enterprises for their ends, they have to realize that economic administration of public enterprises raises new issues and calls for the exercise of qualities which in private enterprises come in the way of personal advancement and even success of the undertakings. Accounting and audit acquire greater importance in economic administration, but even when their technique is the same, their purpose, criteria and tests of efficacy have to be changed radically and given a new social significance. We have to constitute new economic services and the practice of placing the members of the present administrative services in position of direction and authority in the newly started public enterprises is creating a bad precedent and hindering the process of internal growth. The assumption that the technical personnel are not capable of dealing with the wider problems of policy and administration is an extremely biased assumption and a legacy of the past. It has to be discarded in the interest of orderly revolutionary growth of our economy. A radical change in the underlying assumption of public administration is urgently needed for promoting and realising new social objectives.

Symptoms, Not the Disease

"Review by too many persons in too many organs of the Government in too detailed, too repetitive and negative terms" on which Mr Paul H Appleby lays so much stress in his report and for the mitigation of which he urges delegation of authority and elevation of responsibility to a higher level is a symptom of the disease and not the disease itself. Similarly 'concern for the literal', small thinking which 'can completely thwart the public purpose and the public good', 'a system built upon extra-ordinary evasion of individual responsibility and a system whereby everybody is responsible for everything before anything is done' and other defects of the same kind, to which he refers so vividly and with such repeated emphasis, are all expressions of the fundamental weakness of the present administrative system.

A change in procedure, heirarchical relations, methods of financial approval and budgetting and even the position and function of the Auditor General is required, but has to be made an integral part of much more fundamental changes in our administrative system—in its organization, conception and order of its function and more than that, in its motives, spirit and conditioned reflexes. A much wider approach to this problem than is indicated by Mr Appleby's report is needed and has to be made operative with a full understanding of the magnitude, nature and urgency of the problem. That a Committee of Secretaries, even with a whole time competent Secretary, has been appointed to examine the problem is a measure of the poverty of our thinking on this subject and its range.

Not for Secretaries to Solve

The whole question needs to be examined on a much higher level and with a much wider purpose than can be achieved by a report of a foreign administration expert, howsoever eminent, or a committee of secretaries with a whole-time secretary. The services matter and they have to be fairly treated with due regard for their interests and expectations, but the prospect of social revolution and the future of our people matter much more. In the words of Mr Appleby again,

> "Emergency dictates the establishment of procedure that have a maximum potential of acceleration consistent with the maintenance of democratic values."

The maximum potential of acceleration is needed not for establishment of procedures, but acquisition and implementation of, it is worth while repeating, revolutionary social purposes, new operative principles and a **modus operandi** of administration which would greatly further and not obstruct the ends of the urgently needed social revolution in the country. The task is exceedingly difficult but has to be accomplished with the utmost speed and full and undivided allegiance to social revolution and its exacting logic.

Indian Agriculture in Brief

A useful and pocket-size book-let has been recently brought out by the Economic and Statistical Adviser, Ministry of Food and Agriculture, Government of India, with a view to meeting primarily the need of those who wish to have a snap shot picture of Indian Agricultural Economy as revealed by the current Agricultural Statistics, certain essential data in allied spheres; e.g., population, national income etc. needed for an understanding of the Agricultural Economy in its broader perspective have also been included in this booklet.

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End of Casteism

P G Shah

A DEEP sense of frustration is traceable below the theatrical manner in which the announcement was made of the mass conversion of 75 000 members and office bearers of the Scheduled Castes Federation under the leadership of a great Indian, Dr Ambedkar. Whether this was an election stunt in connection with the formation of a new political party (the National Republic Party) or a genuine attempt at securing "liberty, equality and fraternity"—history alone will tell. But to a social scientist, the event appears to be one of importance and provides an occasion for serious thinking as to whether the country is proceeding on correct lines for securing a casteless society free from exploitation. Dr Ambedkar has also announced that though he and his followers have left Hinduism and "would not take cognisance of the caste system"—they would claim and retain all the privileges enjoined in the Constitution for the Scheduled Castes and will continue to fight for our first rights. "They would not lose their rights and privileges with the change of faith."

"Untouchability" was officially abolished in 1948. Its practice in any form is forbidden. Several State acts and a Central Harijan Disability Removal Act have implemented the Constitutional provision. Yet the Harijans complain about their social status. As Dr Ambedkar has stated on this occasion, "mere scholarships and the provision of a few jobs would no longer satisfy the Harijans, they want equality and self-respect." The important point here is whether a group or a community or a caste can at all advance by being isolated for being given special privileges and preferences. The Constitutional position guaranteeing safeguards for specific groups, castes or tribes provide a double edged weapon which may destroy when it should protect. Separate housing colonies, separate wells, and even separate burning grounds for special groups are at present tolerated in a Welfare State pledged to evolve a casteless society.

It is one of the most retrograde provisions in the Constitution that distribution of social relief in the matter of education, housing or social or economic uplift has to be conducted on the caste basis. Government of India recognises 304 scheduled tribes, 818 scheduled castes, and 1426 other backward classes for the purpose of granting scholarships and other concessions. The meaning of this special provision is that members of these 2548 caste-groups have to be certified by local Government officers to belong to the particular caste group by such local enquiries as are feasible. One result is that these caste groups will exist, prosper and continue in this country as long as the special groups are tolerated officially, even though caste may be formally abolished in the census and other official records. The position is complicated by other political considerations e g reservation of posts under Government and of seats in Parliament and the State assemblies. It would cause a huge furore in political circles if, in the scheme of establishment of a casteless society, all reservations by caste groups are abolished. But a social scientist, not concerned with previous political or constitutional commitments would strongly insist on the abolition of all privileges based on caste in some form or another.

It is one of the strongest paradoxes in India that untouchability persists inspite of change of religion. The present policy of selecting persons for social relief on the basis of socially low occupations has encouraged religious communities like Christian, Mohammedan and even Sikh who all believe in equality of social status for all their followers to claim relief on caste considerations. Brahmin Christians would not interdine or intermarry with Harijan Christians and the latter are denied a decent burial ground after death. Members of scheduled castes converted to Christianity or Islam or Sikhism, even though these religions believe in equality of status, are given the privileges open to other backward classes in some States. Dr Ambedkar, even after conversion to Buddhism and after vowing not to take cognisance of caste, insists on the continuance of all the old concessions. The result is that the number of the scheduled castes and other backward classes will never decrease but will always swell.

The only remedy for the State is to abolish concessions based on caste, if there is going to be a genuine effort to abolish casteism. But in a country like India whose education at the primary, secondary and higher levels is neither universal nor free, preference has to be shown to the backward and underdeveloped groups in some form or other till social and economic inequalities are removed. To continue the existing procedure on caste basis will never secure the aim of a classless and casteless society preached so forcibly by the Father of our Nation.

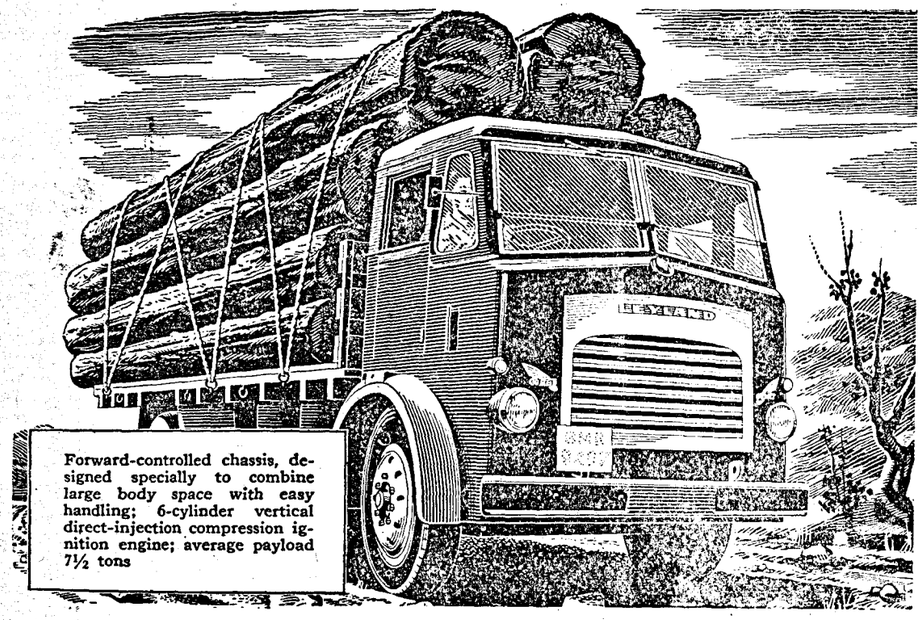
For securing a society in which caste will cease to be a means of either profit or exploitation the only correct remedy is

(1) to cease to distribute social relief scholarships, and other amenities like housing or economic help on caste basis; and
(2) to distribute the same quantity of total relief to the really poor and homeless, irrespective of caste.

The various groups of backward classes so classified at present should be assured that the money set apart for their relief will not be reduced and will be distributed without reference to caste affiliations but on the basis of economic conditions of the families needing the help.

Measures of general welfare e g schools, hostels, colleges, dispensaries and hospitals, will be available to all communities but will be specially provided for areas or villages where they are needed most. A Welfare State, committed to the schemes and policies for the uplift of the backward groups, cannot and will not neglect them. But the masses, the social workers and the State should combine to evolve measures of social uplift based on general considerations irrespective of caste affinities. It will be only through inner evolution of the sincere feelings of equality and brotherhood among the masses that the caste differences will really disappear and a casteless society can be evolved. But an essential preliminary step is for the State to cease distributing social relief on caste basis and to refuse to recognise the two thousand and over caste groups which at present disfigure the fair name of the modern Indian nation, bent on a casteless society.

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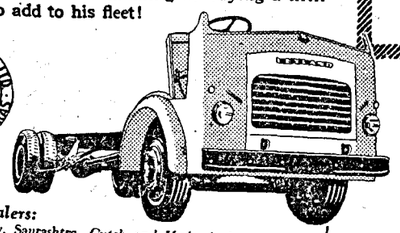


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New Government Policy

(From Our Singapore Correspondent)

ON September 20th the newly reconstituted Labour Front Government under Lim Yew Hock, the Chief Minister suddenly ordered the arrest of five men and two women as "a threat to the security of Singapore by reason of their Communist activities" and the dissolution of two organisations, the Singapore Women's Federation and the Chinese Brass Gong Musical Society. At the same time the Singapore Chinese Middle School Students' Union registration was cancelled and its Chairman arrested, who, incidentally, was also a member of the Executive of the Peoples' Action Party, the principal opponent of the Labour Front in the Assembly. Every person arrested was a Chinese and every person arrested had been educated in the Chinese schools' system other than Mr Lim himself.

As a result of these arrests, which were made totally without warning and at a time when Singapore had been more peaceful than for many months past, students of two of the principal Chinese schools, the Chinese High School and the Chung Cheng High School, struck and shut themselves up within the school. The Government in reply deregistered the schools and immediately offered to set up new schools at which all the old pupils were required to re-register themselves.

Just as there is a marked difference of attitude between the richer English educated Chinese and the poorer Chinese educated Chinese towards the Government policy, so is there a distinct cleavage between the English and Chinese press. The English press, represented by the "Singapore Standard" and the "Straits Times" expressed their solid support for the Government and praised the courage of Lim Yew Hock. The Chinese newspapers, especially the powerful "Dah Kung Baw", and also the right wing "Shin Chou Rih Baw" omitted any comment, thus expressing their violent opposition to the Government.

The principal overseas correspondent of the "Straits Times", Vernon Bartlett, whose despatches are widely quoted in overseas newspapers, has been praising the firm attitude of the Chief Minister in suppressing the "revolt". Yet regular readers of the "Economic Weekly" will remember that as far back as December 11th, 1954, your correspondent forecasted that difficulties of this sort were increasingly likely to occur, unless a unified policy were immediately instituted to remove the control of the Chinese managers from the schools except in an advisory capacity and a consistent unified policy of Singapore education were carried out in which communal interests were unrepresented. The immense enthusiasm which has greeted the state supported unified Chinese-English schools, is still there. The aim of these schools (of which there are only two) is that at the end of the course, scholars should be literate in both languages. Only in the final year is the medium of instruction English.

The periodical "revolts" which Vernon Bartlett so energetically condemns, are only a symptom of the economic difficulties of Singapore. The unemployment, both open and concealed, the political insecurity of the lowly Chinese-born labourer who is denied civic rights and the insecurity even within the family, where marriages need not be registered by the State and can, practically speaking, be dissolved by desertion, prevent the rise of a real civic consciousness. Since the ability to speak Chinese is almost the only remaining social characteristic all Chinese speaking Chinese have in common, Lim Yew Hock's "firm" attitude may succeed in uniting the Chinese together purely on a basis of Chinese nationalism. The correct attitude should be to encourage the creation of small territorial communities, common schools, common State registered marriages, protection of Chinese children as Singapore "citizens" rather than as "Chinese school students", an inferior category not equal to the easily employable English school graduates.

Singapore wants a strong Chief Minister and not a playboy. Lim Yew Hock is showing his strength. He probably has the strength of character to succeed. But for him to gain his strength from one community at the expense of another is the way to disaster. Even now it may not be too late for him to try to co-operate with the other section of Singapore. After the War, Dato's Sir Cheng Lok Tan succeeded in learning from both sections of the Malayan Chinese community, although he had been brought up a Straits Chinese. Has Lim Yew Hock the foresight to follow the same path?

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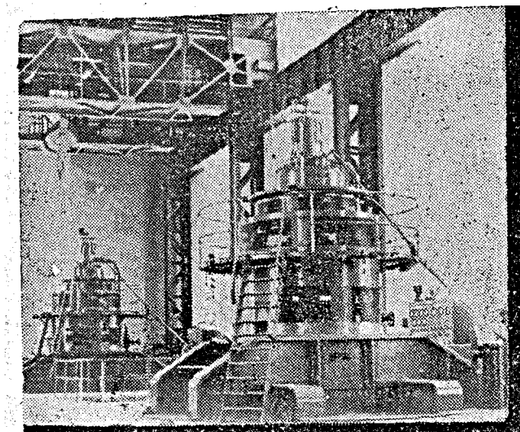
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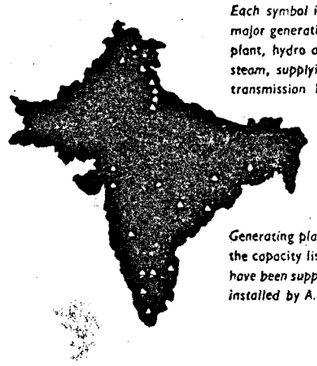


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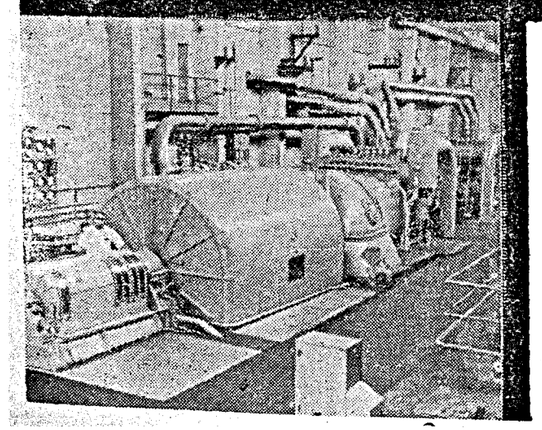
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Disguised Unemployment and Economic Development

A Rejoinder

A K Dasgupta

ONE or two comments of mine on Vakil-Brahmananda "consumption-goods multiplier" seem to have upset the Bombay School of Economics. First came a protest from Mr B C Desai (E W September 1, 1956) on the ground that my criticisms were unwarranted. Then a frontal attack from Mr M Srinivasan on my own handling of the implications of disguised unemployment. More may follow. While I appreciate very much the sense of unity in the school and the vigour with which the disciples are out to vindicate their master, I am afraid their energies are somewhat misdirected.

Let me take the Protest first. Mr Desai is surprised at my calling attention to a certain error in the definition of an "employable unit" used by Vakil and Brahmananda, namely, the expression "labour plus wage-goods". He says, "The use of the word 'plus' is probably wrong, but that in no way justifies Prof Dasgupta's criticism that it is not understandable". Why "probably"? Is he not sure that it is wrong? If he is not, he may perhaps consult Prof Vakil himself. The fact is that I never said in the foot-note where my criticism occurs that the concept is not understandable; I did understand it, as Mr Desai himself concedes in the opening sentence of his note. I actually called it a lapse, and surely it was a lapse which deserved being pointed out. Ironically Mr Desai himself falls into a similar error when, defending the consumption-goods multiplier against my criticism, he maintains that, in the limiting case where the transfer of the disguised unemployed to the investment sector is not accompanied at all by a transfer of wage-goods which they used to consume, the consumption-goods multiplier is "zero". When I read it I could see that what Mr Desai meant by zero was "unity". But would he want me to gloss over the error? Surely, in the face of the fact that there are unwary readers about, as some of us have the misfortune of experiencing while correcting examination scripts, it is dangerous to allow such errors to go unnoticed, particularly when they occur in a book with which Prof C N Vakil's name is associated.

Mr Desai has apparently disliked my reference to Nurkse's concept of 'saving potential'. This is understandable; the authors whom he is out to support do not even once mention Nurkse in the body of their text. I do not see much difference basically between Nurkse's saving potential and the concept of the consumption-goods multiplier except that Nurkse starts from a more sensible end. In any case, since I myself drew a lot from Nurkse's hypothesis in my own analysis of disguised unemployment, I thought honesty demanded that I should make a mention of it.

If Mr Desai cares to re-read the relevant section of my article, he will, I hope, notice that in the context in which I described the consumption-goods multiplier as a "myth", my purpose clearly was to indicate that the emphasis it conveyed was at the wrong end.

While Mr Desai's attitude is defensive, Mr Srinivasan has chosen to take an offensive role. His target is not only myself but also Prof A K Sen who, in the course of an important article on "Labour Cost and Economic Growth" (E W September 20, 1956) happened just incidentally to express a certain scepticism about the usefulness of the concept of consumption-goods multiplier. Here I shall confine myself to that part of Mr Srinivasan's critique which bears on my analysis of disguised unemployment.

Mr Srinivasan sees a "bundle of contradictions" in my foot-note remark, suggesting, in spite of Vakil and Brahmananda, that there is no inconsistency between their "wage-goods approach" and the Planning Commission's "logic" stressing the need for fixed capital. I have discussed this matter so exhaustively in my article on disguised unemployment that I am reluctant to repeat the story here. I would rather ask my critic to read the whole of my article and not just that bit about which he is specially concerned.

Frankly, I do not see what exactly Mr Srinivasan tries to make out. He maintains quite correctly that "what is important in the initial stages of economic development is the wage-goods gap or a marketable surplus in the consumer goods section" and that this sets a limit to the rise in the capital stock. And yet, in spite of his emphasis on initial stages', he sees no point in my distinction between short run and long run in the discussion. It is not such an important discovery that, with constant real wage rate, supply of additional wage-goods is necessary to feed additional employment in the investment goods sector, and I refuse to take credit for realizing that. It is absurd to think that the Planning Commission

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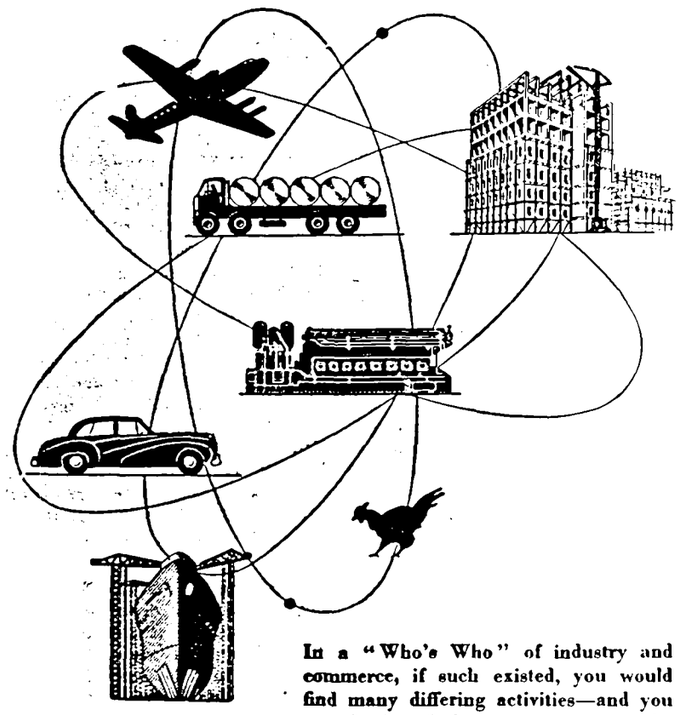
PROGRESS IN PRODUCTION TECHNIQUE AND THE STRUCTURE OF THE CAPITAL GOODS INDUSTRIES ..	R. BALAKRISHNA
THE EFFECTS OF ADVERSE INCOME TERMS OF TRADE ON THE SECULAR GROWTH OF UNDERDEVELOPED COUNTRIES ..	FREDIE MEHTA
THE THEORY OF TAXATION AND SAVING ..	DIVAKAR JHA
INDIAN IMMIGRANTS IN KENYA—A SURVEY ..	G. RAGHAVA RAO
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aware of this simple truth which has been handed down to us since the days of the classical economists through their wage-fund theory. Why otherwise should the Commission be so desperately in search for "savings"? Even apart from savings out of a given flow, the production of wage-goods itself, as I have argued in my article, is not as inelastic as it is often made out to be. The Planning Commission is therefore logically quite consistent in making fixed capital their target in the Plan and then devising means to adjust the supply of wage-goods to the planned volume of investment. Now, investments done during a given planning period realise themselves in fixed capital in successive planning periods. Over time, therefore, the supply of consumption goods (hence wage-goods) tends to increase, current labour at each successive stages of development being aided by an increasing stock of fixed capital. This is what I meant by the longer run aspect of planning. I am yet to know where the contradiction arises.

I would ask Mr Srinivasan to re-read carefully the section of my article where I discuss the justification or, otherwise of making too sharp a distinction between disguised unemployment and new labour force generated in the process of population growth. For, as I see, he has made a mess of the whole thing. It is true that I believe that the two are not separate entities for the new labour force, in so far as it emerges within the subsistence sector, only adds to the volume of disguised unemployment. It is true also that later on I followed the common practice of dissociating the saving potential from the newly created labour force. How easy it has been for Mr Srinivasan to put these two together and to corner me with a charge of contradiction. What he misses (deliberately, I hope!) is the intervening passage where I plead that the distinction, even though loose, has analytical significance. Mr Srinivasan's critique reminds me of the story of a girl who, when chastised by her mother for not going to school, complained, "Mummy, what my teacher says in class is full of contradiction. One day she says four and four make eight, another day five and three makes eight. I am not going to school until she makes up her mind". Well, if this is contradiction, then Mr Srinivasan will have good plea for not reading my article again.



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Jet Airliner Tu-104

(From a Delhi Correspondent)

THE Russian jet airliner Tu-104, named after its designer Andrei N Tupolev, passed through Delhi on its way to Rangoon. It was on a proving flight in preparation for the forthcoming Olympic Games in Melbourne, where it will be carrying the Soviet teams.

The Tu-104 created quite a stir in the Western world when it carried the Russian Security Chief, Gen Ivan Serov, to London, prior to the visit of Messrs Bulganin and Kruschev early this year. At that time, no details about the plane were let out and the secrecy maintained gave rise to a lot of speculation. Since then, the aircraft has been offered for sale, and therefore more information is available, but not all of it. In Delhi, large crowds turned up to have a look at it. The rush was great and the arrangements to handle the crowd were so inadequate that there were even a couple of ambulance cases.

The plane is very pretty to look at, with its sleek and clean lines and very good polish. Looking at it from the outside, the side view of the fuselage reminds one of the so-to-speak curved sweep of the graceful Super-Constellation, but there is no similarity really. There are two enormous yet engines immediately on each side of the fuselage, estimated to be 40 ft long and 5 ft at maximum diameter, with the exhaust end angled away from the fuselage to protect it from the jet blast. The total length of the aircraft is approximately 120 ft (Super-Constellation 113 ft 7 in), and the wing span about 118 ft. The wings are quite thick and swept back more than 30 degrees. The tail fin is about 33 ft high. The undercarriage is of the four-wheel double truck type; the two-wheel nose gear is steerable from the cockpit and the two rear wheels of the main landing gear swivel, so parking manoeuvres can be made in limited space. The tremendous number of rivets catches one's eye, and if one strolls past the undercarriage, one is reminded of the better finish seen elsewhere. The mechanically minded find their attention attracted by the large number of aerials visible all over, and wonder what electronic equipment is carried aboard.

The Tu-104 has a first class and a tourist version, and the one we saw from inside is the former type. On entering, on the right are three toilets and washrooms, with different types of fittings, for the passengers. On the left is the main passenger cabin with 28 seats. There are four seats in each row with a corridor in the middle. The seats are covered with a bluish woollen fabric and white anti-maccassars, and are very roomy and comfortable. Moving forward, we come to a row of four special cabins. The first is a lounge with four double seats and two dining tables; the next, a cafe-bar with two double seats, a dining table, buffet and galley. This compartment is directly over the wings and is slightly higher than the rest. The third is a lounge with two double seats and a dining table on one side and two swivelling chairs and a dining table on the other. The last is a lounge with four double seats and two dining tables. Lace is used to decorate the lounges and there are glass show cases containing porcelain figurines separating the lounges (the figurines are screwed down on to the plate glass and there is no cause for anxiety!). The windows are framed with what appears to be wood but is actually plastic painted to look like wood. The dining tables in the lounges are also finished with this type of plastic.

Leaving the lounges behind, you now step through an airtight door which keeps the lounges and the main passenger cabin pressurised, even if the cockpit is depressurised. Through this door, then, one steps into a forward vestibule for the crew, past a toilet for them, into the flight deck. One first passes the flight engineer and the radio operator who sit in backward facing seats, and then the two pilots seats, with complete duplication of instruments for each. One then climbs down into the navigator's seat in the nose which is fully transparent. There is radar for both weather and navigation.

There are two capacious holds under the cabin floors fore and aft of the wings which can carry upto 5500 lbs of baggage. The whole fuselage is pressurised to correspond to an altitude of 7900 ft to 9850 ft, for cruising between 33,000 ft to 40,000 ft (as against 20,000 ft for Super-Constellation). In addition, oxygen masks are fitted to every seat. A brake parachute is carried in the rear of the fuselage, behind the retractable tail skid.

The greatest amount of speculation is about the power of the engines, the thrust of which is rated by various experts as being anything between 12,000 lbs and 20,000 lbs. The fuel capacity is estimated at about 8,000 Imperial gallons.

Some Other Data

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Around Calcutta Markets

Shadows Over Markets

Wednesday Evening

EQUITIES continue to be weak. There were hopes that equities might start moving up with the reopening of the stock market after the Puja holidays. In this week, equities have lost further ground. There was a slight technical recovery at the time of the settlement. But the trend remains irregular. Sellers are not aggressive. There is lack of buying support. This is the main reason why equities remain irregular at the lower level. On current indications, investors are not likely to enter the market in the near future.

There are some local factors impeding activity on Lyons Range. Soon, the Stock Exchange Act will come into force. Before that, the unofficial share markets in and around Lyons Range will be closed. At the moment, futures trading in jute goods is unofficial. Soon, the East India Jute Association will restart futures trading in jute goods. And then, the present unofficial jute goods market will cease to exist. Many traders will become unemployed. Immediately, business in Lyons Range will suffer. In the long run, however, the elimination of unofficial markets will swell the volume of business in Lyons Range.

World Bank Loans

For some days, Lyons Range has been under the shadow of letters exchanged between the President of the World Bank and the Union Finance Minister. Stock markets interpret Mr Black to be critical of the ambitious Second Plan. Mr Black's observations about the transport problems of the Second Plan are fresh reminders that the transport bottleneck can hamper the progress of the Second Plan. Stock markets are also impressed with Mr Black's warnings about the inflationary dangers of the Second Plan's target for deficit financing.

These warnings and apprehensions have been expressed before. Current weakness in equities cannot be explained away by Mr Black's comments on the Second Plan. But the implications of Mr Black's letter to TTK have not been missed by stock markets. Implementation of the Second Plan depends, to a great extent, on foreign aid and loans. New Delhi has been banking heavily on World Bank loans. Stock markets are worried because of the World Bank's reluctance to offer adequate and timely aid.

Wrong Equation

Mr Black has been unwise in his irrelevant emphasis on the importance of the private sector. This has been rightly criticised by responsible opinion in Britain and elsewhere as an attempt by the World Bank to dictate political or economic policies to New Delhi. Pandit Nehru has been apposite in his reply that it is wrong to equate democracy with private enterprise. New Delhi is committed to a policy of mixed economy. Private enterprise has welcomed the new Industrial Policy Resolution. There is not much of conflict between the two sectors.

But Mr Black is not irrelevant in his implied comment that the Second Plan is too ambitious. Execution of such an ambitious Plan may endanger financial stability. As the lender, the World Bank cannot be unconcerned about this aspect of the Second Plan. Mr Black's letter is liable to the interpretation that the World Bank will be more strict and cautious in its loan operations in India. This is what is worrying stock markets. This has been one of the background factors responsible for the quiet trend in equities in the last fortnight.

More Taxes?

There are two reasons why stock markets are worried about the developing events. India expects substantial help from the World Bank. In the absence of the expected aid from the World Bank, India may be forced to cut the Plan down. In the last eight months, India has been consistently losing foreign exchange resources. Any cut in the magnitude of the Plan would mean so much less economic improvement. Industrial expansion must be relatively smaller. It is not surprising that these fears are hampering stock market activity.

Stock markets are, at the same time, apprehensive of a possible alternative method for financing the Second Plan. New Delhi is not likely to be impressed by the World Bank's warnings about the size of the Plan. Despite threats of withdrawal of foreign aid or loans, the Second Plan may not be reduced in size. It will, then, involve measures aimed at further mobilisation of internal resources. This can only mean a substantial increase in taxation. Such tax fears are not entirely groundless. Nor is it unreasonable for equities to remain depressed under the threat of more taxation.

New Issues

Immediately, the quiet trend in stock markets is a reflection of conditions in money and new issue markets. Though the busy season has not yet started in full swing, the money market remains tight. Bank deposits are growing. But the demand for funds is exceeding available supplies. This is a healthy feature. It means that banks are financing industry's short-term requirements. But it also means that there is less surplus cash available for employment in stock markets. This is one of the reasons why speculative activity remains poor. Even investors have to depend on bank loans to finance their purchases of equities. Not only speculative, but investment activity also remains stagnant.

Some promising new issues are in the offing. Guest, Keen, Williams and the re-organised Lever concerns in India will soon be entering the new issue market. In the near future, Indian Iron Company will offer the right issue. There may not have been liquidation of cash scrips by prospective subscribers of these new issues. But many investors are not taking any interest in stock markets at the moment so as to have the necessary funds for subscribing to these new issues.

Quiet Trend

Though the coal strike is almost over, expectations about the end of the coal strike have not materialised. It was hoped that the end of the coal strike will enable industry in and around Calcutta to function again at top gear, and that this would have a "bullish" effect on Lyons Range. Neither Miscellaneous nor Engineering shares are responding favourably to the near-end of the coal strike. These shares, along with equities in general, remain stagnant at lower levels because of the deeper influences in operation.

Around Bombay Markets

Why No Statistics of Unsold Stock?

Thursday, Morning

THE behaviour of equities, to say the least, has been utterly disappointing. Even when prices were declining at an even pace in almost all sections of the market, no attempt was made to halt the downward trend. In fact, confirmed bears were anxious to see the market sink still lower. At times of technical correction, they did not hasten to cover. The small technical rallies, therefore, could hardly appear before the market again succumbed to liquidation.

The reasons for the all round depressed sentiment are not far to seek. In the first place, the market has yet to recover from the shocks administered by the Government's textile policy. Despite the concessions since given by way of rebate in excise duty and the extension of the benefit of this concession to March 1957, the situation has not improved. In fact, an intriguing development appears to have followed these concessions, namely, the accumulation of cloth stocks. Now that some concessions have been given, mills and merchants have come to believe that they can get some more and are naturally eager to take advantage of the situation. For this reason, they are naturally reluctant to part with their stocks.

Assuming that there is an accumulation of stocks of cloth, it is pertinent to ask why such a development should be allowed, not to speak of being encouraged, at a time when the Divali demand for piecegoods is at its peak? Are not, the authorities indirectly encouraging accumulation of stocks, just when stocks should move fastest? A direct consequence of cloth accumulation is the decline in demand for cotton, with resultant fall in prices. Trade circles contend, of course, that there can be no lasting solution to the textile problem unless the increase in excise duty is removed altogether. Is the Government also moving toward this point of view?

Meanwhile, it is high time some one asked whether there has actually been an accumulation of cloth stocks and if so, why the interests, whether they are associations of millowners or merchants, who are extra prompt in confounding the public with voluminous data on how mills or merchants are being mulcted, do not disclose the actual stock position? In fact, it is surprising in the extreme and also suspicious that at a time when the publication of these very figures would be in their own interest, they should continue to keep every body guessing about the exact stock position.

This depressing sentiment in the stock market is hard to reconcile with the much advertised inflationary potential of our development programme. Normally an inflationary price trend is just what the stock market needs as a stimulant. Does the present phase of pronounced depression indicate that there is no need to be apprehensive about inflation? This might be a bearish point for the market but would be welcomed by others.

The sentiment appears to have been deepened during the week by fears of a rise in the Bank Rate. Money, which is already tight on the eve of the busy season, is bound to be much tighter in the weeks to come, and the steady decline of the speculative conversion Loan in the gilt-edged market only confirms these apprehensions. There was an all round decline in equities towards the close of the week, and new bottoms were touched by several scrips. This is proof if it were needed, that confidence is at a very low ebb.

Premier Auto Shares

In the Steel Section, after touching a high of Rs. 194 Tata Steels closed on a weak note at Rs. 191. About Indian Iron also, there was uncertainty. Whilst kerb quotations were moving up, actually there was selling pressure and the shares tended to rule around lower levels. Tata Locomotives, however, continued to be steady in anticipation of a maiden dividend of Rs. 6. These shares have long term attraction and should do well. Premier Automobiles also moved up to Rs. 110 in the course of the week on the expectation of a dividend of Rs 6. These shares will be quoted in the forward section of the Bombay Stock Exchange from next week. Meanwhile, there are reports that the Company is contemplating issue of Rs 2 Crores 6% taxable 10-year debentures.

Cotton

Expected Divali Gift

Cotton futures suffered a veritable landslide in prices during the week under review. Although at the start it looked as if a recovery movement was in the offing, sentiment soon changed and before the close of the week, both the ruling contracts suffered a severe setback of nearly 15 points.

The concessions given to the mills appear to have made the market wish for (if not ask for, like Oliver Twist) more. Sentiment in the event has been considerably affected in view of the hesitancy on the part of mills and traders to go in for more cotton just now. Reports are current in the market that export quota will be announced soon and the export duty will also be revised downwards. It is believed that this will come as a Divali gift for the market, if not come earlier.

Ominous Rumour

Some interesting details are now available about the import of U. S. cotton. Although it is nearly two months since the agreement was signed for the import of U. S. surplus farm products, the procedure for import has not yet been made available. Latest feelers from New Delhi suggest that these details may not be available for some more time to come as there has been some hitch in Washington over this issue. It is reliably understood that the authorities here insist on shippers in India buying a certain proportion of American cotton for the benefit of importing a given quantity of East African cotton. The ratio, it is reported would be 1:1. It is wellknown that the lion's share of East African cotton production is consumed by India. Now if the reported linking of East African with U. S. surplus cotton imports is true, it would naturally prevent India from going in for East African cotton to the same extent as she has been doing hitherto. This is a snag which shippers here may not quite welcome.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1429.54	1438.23	1417.71	1303.6
2. Rupee Coin	120.08	119.40	118.80	111.21
3. Deposits				
a) Central Government's	52.91	55.44	67.43	48.34
b) Banks'	50.34	48.58	52.55	57.59
c) Other Governments'	5.82	4.70	23.95	25.48
d) Others'	13.04	12.73	13.81	15.88
4. Foreign Securities	521.83	526.80	596.74	627.10
5. Balances held abroad	69.59	73.76	26.40	85.41
6. Rupee Securities	690.88	685.91	693.72	533.67
7. Investments	54.87	54.88	42.37	50.30
8. Loans and advances to Governments	4.04	4.48	2 84	..
Scheduled Banks				
1. Demand liabilities (net)	621.91	627.26	627.85	599.29
2. Time Liabilities	453.91	451.22	460.57	422.07
3. Cash on hand	36.40	39.56	37.28	32.56
4. Borrowings from Reserve Bank	68.00	65.71	54.05	6.74
of which against Usance Bills	42.87	38.20	30.90	6.00
5. Advances and Bills discounted	710.42	712.17	705.38	545.98
of which State Bank's	130.18	131.36	133.21	91.36
6. Invst. in Govt. Sec.	373.10	374.28	371.14	390.47
of which State Bank's	107.82	107.86	107.41	115.83
Cheque Clearance	117.78	129.66	155.02	134.71

†For Reserve Bank and Cheque Clearance week ended 19-10-56. (Scheduled Banks week ended) 12-10-56.

Bombay Money Rates	19-10-56	12-10-56	21-9-56	21-10-55
Inter-Bank Call Rate	3¼	3½	3 5/16	2⅛
3 months deposits	3¼	3½	3⅜	2⅞
6 months deposits	3½	3½	3⅜	3

Bombay Bullion — In Rupees and Annas

	25-10-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	103-9	103-10¼	103-12	95-2
Forward	103-9	103-6½	103-11	95-9
Silver (per 100 tolas)				
Spot	171-15	173-†	174-5	168-5
Forward	172-5	173-0	174-13	169-8

† no trading

TEA AUCTION SALES IN CALCUTTA

	1956-57 June 1 to Sept 18, 1956		1955-56 June 1 to Sept 21, 1955	
For Export	Packages Numbers	Avg. price per lb Rs As P	Packages Numbers	Avg. price per lb. Rs As P
Assam ..	258,303	3- 1- 2	289,603	2-13- 6
Cachar ..	53,959	1- 9-11	59,276	2- 1- 3
Darjeeling	56,543	3- 3- 1	48,139	2-14-10
Dooars ..	142 675	1-14- 2	144,912	2- 2- 8
Terai ..	12,340	1-13- 4	22,765	2- 2- 3
Tripura	4,978	1- 8-10	5,893	2- 0- 6
Other Districts	87	1-11- 1	..	..
Total ..	528,885	2- 9- 0	570,588	2- 8-11
For Consumption in India:				
Dusts:				
Assam ..	95.058	2- 7- 8	91,302	2- 7- 8
Cachar ..	15 572	1-12- 5	16,594	2- 1- 8
Darjeeling	2,640	2- 5- 0	2,249	2- 8- 8
Dooars ..	45,679	1-12-10	40,221	2- 2- 1
Terai ..	1,112	1-15-10	3,250	2- 1- 1
Tripura	785	1- 7- 7	424	1-13- 0
Green tea	42	0- 8- 0	12	1- 9- 9
Other Districts	6	1- 9- 5	3	2- 4- 0
Total ..	160,894	2- 3- 4	154,055	2- 5- 6
Other Grades:				
Assam ..	3,050	1- 7- 7	12,060	1- 6- 9
Cachar ..	746	1- 0- 8	3,266	1- 4- 8
Darjeeling	2,076	2- 4- 2	2,178	2- 5- 7
Dooars ..	1,485	1- 3- 5	6,518	1- 5- 2
Terai ..	120	1- 7-10	483	1- 8-11
Tripura	270	1- 2- 2	699	1- 4- 1
Green tea	1,743	1- 7-11	960	2- 5- 7
Other Districts	20	1- 8-11	21	2- 0- 5
Total ..	9,519	1- 8-11	26,191	1- 7- 8

Source: DCIS, Calcutta.

IRON AND STEEL PRODUCTION

(Tons)

Quarter ending	Sept 30, 1956	June 30, 1956	Sept 30, 1955
Tata Iron			
Pig iron ..	288,600	291,000	282,000
Steel ingots ..	268,100	266,500	255,000
Semis ..	52,300	54,100	54,500
Finished ..	139,400	140,900	140,000
Indian Iron			
Pig iron ..	174,447	148,306	176,181
Steel ingots ..	133,325	117,710	130,630
Semis ..	28 387	28,137	30,292
Finished ..	85,206	64,472	78,422

Source: Tata Iron and Steel Co Ltd.
Indian Iron and Steel Co Ltd.

IRON STEEL PRODUCTION

('000 tons)

	June 56	June 55	Monthly average 1955
All India			
Pig iron ..	134.7	144.5	146.4
Steel ingots ..	134.4	133.1	142.0
Semis ..	105.8	117.5	121.4
Finished ..	100.4	103.7	105.0

Source. Directorate of Industrial Statistics.

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group	Week Ending	Week Ago	Month Ago	Year Ago
	13-10-56			
I **Food Articles:**	**393.1**	**388.7**	**391.5**	**319.4**
Cereals	510	502	506	392
Pulses	381	388	393	298
Others	249	247	247	226
II **Industrial Raw Materials:**	**503.2**	**504.2**	**506.4**	**407.5**
Fibres	478	483	479	416
Oilseeds	564	557	578	383
Minerals	535	535	517	431
Others	422	422	422	421
III **Semi Manufactures:**	**401.5**	**404.7**	**408.7**	**330.0**
Leather	361	373	373	335
Mineral Oils	210	210	208	202
Vegetable Oils	572	570	589	369
Cotton Yarn	491	497	503	408
Metals	327	327	329	276
Oilcakes	468	483	488	350
Others	363	363	361	330
IV **Manufactures:**	**390.0**	**390.0**	**391.6**	**370 2**
Textiles	424	424	427	400
Jute	—	429	430	391
Cotton	426	426	430	399
Rayon & Silk	470	470	470	479
Woollen	266	266	266	278
Metal Products	388	388	388	371
Others	295	295	295	285
V **Miscellaneous:**	**585.5**	**584.2**	**553.5**	**559.0**
All Commodities:	**418.1**	**417.4**	**418.9**	**358.7**

COAL PRODUCTION AND DISTRIBUTION

(Monthly Averages or Calendar Months)
('000 tons)

	Raisings	Despatches	Stock at Pit-heads*
1948	2,485	2,155	2,262
1949	2,621	2,339	1,427
1950	2,666	2,401	2,008
1951	2,859	2,426	2,646
1952	3,019	2,566	3,020
1953	2,987	2,588	3,411
1954	3,064	2,662	3,501
1955	3,184	2,742	3,609
1955:			
Jan.	3,153	2,672	3,482
Feb.	3,249	2,502	3,879
March	3,304	2,764	3,961
April	3,233	2,694	4,066
May	3,175	2,744	4,097
June	3,075	2,658	4,129
July	2,956	2,756	3,902
Aug.	3,119	2,880	3,697
Sept.	3,378	2,802	3,786
Oct.	3,086	2,883	3,516
Nov.	3,097	2,770	3,449
Dec.	3,388	2,782	3,609
1956:			
Jan.	3,196	2,789	3,586
Feb.	3,346	2,691	3,813
March	3,360	2,835	3,911
April	3,223	2,865	3,813
May	3,314	2,871	3,855
June	3,197	2,877	—
July	3,165	3,017	3,372
Aug.	3,308	3,173	3,018

*At or about the end of each period.
Source: Ministry of Production.

WORLD BANK LOANS

Loans classified by purpose and area (in mm US $)

Developmental Loans	Africa	Asia	Australasia	Europe	West Hemisphere.	Total
Electric power generation & distribution ..	178	136	33	130	312	789
Transport ..	125	128	107	59	247	656
Communications	2	—	—	—	24	26
Agriculture and Foresting:						
Farm mechanization ..	—	—	75	2	22	99
Irrigation and flood control	—	31	6	31	20	88
Land clearance and improvement ..	—	10	6	2	2	20
Crop processing and storage	—	—	—	4	2	6
Livestock ..	—	—	—	—	1	1
Foresting ..	—	—	2	12	—	14
Industry:						
Iron and Steel	—	114	10	21	—	145
Pulp and Paper	—	4	—	39	20	63
Fertilizers and other chemicals	—	—	1	20	—	21
Other industries	—	6	18	22	2	48
Mining ..	—	—	11	12	—	23
Development Banks ..	2	10	—	18	1	31
General Development Loans ..	40	—	—	100	—	140
Total Development Loans ..	347	439	259	472	653	2170
Reconstruction Loans ..	—	—	—	497	—	497
Grand Total ..	347	439	259	969	653	2667

Source: Eleventh Annual Report (1955-56) International Bank for Reconstruction and Development.

Countrywise* classification of loans (in mn US $)

	Disbursed	Undisbursed	Total	Loans not yet effective
Asia:				
Burma	—	—	—	19.4
India	48.1	47.4	95.5	75.0
Japan	31.6	13.4	45.0	—
Pakistan	37.1	29.6	67.7	—
Others	26.7	53.2	80.0	—
Africa:				
Ethiopia	7.3	1.0	8.3	—
South Africa	87.0	22.3	109.3	—
Australia:				
Australia	222.0	11.5	233.5	—
Europe:				
Belgium	71.9	7.9	19.8	—
France	230.6	5.2	235.8	—
Netherlands	65.0	—	65.0	—
Norway	48.0	25.0	73.0	—
Turkey	46.7	13.6	60.3	—
U K	48.4	1.1	49.5	80.0
Yugoslavia	53.6	3.3	56.8	—
Others	130.7	55.3	186.1	15.0
Western Hemisphere:				
Brazil	145.9	38.0	183.7	—
Colombia	46.7	33.6	80.3	16.5
Mexico	17.6	28.0	125.7	—
Uruguay	29.8	3.7	33.5	—
Others	158.1	79.3	109.6	10.8
Total ..	1536.1	472.3	2008.4	226.8

* Loans are made (a) to the member or (b) to a political subdivision or a public or a private enterprise in the territories of the member with the member's guarantee.

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Egyptian soil. *Immediately, the proposed* international force will be engaged in the task of implementing the terms and conditions of ceasefire. *As neither* Israel nor Britain nor France is technically at war with Egypt, the proposed international force can, and should, *immediately after the implementation* of ceasefire terms, proceed to tackle the problem of evacuation of foreign troops from the *Egyptian soil.* Both the immediate and subsequent tasks of the international force will be facilitated by its complexion and composition, as formulated by the U N Secretary-General. Mr. Dag Hammarskjoeld is right in emphasising that the proposed international force should not be composed as it was in Korea, or as an Anglo-French "police" force, as suggested by *Britain and France.* It will be a force of the United Nations. It will be under the command and authority of the United Nations *so that* it can act independently of the policies of any one nation.

It would be idle to pretend that, with cease-fire, all the problems *will be easily solved.* Main tasks of the United Nations will be to evolve correct solutions for the political problems which now plague *West* Asia. Loss of moral prestige of Britain, France and Israel is far less significant than the crucial question of *the future of the United Nations.* In the urgent tasks that lie ahead, the United Nations can now depend on the combined moral authority of Russia *and the United States.* Moscow has already expressed its willingness to co-operate with America and other member-States to ensure peace in West Asia as well as to facilitate a negotiated settlement of issues in dispute. With President *Eisenhower's* victory in the elections, Washington is now in a position to make its influence and authority felt in the interest of peace. Small *member-States* have shown admirable unity in their efforts to attain and to maintain peace. With the support of two of the major world powers, with the *united co-*operation of small powers, the United Nations will not be without *authority* to ensure peace and justice. This should be an encouragement to the United Nations to be firm in its determination and efforts to *ensure world peace.*

Two major problems will confront the United Nations in West Asia after the fulfilment of the immediate tasks. One is an agreed solution of the Suez Canal problem. Egypt's sovereign rights and interests over the Canal are beyond dispute. Until the blockade and closure *of the Canal through* Anglo-French military action, Egypt had been successful in keeping the Canal free for traffic. There can, therefore, *be no doubt* about Egypt's ability to operate and maintain the Canal. Egypt was within her rights in nationalising the Suez Canal *Company.* But the only wrong that Egypt has done is to refuse freedom of navigation *of* the Canal to Israel. This wrong *will have* to be righted. Britain's claim for permanent western authority and control over the Canal cannot be accepted. But Egypt must *concede that the* users of the Canal have rights and interests. These rights and interests can be protected by Egypt's agreement *to co-operate with* a wider and representative Canal Users' Association to be established under the auspices of the United *Nations.*

With Egypt's acceptance of the principle that the Canal must be independent of the policies of any nation, it should not be difficult for the United Nations to evolve an *agreed solution* of the Canal issue. No less urgent is the solution of the Arab-Israeli dispute. Israel is not without blame. But it is abundantly evident that Arab States *must accept* Israel *as* a sovereign entity. Good may yet come out of evil. If the hostilities in Egypt facilitate an amicable agreement between Israel and Arab States, the United Nations will succeed in attaining permanent peace *in* West Asia. Rehabilitation of Arab refugees is a condition of any agreement between Israel and Arab States. This is a task which Israel cannot *undertake* without massive international aid but Israel cannot escape responsibility for the Arab refugees either. Egypt and her Arab neighbours have a grave responsibility. By recognising Israel, Arab States can not only live in peace, but can free West Asia from western domination. This is a desirable goal which can be achieved through *amity* with Israel. In hoping that Egypt and Arab States will have the statesmanship to accept the realities of the situation, informed world *opinion* will expect that the United Nations will have the authority and the determination to ensure justice to Egypt and Arab States as well as to assure West Asia freedom *from western political and economic* domination.

The Hungarian Imbroglio

IF Tito and Gomulka prove that the Kremlin is no longer the *Vatican* of the Communist world, developments in Hungary indicate that Moscow is not reconciled to losing its temporal authority over *Eastern Europe.* This is clear. But to accuse Russia of aggression in Hungary, or to draw parallels between the use of Russian troops in *Hungary* and the Anglo-French military operations in Egypt, is to be guilty of confusion of thought. Moscow has been clumsy in its dealings with Budapest. Russia's clumsy behaviour reveals Moscow's lack of touch with events in Eastern European countries. It was wrong tactics of Moscow not to lend massive military support to Imre Nagy when he first appealed to the Red Army for help. That tactical error lends weight to the accusation that Moscow has been arrogant in its later decision to use force in Hungary. Cynics will wonder why Moscow has been undiplomatic in its reaction to events in Hungary. It would not have been *difficult for* Moscow to use the forces of some Communist Eastern European States, or to use the Warsaw *Army,* to crush the rebellion in Hungary. America has adopted such devices in Latin American countries to oust regimes hostile to *her. Russia* has connived at the Czechoslovak arms deal with Egypt.

What prevented Russia from exploiting such devices in Hungary? *One possible* assumption is that Moscow has taken a firm decision that it is imperative to indicate Russia's policy to Eastern European *States clearly* and without any shadow of doubt. It is abundantly evident that the Kremlin has reached the decision that Russia's neighbouring Eastern European States cannot be allowed to disown their allegiance to Communism. This is the conclusion that is being drawn *in the west.* It is not a hasty conclusion, but it is not the whole of the story. No doubt, the military experts of the Kremlin have convinced *Moscow* of the dangerous implications of the re-establishment of non-Communist regimes in Russia's neighbouring countries. Moscow had two choices. It could allow Hungary to go non-Communist. Alternatively, it could use force to crush the counter-revolution. It has decided on the latter course of action because of the grave risks involved in the policy of withdrawal from Eastern Europe. These risks are not only grave, but real.

Before the establishment of Communist regimes in Eastern European States, these countries were dominated by Catholics and feudal-cum-military regimes. Both these socio-political elements are not only bitterly anti-Communist, but also opposed to Socialism. Most of these States were, before the establishment of Communist regimes, dominated by small peasant proprietors. Russian withdrawal from Eastern European States will inevitably lead to the re-emergence of these conservative, anti-Communist, anti-Socialist, anti-Russian elements. These pose grave problems of security for Communist Russia. Such a socio-political make-up in Eastern Europe will tilt the balance of world power decisively against Communist Russia. Only biased observers will deny that these were the reactionary elements which were emerging in Hungary. Imre Nagy not only lost control of the situation, but reactionary catholic and small-holders' parties were prompt in exploiting Nagy's Communist associations to serve their ulterior designs. With NATO, with the constant threat of the revived military might of Germany, Russia could not be expected to tolerate the emergence of such hostile States as her neighbours. There is not the least shadow of any doubt that Russia's later decision to use force in Hungary has been influenced by its determination to crush the counter-revolution in Hungary. On this interpretation, it was a major tactical error for Moscow not to use the maximum force first when Nagy sought the help of the Russian troops stationed in Hungary under the Warsaw Pact.

Russia is prepared to tolerate Tito and Gomulka, but not any reactionary, bourgeois regime in *any* of the Eastern European States. Such a regime will constitute a military threat to Russia. But it is arguable that even a bourgeois regime in Hungary could not be a threat to Russian security had such a Hungary been neutralised like Austria. This raises the problem of extensive subversive propaganda by America in Eastern European States. It is apparent that massive American budgetary appropriations for such anti-Russian propaganda have had some intended effects in Eastern European countries. Even so, would it not have been wiser for Moscow to let Eastern European States choose their forms of government? It will no longer be possible to answer the question whether it would have been in the ultimate interest of Russia and of Communism to show such tolerance so that even such reactionary countries could have been won back to Communism in the long run. This is not an unimportant issue. But it is an issue on which judgment must remain suspended. Those who prefer faith in democracy and Socialism will be more interested in immediate developments in Hungary. That Russia had to use force to prevent the emergence of a reactionary regime in Hungary will be deplored. Though the government that has been formed by Russia is suspect, it has not started badly. It has reiterated Hungary's demand for an equal status with Russia. In aligning itself with those who have been critical of the past Communist regime it has shown its readiness to democratise the administration. Aims and objectives of the regime put up by Russia are not dissimilar to those formulated by Gomulka. If it is allowed by Russia to implement its objectives, the world may yet have an opportunity for a proper re-appraisal of the Russian policy to her neighbouring Eastern European States.

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Weekly Notes

Asian Socialists

ASIAN SOCIALIST CONFERENCE in Bombay, the UNESCO Conference in Delhi, American elections and the A I C C session in Calcutta, not to speak of the Suez or Hungary, what a crowded week it has been. The Socialist Conference has been fairly well attended. And most countries have sent delegates but Suez interfered with the passage of some of them e g the Egyptian delegation, which put the convenors in somewhat awkward position as Israel had sent a strong contingent. That the Prime Minister of Burma could find time to attend this conference and that the Prime Minister of Ceylon is joining it, though at a later stage, shows another source of weakness of the Socialists, viz their very uneven strength in the different countries of south-east Asia. But it also shows, the proceedings particularly, the very useful sub-committee meetings and interchange of information, how keen is the desire of the Socialists of these countries to know one another and to learn from one another. They are learning from experience but it is a costly and time consuming process. But the education has begun, the first lesson being a shift in emphasis from distribution to production

Nationalist aspirations and dream of industrialisation, both for winning self-respect, position and strength and for solving urgent economic problems are a common feature of the Socialists of all these countries. But while the desire to know one another is keen and there is no lack of goodwill, the stage has not come yet for working out a common programme or even to attempt any kind of co-ordination in the planning of their respective economies even in the countries in which the Socialists are running the Government. So the Bandung spirit has yet to take shape; it will take long to achieve anything tangible.

The dilemma of the Praja Socialists came out acutely as the Conference, as was natural, was more excited over Anglo-French aggression in Egypt than any other issue. Pandit Nehru, as usual, stole the thunder by calling for measures for checking aggression which would be swifter than aggression itself. This was naturally also the key-note of the Burmese Prime Minister's address to the plenary session.

The American people have improved upon their performance in the last election. They voted a Republican President with a much bigger majority than ever before and at the same time gave a stronger and clearer majority to the Democrats in the Congress returning 229 Democrats to the House of Representatives with 7 seats still to be decided when only 208 were needed to give them control; even in the Senate, Democrats have won one more seat than the Republicans. This hardly makes sense to those who habitually think of Parliamentary Government in terms of British practice, but there it is and as explained by our U S Correspondent in the last issue, triumph of personality in American politics cuts across party alignments.

Foreign Exchange Cut

Our Delhi Correspondent Writes:

THE Suez crisis and the foreign exchange shortage are worrying the economic experts of the Government. The two difficulties, however cancel out, upto a point. On the other hand, their cumulative effect on development plans may be disastrous. The paradox is easy to explain. The drain on India's sterling balances has been of the order of Rs 155 crores during the last 7 months. Government would now like to keep a total reserve of Rs 500 crores or thereabouts in the Banking and Issue Departments of the Reserve Bank. That leaves no more than four months' supply at the current rate of withdrawal. The position is as serious as that. The Suez crisis has tended to raise costs. Freight charges have gone up by 15 per cent. Diversion of shipping via the Cape will increase freights much further. Insurance rates are higher. All told, if conditions created over the past week persist for a year, India may have to pay £30 million more for her anticipated imports by way of ancillary charges during the next one year. This is, of course, subject to revision and the Finance Ministry is keeping a close watch.

The general increase in costs of imported machinery and capital goods owing to the international tensions would undoubtedly increase the strain on India's foreign exchange resources. At the same time, the total volume of imported supplies might diminish precipitately, owing to the inability of manufacturing countries to meet or honour orders. Therefore, the net result may well be a reduction of the foreign exchange expenditure. The effect of such reduction on the development plans would of course be to slow down their tempo. The execution of public projects is just gaining momentum. A reallocation of priorities will not be easy as essential projects alone were included in the Second Five Year Plan on account of the shortage of resources.

Apart from applications for loan from the World Bank, the Government of India may try to enter into an immediate stand-by agreement with the International Monetary Fund for drawing more than 100 million dollars this year. India can draw upto 400 million dollars from the Fund under its constitution but not more than 100 million dollars can be drawn in any one year. It is, however, possible that the Fund may relax this condition as a special case. It must be stated in this context that the distinction between non-dollar and dollar areas has ceased to be of significance in India's trade economy. The country's adverse balance of payments with the sterling area has been much greater than with the dollar area.

The Ministry of Finance has therefore suggested a series of drastic measures to meet the foreign exchange crisis. There is also talk of imposition of controls to meet possible shortages of steel, cement and petroleum products. Decisions were taken last week on some of these proposals at a meeting of the economic secretaries. No licenses will be issued for the import of machinery of the value of more than Rs 10 lakhs unless the applicant has made arrangements for deferred payments. Preference will be given to importers whose orders are likely to mature after six months. Heavy imports of machinery has been the principal reason for the drain on foreign exchange reserves. A quota system may be introduced for the import of iron and steel, importers being allowed less than 10 per cent of what they imported during the preceding year. The foreign exchange allowance for tourists may be cut. Imports of paper, rayons and luxury goods, like big passenger cars, may be eliminated altogether.

Higher Targets and Co-op Farming

A CONFUSING controversy has been raging off and on ever since the National Development Council, at the instance of the Prime Minister, wanted the target for agricultural production to be raised without any further or substantial increase in the investment for the purpose. At the Conference of the State Agricultural Ministers which met at Mussoorie to discuss the subject, the Union Minister of Food and Agriculture appears to have achieved this miracle literally by a stroke of the pen at the last minute. The printed copy of Shri Ajit Prasad Jain's speech read: "We have come to the broad conclusion that the production of foodgrains can be increased by 13.5 million tons in 1960-61 over 1955-56 as against the figure of 10 million tons proposed in the Second Five Year Plan". This was corrected in ink and 16.5 million tons substituted for 13.5 million tons in the above passage.

Further, the proposed increase of 3.5 million tons over the Second Plan target of 10 million tons, proposed in the printed version, was to have been obtained as follows:

	(million tons)
Seed multiplication	1.9
Minor irrigation	0.7
Fertilizers and better use of manure	0.9
	3.5

Since these figures total up to only 3.5 mn tons, to Shri Jain's printed speech, the following words had been added in ink "and the balance may be obtained by the general improvement in agricultural practices". To this our Delhi Correspondent commented "How this 'general improvement' is to yield as much as 3 million tons when schemes for which firm resources totalling Rs 115 crores are being allocated will, in all, account for only 3.5 million tons passes comprehension" and accused Shri Ajit Prasad, not unfairly, of juggling with figures "without regard to their relevance to facts".

In a Press note issued by the Planning Commission this week, the revised target for foodgrains production has been put at 80.4 million tons, as against 75 million tons in the Second Plan and the target for agricultural production as a whole raised from the 17 per cent increase proposed in the Second Plan to 27.8 per cent. The Note is otherwise exhaustive but does not say much about the increased outlay that might be necessary for achieving the higher target, nor does it give a breakdown, by sources, e g use of better seeds, fertilizers or irrigation etc, from which this increase is expected to come. Another omission is the absence of any reference to co-operative farming. This is particularly significant since later in the week, inaugurating the National Co-operative and Warehousing Board, Pandit Nehru categorically held that without it—he called it 'agrarian co-operatives'—India's No 1 problem, which is food production, cannot be solved. Barring these not unimportant omissions, the Note is illuminating in that it presents a clear cut picture of the expected development in the field of agriculture, community projects and national extension.

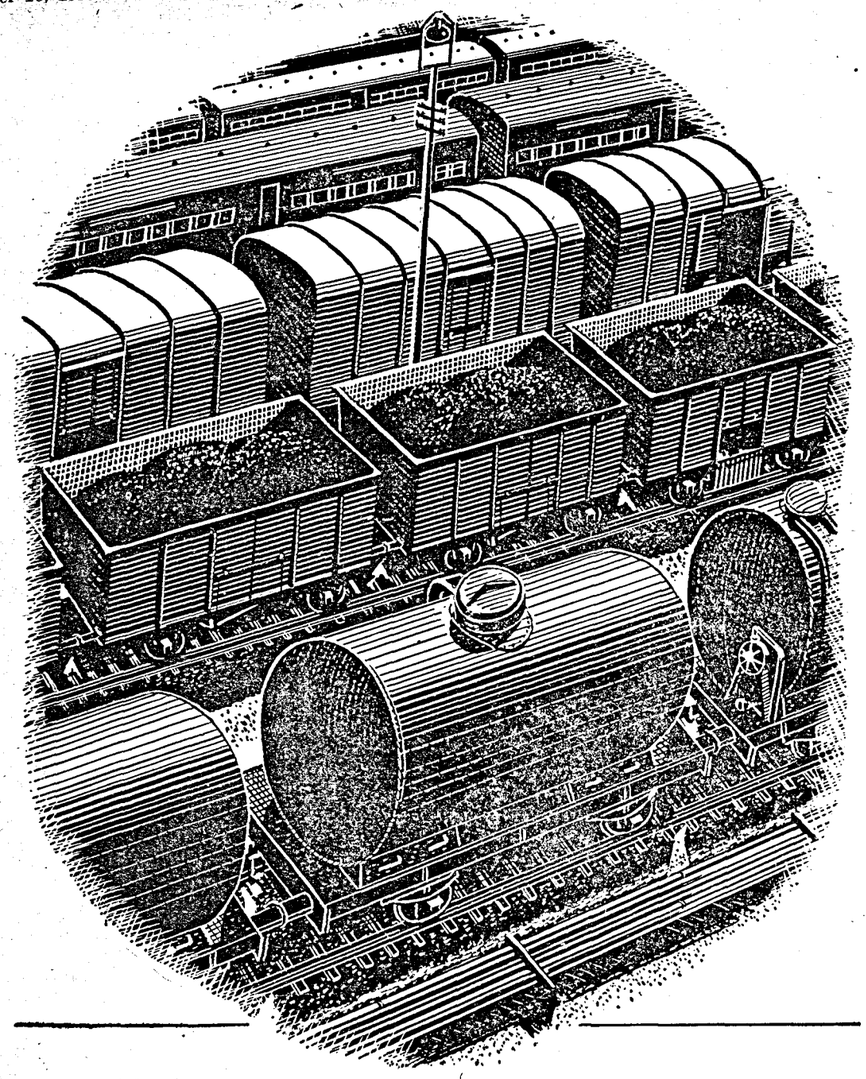
Based on Production Potential

TO begin with, the need for raising the target is based on the increased demand for agricultural production that is bound to arise from the "the programme of industrialisation under the Second Five Year Plan with its special emphasis on heavy industries" and the corollary following from it viz "if internal production was not adequate, price levels would rise" and that "it was vital that in the course of the next two or three years, agricultural production should be raised to a level at which it could make up the present shortage, meet the demands of the growing population and those generated by large development expenditures and also provide a small surplus for export".

When acreage under different crops is left to fluctuating prices and seasons and no more than a general effort at improvement is intended, it is misleading to fix targets too precisely. Even so, it is curious that the Planning Commission has assigned no reason why it rejected the estimate of demand for food grains made both by the Ministry concerned and the author of the Draft Plan-frame, independently of each other, it appears, at the same figure of around 10 million tons.

Perhaps wisely the Planning Commission refrains from attempting any statistical estimate of the increased demand that is likely to arise, except in the case of some cash crops like cotton for which the target, we are told, has been proposed by the Indian Central Cotton Committee in consultation with the State Representatives in view of the requirements of the textile industry. For food production, however, despite what Professor Anjaria used to call in the old days a ritual reference to general equilibrium, the Planning Commission concerns itself only with what it considers to be possible. As is well known, the statistical basis for the estimate is still non sequitur. (See Larger Yield in the Community Development Areas?'—A Review of Rabi Crop Estimate Survey 1954-55 carried out by NSS, in the issue of October 6, 1956). "When the planning for consumption goods is production potential-oriented," the reviewer had concluded, the coincidence between the target fixed at Mussoorie and the results claimed for this survey—both being a 25 per cent increase in the food production—do not appear to be merely accidental. At least the revised target for foodgrains does not depart from this basis. The revised targets of additional agricultural production in the Second Plan are as given below.

Commodity	Unit	Estimated production 1955-56 (as given in the Plan)	Targets in the Plan	Revised target	% increase: In the Plan	% increase: As revised
Foodgrains	million tons	65.0	75.0	80.4	16	24.6
Oilseeds	million tons	5.5	7.0	7.6	27	37.0
Sugarcane (gur)	million tons	5.8	7.1	7.8	22	33.9
Cotton	million bales	4.2	5.5	6.5	31	55.6
Jute	million bales	4.0	5.0	5.5	43	58.1
Other crops	..	..	..	..	9	22.4
All commodities	..	..	..	..	17	27.8



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Official Papers

Equality in Capital

International Bank for Reconstruction and Development. Eleventh Annual Report 1955-56. Pp 56. Appendices A to M. Pp 59-75.

THE World Bank has completed ten years of operation. It has so far lent $ 2,720 million to 42 countries and territories through 150 loans. (See Current Statistics in the last issue of this paper.) The most notable thing about the ten year record of the Bank is the larger proportion of funds that have been made available to Europe, the share of which is more than the combined total received by Asia and Africa. A partial explanation for this lies in the fact that post-war reconstruction called for a large amount of funds from Europe during the earlier years of the Bank's operations. Countries like Burma, Indonesia and the Philippines which suffered damage from war in Asia could also of course have qualified for the Bank's attention, but for the fact that they were dependencies.

Another consideration in this respect was the undoubtedly greater credit worthiness of European countries—a point which is not to be belittled, since the Bank is after all not a relief organisation. In view of past complaints that the underdeveloped countries have not been receiving a fair share in the funds loaned by the Bank, it is interesting and one should say satisfying to note that of the $ 396 mn loaned in 1955-56 Asia has received 166 mn, Africa $ 115 mn and the Western Hemisphere (Latin America) $ 75 mn. While Europe has received only $ 40 mn, six of the recipient countries Algeria, Burma, Guatemala, Haiti, Honduras and Lebanon are new borrowers to whom the Bank had not lent previously; together they have received $ 81 mn during the last year. Taken in conjunction with Mr Black's speech at the last annual meeting of the Bank, the trend of operations established during the final year of the first decade of its operations suggests that the underdeveloped countries would be receiving increasingly greater attention from the Bank compared to past years.

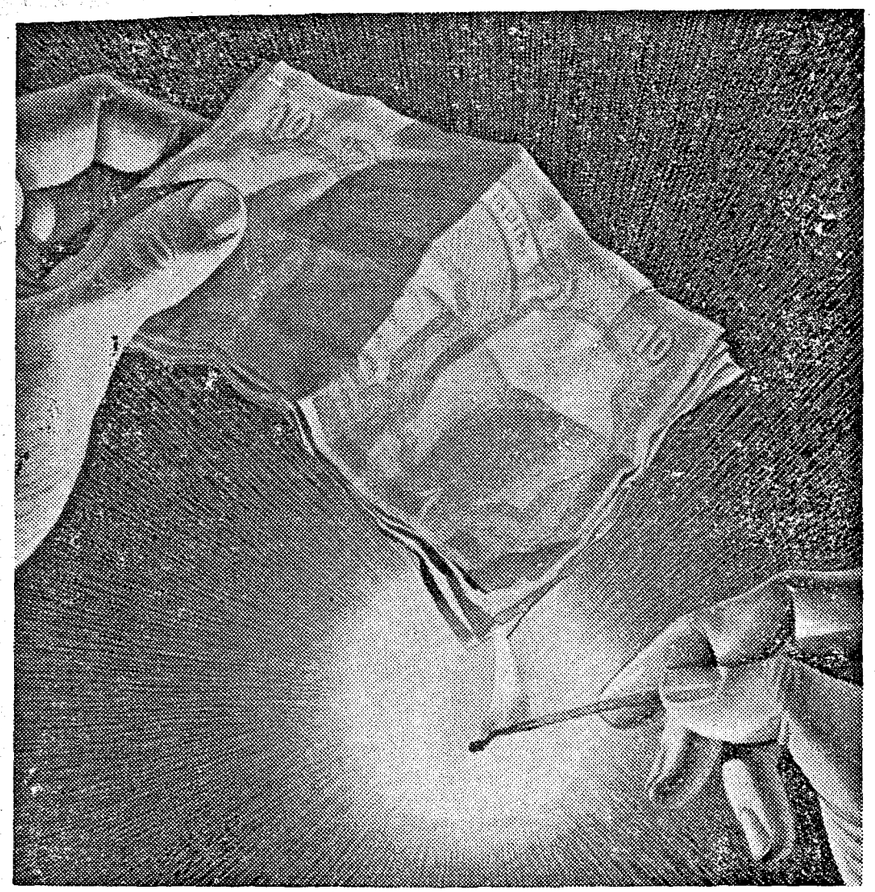
Net of refundings and cancellations, of the $ 2,667 mn loaned during the decade as much as $ 2,170 mn was advanced for development as against $ 497 mn for reconstruction which went entirely to Europe. Under the head Developmental Loans, power generation and distribution and transport together account for $1,445 mn. This is in keeping with the Bank's policy of widening bottlenecks and creating social overheads in the economies of recipient countries. Of the $ 656 mn advanced for transport, railway development claimed $ 348 mn or more than 50 per cent and road transport came second with $ 163 mn. The largest share of transport loans, amounting to $ 247 mn went to Latin America, Asia and Africa being next in order with $ 128 mn and $ 125 mn respectively. Latin America took the largest share at $ 312 mn of the loans for electricity, Africa being second at $ 178 mn and Asia coming third at $ 136 mn. The large share of the loans given to Latin America is accounted for by the rather severe shortage of transport and electric power in those South American countries which witnessed a rather hectic period of industrial growth from 1950 to 1952.

Among loans made available for industry, the most conspicuous is that of $ 75 mn to the Tatas in India for increasing their steel capacity. This is, according to the Report "the largest yet made for industry and also the largest for any purpose in Asia". Surprisingly enough at first sight, loans for agriculture and forestry constitute the smallest items in the portfolio of the Bank; their total share amounts to only $ 228 mn or about 10 per cent of the aggregate. Of this, Asia got only 18 per cent, Australia 40 per cent, Europe 22 per cent, Latin America 20 per cent and Africa nil.

While it is true that purely from the view point of needs, Asia and Africa should have received greater assistance it is also to be remembered that a large portion of the agricultural output in these two continents is for subsistence only and it would take a long time and a lot of effort to convert their subsistence agriculture into a credit worthy proposition. In this respect, Latin America is much better placed, since a considerable part of her agricultural output is raised for commercial purposes.

That the credit worthiness of the guranator or the receiving country is the decisive factor in advancing developmental loans is apparent from the fact that of the funds loaned to each continent during 1955-56, a rather dis-proportionate share has gone to a few countries only. Of the $ 115 mn made available to Africa in 1955-56, 105 mn went to South Africa, Rhodesia and Nyasaland. In Asia of the $ 166 mn advanced during the same year, as much as $ 75 mn went to India. The story is repeated in Latin America, where Colombia, Mexico and Brazil have received more than 3/5ths of the loans advanced to the entire Western Hemisphere during the last ten years. As in the field of banking within a country where it is extremely difficult to suggest prescriptions for changing the pattern of bank loans, it would be expecting a little too much of the Bank to relax what it considers to be its criteria for advancing loans. But it can certainly be suggested that just as, for instance, the Reserve Bank of India has recently initiated a programme of vitalising the co-operative movement, similarly the International Bank should also initiate comparable steps to salvage at least those countries which are either just on the margin or just below the margin of the ranks of the creditworthy.

This brings us to another important aspect of the Bank's activities. As an international institution it is not part of the Bank's functions to transform a country from a state of non-creditworthiness to one of credit-worthiness. It has, however, helped a number of countries which could be said to be on the margin to prepare programmes of economic development. In most cases it has sent out technical-cum-economic missions; in the case of others like Colombia, Ecuador, Guatemala, Honduras, Nicaragua and Panama, as of them in Latin America, it has posted resident representatives to assist the countries in dealing with development problems. It does not seem that borrowers outside Latin America are too eager to have them, which is just as well.



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Commonsense of Labour Cost

Rejoinder by **M Srinivasan**

FOR all his promptitude and pomposity, Mr Sen, in his reply in the issue of October 20 ('Labour Cost .... of Common Sense'), succeeds only in revealing his weaknesses in still bolder relief and his clarification of the points to counter my objections has exposed the chinks in his armour. It is clear from his reply that he has given in on major issues either by making distinctions without difference or by denying what he had maintained in his first article. The pity of it all is that he did it unconsciously as I would try to show below.

I had thought till Mr Sen came out with his new definition of opportunity cost that he had only misstated that principle. But now I must correct my earlier impression. Mr Sen has not only misstated the opportunity cost theory but also misunderstood it completely; otherwise he would not have tried to reconcile the irreconcilable as he has done by maintaining that by opportunity cost one may also refer to alternative marginal productivity. This is something which is terribly confusing. Opportunity cost, in its simple form, means that the value of labour input is determined by what it would earn in its alternative use. How does the marginal productivity come in? When the firm employs a labourer it is primarily concerned with what it has to pay to him and the productivity of the labourer comes only afterwards. That the factor—income is equated to marginal productivity is a special case where the firm tries to maximise its profits. To take out this special case and to fit in it the generalised version of opportunity cost principle because it suits Mr Sen's thesis is anything but sound economics. The only interpretation that is based on commonsense is that the opportunity cost refers to alternative factor-earnings and nothing else, and this would have been clear even to Mr Sen, had he not bidden good-bye to commonsense before reading my reply. I don't therefore accept Mr Sen's contention that both the definitions are possible, although I can understand his anxiety to compromise on this issue.

When Prof Lewis and Nurkse state that the cost of labour in new investment is zero, what they in fact mean is that the additional cost of labour consequent on the shift of disguised unemployed to new investment is nil. This is because they assume that alternative earnings of labourer have to be equal to his present consumption. In Mr Sen's case the additional cost of labour is positive. But the point which escaped Mr Sen completely is that the relevant labour cost in both the cases is given by the opportunity cost and as such, his method of valuation of labour does not differ from the principle of opportunity cost. In fact, both mean one and the same thing. Had Mr Sen carefully read Prof Lewis's writings, he would have himself realised that his plea for valuing labour differently was quite unnecessary, to say the least.

Mr Sen further argues in the same context that "his point is not dependent upon the theory I criticise being called the theory of opportunity costs". This is simply marvellous! Any reader who has cared to read Mr Sen's first article will agree with me that the edifice of his argument is based on how labour is valued. But for those who have not read his original article I reproduce the relevant para.

"(1) The relevant industrial cost of labour from the point of view of development and growth is given by the increase in consumption due to the transfer from disguised unemployment to gainfull occupation where the disguised unemployment is the main source of labour supply. The opportunity cost of labour is a valid guide only when we are interested in the immediate rate of income and not in the rate of growth of income". I have tried to show in my previous article that because the disguised unemployed has his reserve price, he would not move to new investment unless he is assured additional consumption which Mr Sen calls "a relevant industrial cost". But then it is nothing but the opportunity cost which the labourer desires to get. Thus it will be seen that if the "opportunity cost" of labour is not a "valid guide" from the point of view of the rate of growth of income, then surely the relevant industrial cost of labour in terms of additional consumption also will be an equally invalid guide. How can Mr Sen then persist in maintaining that his so called point is not dependent on the theory of opportunity cost? Had it been really so, there would not have been any occasion for him to write an article at all. All this confusion in the mind of Mr Sen would have been avoided if only he had gracefully accepted the correct interpretation of opportunity cost which I gave in my first article.

Apart from this, that Mr Sen made his point dependent on opportunity cost was the main target of my criticism. His foray into the realm of opportunity cost, marginal productivity etc, besides being not valid, was irrelavant and his reference to to the writings of the big economists could achieve nothing beyond testifying to his reading.

Mr Sen hastens to add that the main core of his thesis, as I had stated it, "far from being the main core" of his argument is not "even something" he said. He also denied having maintained that the cost of labour is equal to the difference between the wage rate in new investment and his average consumption prior to his transfer. It is true that Mr Sen has not said all this while referring to valuation of labour in a developing economy; but when he brings in choice of technique and recovery, he clearly suggests that the cost of labour to society would be reduced to the difference between the new wage rate and his previous consumption under the conditions of full recovery which is nothing but the release of wage goods from the subsistence sector and as such in those conditions less capital intensive techniques would be socially profitable.

I therefore took that argument of his as it has a bearing on choice of techniques. To substantiate this I reproduce what he has said in this connection.

"But if he (the labourer) still does move, the relevant cost of labour would be less. This would have some interesting results. The more complete this is, the stronger would be the case for substituting less capital intensive techniques for more as the effective cost of labour to society would be less". Even his reply states the following. "I was however arguing for labour intensive production when it gave a higher rate of accumulation". It would thus

be seen that I did not distort in any way the core of Mr Sen's argument. To avoid all confusion, I had briefly restated Mr Sen's case in as simple words as possible so that it should be easily understood by the readers. But I must now confess that I had no idea then that a simplified version of his thesis was necessary even for Mr Sen's own understanding. Mr Sen also seems to be puzzled because of my expression "the additional cost of labour being smaller". When I first wrote it, I felt, out of my respect for the readers that I should not adopt the school teacher's approach in leaving nothing to the intelligence of the readers. The manner in which Mr Sen has tangled himself in that sentence makes me rather guilty of ignoring the fact that there is difference between readers and readers. I must therefore clarify what that 'smaller' really means. It will be evident from the relevant passage that I was referring to the additional cost of labour under the conditions where release of wage goods as a result of switch-over of labour to new investment has been fully realized. Obviously, therefore, additional labour cost would be smaller than in a situation where there is either partial release or absence of release of wage goods altogether.

Mr Sen also gives up his previous position as regards the Consumption Goods Multiplier of Prof Vakil and Brahmananda. Now he begins to feel when I drew him out, the multiplier would not operate because there would not be automatic release of wage good which can be mopped up only through taxation. That means Mr Sen seems to suggest that the so-called Consumption Goods Multiplier would be valid only if fiscal operations are coordinated with the transfer of labour from disguised unemployed. How can he then argue that the foundations of the Multiplier are dubious and that it is useless? Marginal propensity of self-consumption can remain low either as a result of the autonomous decisions of the labourer who stays behind or else it is kept at a low level by government; in either case, the value of the marginal propensity of self-consumption (mpc) should be small, if the multiplier is to operate and it is quite immaterial whether this is brought about by taxation or otherwise. This will spotlight that the distinction which Mr Sen wants to create is merely formal and his approach to the consumption goods multiplier differs from that of Prof Vakil and Brahmanada as much as *tweedledum does from tweedledee*. That is why I had pointed out that it would be wrong to condemn the consumption goods multiplier on the ground that it would not be operative in absence of non-release of wage-goods.

Mr Sen thinks that I criticised his arithmetical example which excluded any reference to the factor of "time" as I must have omitted to notice the 'net' in the expression "Net Product". Let me remind him that there was nothing at all in his example to show that he had considered discounted value of the output and discounted value of the wages to arrive at his net surplus per unit of output. Unless he states this assumption explicitly how can he expect me to go behind the inner recesses of his mind to find it out?

Having successfully pleaded his own case out of court, I was a little amused to find Mr Sen holding brief for Prof Das Gupta by pointing out that my criticism of the latter's note was not sound. In fact the points in which I had criticised Prof Das Gupta were different from those made by Mr Sen and so I would have liked him to dish out reasons for his belief. That would have at least enabled me to meet his criticism. However I feel sorry for Prof Das Gupta for having been talked into a court by a lawyer who himself has lost his own case.

Reply by Amartya Kumar Sen

ALL I want to say regarding Mr Srinivasan's preamble is that I am so glad to find Mr Srinivasan has lately been reading Prof D H Robertson.

(2) I am sorry to learn that Mr Srinivasan finds the definition of opportunity cost as the alternative marginal product of the factor "terribly confusing". As I pointed out last time, if we look at the problem from the point of view of social output (and not that of individual transfer-price), this is the correct definition of opportunity cost, as this gives us the amount of product society is sacrificing by having the factor employed here rather than somewhere else. Mr Srinivasan insists that the "only interpretation" must be the other one. All one can say is that it is a pity that Mr Srinivasan thinks so for others do not. (See for example Lerner, 'Economics of Control'; A E Kahn, Quarterly Journal of Economics, 1951).

(3) That my point is not dependent on "the theory I criticise being called the theory of opportunity costs" can easily be realized from the fact that it can be stated without bringing in "opportunity costs", at all into the picture. It has been claimed (among others by Prof Lewis and Prof Kahn) that in an economy with unemployment, labour should be treated as costless and hence the most labour-intensive technique should be chosen. My point is that even in an economy with unemployment ,the cost of labour is positive, given by the increase in consumption due to new employment.

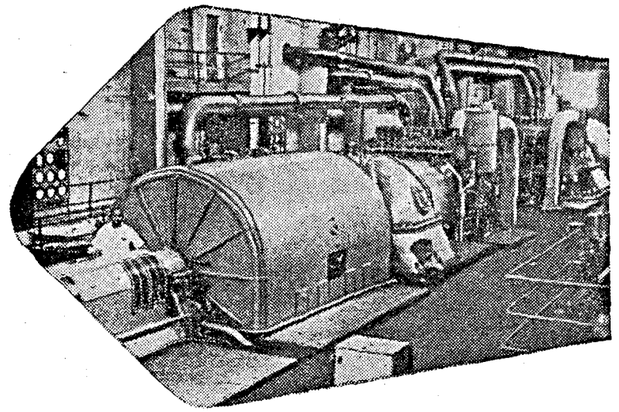
(4) Mr Srinivasan quotes two bits from what I have said to prove that his account of the main core of my argument (summarised as "labour-intensive techniques would be more advantageous from the point of view of economic growth,, E W, October 13, '56), is not a distortion. The first quotation deals with the effect of rural taxation, when we do have such taxation, on the labour-cost and thus on the choice of techniques. The second quotes me saying that I have argued for labour-intensive techniques only when it gave a higher rate of accumulation. And from these, it is supposed to follow that Mr Srinivasan is right in assuming that I am arguing for labour intensive techniques in general. No comments.

(5) I do not see why Mr Srinivasan thinks I have "given up" my previous position regarding the "consumption multiplier". In my original note I pointed out that one can not expect the release of previous consumption of new workers, "unless the State intervenes with taxation, or with other incomeleakage mechanisms", (E W, September 29, '56). Thus Mr Srinivasan's triumphant remark, "Now he (i e, I) begins to feel when I drew him out, the multiplier would not operate because there would not be automatic release of wage goods which can be mopped up only through taxation", is difficult to explain.

(6) It pains me to learn that Mr Srinivasan did not get what I meant by "net product". The standard definition of net product includes being net also of depreciation.

As regards the validity of the so-called consumption multiplier, I refer Mr Srinivasan to my reply to Dr Brahmanand's note.

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The Consumption Multiplier

Rejoinder by **P R Brahmananda**

IT is heartening to find the increasing extent of common ground between the viewpoints of Mr Sen and myself (E W October 20). Mr Sen holds that the working of the consumption multiplier would not tend to be automatic unless adequate fiscal measures are introduced to increase the extent of recovery of wage-goods along with the transfer of the disguised unemployed. In other words, the effective working of the multiplier depends upon the efficacy of governmental intervention with a view to reducing the value of mpc. It will, therefore, be seen that the foundation of the thesis of consumption multiplier is solid enough and there is nothing 'dubious' about it. Mr Sen's objection is to my treating the mpc in his illustration as being equal to ½. According to him, the mpc is 1, and it is because of fiscal measures that half of the above is recovered. Hence, he suggests that the generalised formula should be $\frac{1}{g+(dxqxmpc)}$, where q is the proportion of the previous consumption of the disguised unemployed not taxed away, instead of $\frac{1}{g+(dxmpc)}$.

Mr Sen further argues that in the formulation of the thesis of consumption multiplier, the need of adequate fiscal measures for increasing the extent of recovery had not been emphasised. As Mr Sen assumes that mpc is always equal to unity in the context of underdeveloped countries, his formula should read as $\frac{1}{g+(dxq)}$. Now q is nothing else than the proportion d available for consumption of the farmers. Is this not the same thing as the increment of consumption (self-) as a result of the increment of income? Thus, q is no different from mpc. In other words, to maintain that the smaller the q, the higher the value of the consumption multiplier is the same thing as to maintain that the lower the mpc, the higher the multiplier. It may be easily noted that there is no substantial point of difference between the approach of Mr Sen and that contained in 'Planning for an Expanding Economy', for, obviously, in the latter, the value of mpc would be as determined by the impact of monetary, fiscal and other measures. The emphasis is then upon a downward shift of the consumption (self-) function of the farmers;* assuming adequate fiscal measures, the value of mpc would have been reduced from 1 to ½. Thus understood, there is no need for prefixing *mpc* with a q, and on the celebrated principle of Occam's razor, this prefix of Mr Sen can easily be dispensed with. There is, however, an important advantage in the above procedure.

In a reference to the consumption multiplier—although in another connection—Mr Sen argues that the difference between the above and the Keynesian multiplier is that in the case of the latter, the process, according to him, would tend to be automatic. In other words, the smooth functioning of the consumption multiplier depends upon governmental intervention. Assuming, however, the framework of fiscal and other measures, the process would normally tend to be automatic even in the *case of the consumption multiplier*. Mr Sen, however, complains that there is nothing in my arguments to believe "that the rural population would save a significant part of their income as some members of the family move out". Mr Sen has missed the significance of the functional relationship between the effects upon mpc of the variations in the magnitude of the surplus of wage goods available with the farmers. The larger the surplus that is available with the farmers, whether through output expansion or through transfer of the disguised unemployed, the lower would tend to be the value of mpc. In fact, periodic climatic variations indicate that the variations in the marketable surplus are out of all proportion to the variations in the level of output. The main reason is that other conditions being given, there are limits to which it is possible to set up or to reduce the extent of self-consumption of foodgrains. The clue to the puzzle of the steep fall in farm prices a couple of years ago and the rising trend in these prices for a year and a half lies in the nature of the above relationship. If appropriate adjustments in the investment pattern can be made and adequate organisational measures are adopted, there is no reason why a substantial expansion in the output of farm products cannot be brought about so as to lead to a situation in which the value of mpc can be substantially reduced. To create the necessary conditions under which the working of the consumption multiplier can tend to be frictionless should be among the central objectives of economic policy if at all we are serious about obtaining a high rate of economic growth.

Techniques and Investment

Mr Sen apparently, has not followed the significance of liquid capital in the determination of the most appropriate techniques. The essential aspects of the illustration are reproduced below:—

	(in rupees)	
	Technique I	Technique II
Capital	100	100 (300)
Net Output	10	6-2/3 (20)
Wage-Bill	5	1-2/3 (5)
Rate of profit to the firm	5%	5% (5%)

(Figures in brackets indicate the values in Mr Sen's original illustration.)

Let us assume that the economy has Rs 100 which is available for purchase of fixed equipment and Rs 5 worth of liquid capital available for providing employment. If we purchase equipment suited to Technique I, then we shall be utilising Rs 5 worth of liquid capital. If, however, we choose to purchase equipment suited to Technique II, we shall be saving Rs 3-1/3 worth of liquid capital. The problem of the choice of techniques has to be considered in the context of the given situation in regard to the availability of real liquid capital. By choosing Technique II, the economy is in a position to utilise Rs 3-2/3 worth of wage-goods for adding to the rate of capital formation of the economy. If the consumption multiplier is introduced into the analysis, it is seen that the overall rate of investment in the economy in the case of Technique I would be 8-1/3%; and in the case of Technique II, it would be 11-2/3%.

* "If adequate mobilisation measures are undertaken and the farming sector is prevented from increasing its consumption, then automatically it will be induced or forced to sell in the market the wage-goods released as a result of the transfer". Pp 316 'Planning for an Expanding Economy'

Mr Sen has now dumped another animal into the pond. It appears that our conception of the working of the multiplier is based on certain types of assumptions in regard to lags. Mr Sen's point about lags is certainly not relevant to the main text of the argument. There is no reason why he should have any objection to the process if it implies lags. It is possible to work out the multiplier in terms of the process or the equilibrium analysis. This makes hardly any difference to the substance of the thesis. The important analytical point is that in an economy beset with limited quantities of surplus of wage-goods, the choice of techniques does affect the overall rate of capital formation in the economy. It has no effect upon the volume of short-period employment. (In fact, in a recent discussion in the **Economic Weekly** in connection with the choice of techniques, the problem of optimal utilisation of the given surplus available in the wage-goods sector was not brought to the forefront.)

Mr Sen has also mixed up the terms 'investment' and 'reinvestment'. What I do not understand is how Mr Sen could be averse to assumptions. In fact he assumed that we had neglected the need and impact of fiscal measures. Now he assumes that I complicated his simple illustration; that I maintained the rate of reinvestment would be higher in case of Technique II; and that I had not glanced at the figures of net output. As if all this was not enough, he assumes that somehow my refutation of his position depended upon my aversion to lags. May I point out that all these assumptions (not dubious, of course) have no justification whatsoever? In the first place, we never denied the importance of fiscal measures. In the second place, my illustration is a simplified version of Mr Sen's. In the third place, what was in question was the rate of investment in the economy and not the rate of reinvestment. In the fourth place, glances galore are not necessary when once the position is understood. In the fifth place, I have no aversion to lags and the latter has no relevance to the topic under discussion. Mr Sen's original argument was that if adequate fiscal measures for recovery were undertaken, there would tend to be a case for labour-intensive methods of production. His contention is, however, not valid, except under the assumptions pointed out in my note (E W October 13). Mr Sen concludes his note by pointing out that he argued for labour-intensive methods when they gave a higher rate of accumulation. This statement is interesting, valid in some other connection, but surely not relevant in the context of his articles, and the illustration contained therein and the assumptions underlying all the above.

Reply by Amartya Kumar Sen

DR BRAHMANANDA seems to forget that to say that a conclusion A is valid given an assumption B, is not the same as maintaining that any thesis, whatever its assumptions, is valid which arrives at the conclusion A. Thus inspite of my reference to the investment-creating effect of taxation linked with the exodus from the rural area, when such taxation is possible, my argument that the thesis of the "consumption multiplier" as presented is "dubious", remains unchanged. The "increasing extent of common ground" between his viewpoint and mine, which Dr Brahmananda refers to is, I am sorry to say, illusory.

(2) Dr Brahmananda criticises the idea of changing their "general formula" by introducing a term representing the proportion of previous consumption not taxed away (q) to supplement the marginal propensity to consume (mpc) as he claims that "q is no different from mpc". To make the propensity to consume include the propensity of the government to tax, appears to me to be very queer. While the former is a behaviour-variable, the latter is determined by public policy. Lumping them together is no application of "the celebrated principle of Occam's Razor", which incidentally is associated with reducing the number of assumptions and not the number of separate terms in an expression.*

(3) Dr Brahmananda tends to give the impression that all they have argued for in the book is that the mpc would be less than unity. Actually, much more than this was claimed. As any reader of the book can find out, they have been thinking most of the time in terms of full release of past consumption, i.e., of a zero mpc. Even immediately after the discussion of the general formula where mpc is a variable, they point out, "the larger the output expansion, the lower is the average (mpc). Hence, when there is a substantial increase of output, the multiplier can be assumed to be equal to the value obtained by the inverse of the gap g", (p 263), i e, the relevant mpc can be assumed to be negligible. My point was that for the rural population a much better assumption would be that the marginal propensity to save was negligible. This, in fact, is widely recognised to be the basic problem of an underdeveloped economy, and unless some conclusive data are produced proving the contrary, one does not see much reason to depart from this practice.

Incidentally, as Prof A K Das Gupta has pointed out in his rejoinder (E W, October 27, 1956), when the marginal propensity to save is nil, the "consumption multiplier" is not zero as Mr B C Desai thought (E W, September 1, 1956), but unity. The originator of the mistake, however, is not Mr Desai, as it occurs in the book of Prof Vakil and Dr Brahmananda (p. 263).

(4) Dr Brahmananda sees "no reason why he (i.e., I) should object" to a process "if it implies lags". Coming to think of it, I do not see any reason either. Only, that is not what I objected to. My criticism was not about the existence of lags, but about Dr Brahmananda's assumption that the whole process of the "consumption multiplier" works out fully with all its transfers of population and surplus with no lag, while there is a considerable lag between the application of labour and the production of output in the consumer goods industries. I objected also to his neglect of the fact that just as the saving of liquid capital may be used for new investment, so can be the surplus of final output produced. In his example, technique I produces every year Rs 3-1/3 more final output than does technique II, which can be used in the same way in which Dr Brahmananda proposes to use the Rs 3-1/3 saving of liquid capital. Thus even

*Also, the idea of a falling mpc with increasing income, which Prof Vakil and Dr Brahmananda emphasise so much, makes it clear that they are thinking of mpc in the ordinary sense of the term and not as something which is determined also by the rate of taxation.

if the lags are the way Dr Brahmanand assumes them to be, the extra advantages of technique II (surplus rate of 11-2|3 per cent as opposed to 8-1|3 per cent for technique I) would be for the first period only, before anything can be done with the extra output available. This would have been clear to Dr Brahmanand had he cared to calculate the rates of investment for periods subsequent to the first.

(5) My use of the term "rate of reinvestment" seems to have led to some confusion, as Dr Brahmananda argues that he was interested in the "rate of investment" and not in the "rate of reinvestment". Now, the rate of reinvestment gives us the amount of new investment-opportunity which the present investment creates via the creation of investible surplus. So, given the investment-opportunity today, the "rate of reinvestment" of today's investment gives us the "rate of investment" in future. Thus Dr Brahmananda's charge that I looked at reinvestment instead of investment, is pointless. Both he and I have been looking at the rate of surplus, which gives us the rate of reinvestment ,when the whole of the surplus is reinvested.

(6) Finally, Dr Brahmananda argues that it is "not valid" to claim that the recovery of previous consumption of new labourers, when possible, makes the case for labour-intensive techniques relatively better. Since he must admit that the recovery in its effect is similar to a reduction in the effective cost of employing labour, he is actually challenging the rather well-proved proposition that a higher level of real wages is an argument for higher capital-intensity. Had Dr Brahmananda recognized what the question really boiled down to, he would possibly have disagreed less with what I was suggesting.

Without Comment

Is Nehru a Muslim ?

A FRIEND of mine who had been to Mecca this year for the performance of HAJ has just returned after visiting a number of holy places such as Damascus in Syria, Baghdad in Iran, Amman in Jordan and Karbala Mau'lla in Najaf Ashraf. The story which he has disclosed about the publicity of Pakistan in these places is very disappointing.

It is really disconcerting to know that the majority of people in Saudi Arabia, Syria, Iraq, Jordan and Najaf Ashraf are quite ignorant of the fact that Pakistan is an Islamic State whose ideal is to uphold the cause of the Muslim world. Added to this, the currency notes of Pakistan have no economic value there while the Bharati currency notes are in great demand and accepted very gladly and readily. Besides, the value of Bharati rupee as against the Pakistani Rupee is 93% higher in these Muslim countries.

Furthermore, Pandit Jawaharlal Nehru of Bharat is known there as a "Muslim brother" among the Arab Muslims. When these Arab Muslims are told that Mr Nehru is not a Muslim but belongs to a people who believe in hundreds of gods, who worship idols, snakes, cows and so on and so forth, they are wonder-struck.

These Arab Muslims categorically attribute this sordid state of affairs in the Arab world to the powerful and vile propaganda launched by Bharat in misleading and misguiding the Arab Muslims who are quite ignorant, illiterate and credulous. My friend said the Arabs complained that they knew nothing about Pakistan owing to the absence of effective Pakistan publicity there and on account of vigorous propaganda by Bharat against Pakistan.

It is obvious from the above that, Pakistan's foreign mission are doing nothing to counter the pernicious and venomous propaganda of Bharat against Pakistan.

Karachi **Azimuddin**

—From a Pakistan Journal



Productivity Investments in European Steel

(From Our London Correspondent)

THIS note is prompted by three events: the decision of the British Federation of Shipbuilding and Engineering Unions to submit a claim for an increase of 10 per cent in wage rates: the issue of some pertinent statistics on productivity and output by the British Iron and Steel Federation and, lastly the publication of the Fourth **General Report** of the European Coal and Steel Community. The first of these has already produced a plain rebuff by the employers and thus there exists the strongest of possibilities for a serious deterioration in labour relations in the next two months. On this occasion, however, the employers have been more scientific in their rebuff than at any time before. They have for once argued their case in terms of productivity, profits and prices. And it is here that both the statistics of the British Iron and Steel Federation and of the Schumann Plan report take a new significance.

Since 1941 industrial production in the United Kingdom has increased at an annual rate of about 4 per cent. It is now shown that this increase has been due to a 1½ per cent increase in man power and a 3 per cent increase in productivity or the output per person employed. The British Iron and Steel Federation project these contributions to the rise in industrial production into the next ten years. The supply of manpower in this country is said to be unlikely to increase by more than ½ per cent per annum in the future. It is therefore suggested that to achieve the same rate of increase in industrial production, productivity will need to rise about 1 per cent per annum faster than it has in fact been realised over the last seven years. Taking 1950 = 100, manufacturing output per employee in 1955 amounted to 112 in the United Kingdom, 118 in the United States and 140 in Western Germany. In the last two years, output per employee in these three countries increased by 9 per cent, 11 per cent and 15 per cent respectively. Apart from the fact that there has been a tendency for productivity in the United Kingdom to increase somewhat in the last two years compared to the position in 1950, far larger increases have nevertheless taken place in the two other most important manufacturing countries. The employers in the iron and steel industry, therefore, claim that the pre-requisite for maintaining Britain's relative position in the world is a rise in productivity considerably above that which is expected to take place in the United States and in Western Germany. It is claimed that an unchanged working population need not necessarily impair Britain's industrial expansion. The objective now must be to ensure that each head and pair of hands produce more. In view of this, the employers express considerable reluctance in meeting any increase in wage rates at the present time.

Capital Invested per Worker

This argument, if it is to possess any degree of validity, must be matched by the extent to which investment per head of the working population in the iron and steel industry is taking place. It has now been calculated that for the five most important United Kingdom steel groups in this country (Colvilles, Dorman Long, The Steel Company of Wales, Stewart & Lloyds and the United Steel Corporation) the capital employed per ingot ton produced in 1950 amounted to £ 21½. The comparable capital employed by the United States Steel Corporation (which produces some four times the output of the 5 United Kingdom groups) was £ 26. The comparative figures for 1955 are £ 32½ and £ 32 respectively. In other words, it is claimed that between 1950 and 1955 there has been a 52% increase in the amount of capital employed in the British steel industry compared to an increase of only 23% by the United States Steel Corporation. The correctness of these figures cannot be doubted. It must be assumed that the five United Kingdom steel groups, who produce possibly half of the total ingot output in the United Kingdom, were maintaining a level of investment which by American standards was high.

The British Iron and Steel Federation believes that the ability of so important a sector of the British industry to maintain a high level of investment arose from the fact that a substantial proportion of the profits earned each year were retained in the industry for investment purposes. While in 1955 of the total profits of about 147 shillings per ingot ton produced, 76 shillings or over 50 per cent was retained in the industry. In contrast, the United States Steel Corporation retained under 48 per cent of its profits per ingot ton. The dividends declared by the five United Kingdom steel group from profits amounted to no more than 6 per cent compared to 14.2 per cent in America. In these circumstances, it is maintained that the British iron and steel industry has been pursuing a **high-investment** policy and that profit levels have been largely used for this purpose: the aim being to increase the amount of capital per head of employed persons in the industry and so to contribute to rising productivity.

Small Expansion of Labour Force

A striking feature of Britain's steel industry since the end of the war has been the large increase in output with a comparatively small expansion of the labour force. This feature, no doubt, arises from what appears to have been the policy of the industry to maintain high investment expenditure and to direct these investments into labour-saving equipment. Thus, between 1946 and 1956 productivity in the British steel industry had increased by 46 per cent. Today the wage bill of the iron and steel industry is probably among the smallest in proportion to the other cost elements when compared to such industries as coal mining, building, textiles, etc. The average cost breakdown for all types of finished steel output reveals that only 19 per cent of the total cost is in respect of wages and salaries. By far the most important cost—about a third—is in respect of metallic raw materials.

The labour-saving investments that have been introduced in the iron and steel industries appear to be principally of four types. There has been in the first place, a large scale installation of high capacity unloaders for ore handling at the docks. According to a recent bulletin of the Iron and Steel Federation, the normal unloading time for 6,000 tons of ore has fallen from 1,100 man hours to 670 man hours and this within a period of two years. The second type of labour-saving investment undertaken is in the output of basic and hemetite iron from blast furnaces which has risen from 93,000 tons in 1946 to over 150,000 tons in 1955. The larger

furnaces now require fewer men than the smaller ones. A third improvement in labour productivity on open hearth furnaces has been brought about in a similar manner. Lastly, in steel rolling, the change over from reversing mills to continuous mills has had a striking effect on output and the size of the required manpower. Considerable publicity was recently given to the Ebb Vale continuous white strip mills, which had started production in 1938, and which with two other mills account for over 75% of the output of sheet and tin plate in the country. Here it appears that labour productivity is some 12 times higher than in the hand mills.

European Steel Community

Mention has been made of the amount of capital employed per ton of ingot in the United Kingdom. It has been estimated that in the steel industry capital investment per worker employed is as much as £ 15,000. If account is taken of the current rate of capital investment in the steel industry which would be about £ 80 million in 1956, then it is likely that this rate of expenditure would add some £ 250 to £ 300 a year for every person employed in the industry.

The contrast to this position is provided by the investment intention and the level of investment already undertaken in the six West European countries which make up the European Coal and Steel Community. According to the **Fourth General Report** of the E C S C the total volume of investment which companies in the community had made in the period 1953-1955 was equivalent to £ 1,137.5 m. The aggregate for the three years is large by any standard. It is certain that the size of this investment expenditure is mainly the result of the bunching of West German capital investments in 1954 and 1955, in view of the restrictions that were placed in that country on new investments in the period prior to 1953. Comparative data on the distribution of investments in the Community and in the United Kingdom are given in the following table:

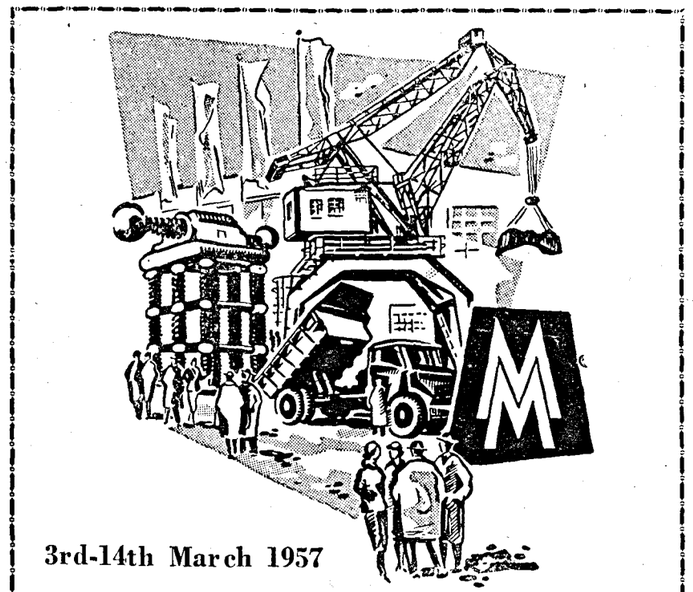
Distribution of Investment

	E C S C	U K
Investment in Coal 1953-55 (£m)	533.5	241
Hard Coal Production 1955 (mn tons)	242.5	221.5
Investment in Steel 1953-55 (£m)	604	157
Crude Steel Production 1955 (mn tons)	51.8	19.8

Source: Steel Review—October 1956

Insofar as investments in steel are concerned, the countries in the E C S C were investing in 1955 about £ 11.7 per ton compared to £ 7.9 in the United Kingdom. If, however, the whole period of 1945 to 1955 is taken, investment per ton of the 1955 output was virtually the same in the United Kingdom and in the community (£ 21 each). It would therefore appear that the United Kingdom is matching (on a long-term basis) the expansion plans that have been undertaken on the European Continent. Indeed, a recent report of the British Iron and Steel Federation declared that for the whole of the post-war period, "the position shows that Britain is in the lead" in investment expenditure when compared with continental Europe.

Wages policy in the United Kingdom is increasingly being placed in its international perspective and this cannot but be correct. With increasing attention being paid to the possibilities of establishing a free trade area in Western Europe (including the United Kingdom) and consequential possibilities for the levelling of wage rates and incomes among all West European workers, a more realistic and analytical approach to wage movements in the United Kingdom becomes necessary. It would appear that for the first time the employers in the iron and steel industries are taking this broader view. Any attempt to push forward the level of investment expenditure in British steel will not only contribute to a rise in productivity but will determine whether Britain in a possible free trade area can have any valid economic grounds for possessing a steel industry at all.



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Worm's Eye View

Rural Industries

Evelyn Wood

This title is deliberately chosen to suggest a fresh look at a current problem. The writer was originally qualified as an engineer (mechanical and hydraulic), and has been working at rural development, through what are now known as Extension methods, since 1943. His speciality lies in the processes of communication with village people.

Hence the angle from which the new look is suggested has a bias away from the views of the scholarly economists who have debated these issues for almost two years in the columns of the "Economic Weekly", and the even more distinguished politicians whose debates have been in the legislatures and their committees. In fact, the new look seems to the writer to be required from the worm's eye view.

THERE is one unanswerable case for developing industries in the villages of India, provided industries be regarded not merely as organised manufacturing activities. In every industrialised country, the service industries have been found increasingly essential to the development of all forms of production. This aspect seems to have escaped attention in India—except by the village people, who are pretty clear about it. One of the first questions a farmer asks when offered a modern mouldboard plough of steel, to replace his wooden digger plough is "How will I keep this new plough sharp?" This question is in essence the same as the mechanized Canadian farmer's demand that field-services be available from the distributors of a new reaper and binder.

What the Villagers Want

Experience of villages where the National Extension Service or other agencies of development are at work shows that village people are mentally ready for industry. Wide experience of any villages in India shows that a majority of people are insufficiently employed at some periods of the year. The Agricultural Labour Enquiry estimates the All-India average of working days on the land at 218. There is no estimate for unemployment among the "non-agricultural classes" who make up 18½ per cent of the rural population, according to the 1951 Census. Many factors, of which the principal one is probably the enormously increased channels of communication between villages and towns in India, have created a situation in which village people seem to have got it into their heads that industry is what makes townsfolk keep on top of them. This is a dangerous situation in a democracy, especially when the farming majority in the villages are becoming aware that the townsfolk depend on them for food.

The debate on rural industrialisation has raged largely on economic grounds. But whether or not the economics of the process of industrialising village life are sound is matter beyond the framework of village people's thinking. Their concern for improvement in their lives and work does not fall into our convenient categories, derived from Western analytical science. We may assign the demand from 300-odd millions of people to any scientific category we choose. The facts remain that village people do not want only more consumables or more money; nor do we know, in a scientific sense, that this is their dominant need, without satisfying which no other need can create a clear aim for development. We assume this, because all our education has been shot through with Marxism.

Conversation with village people whom one has come to know intimately shows that their demand for improvement is driven by many motives. Their view of a better organised and self-developing life is certainly not clear, but two elements of that life form a very definite demand. Village people want to feel that they are good at their work, and that their homes and families also conform to a good, approved pattern. For these qualities, among others, they want more respect from non-villagers, and this desire is perhaps even stronger than their need for a sounder economy.

The Demand for Education

Before the present drive for improvement by Extension began, village people's desire that their children should have the means of escaping from the village was very strong, and was probably the principal motive behind the demand for education. Today this demand is equally strong, but it seems to be more driven by villagers' determination that their children shall be on terms of equal respect with townsfolk. Both motives act to produce a ready response from all village people to the suggestion that they should build schools.

There is an equally warm verbal response whenever it is suggested to introduce any form of industry into a village; but here the people feel that there is practically nothing they can do about such a desirable innovation. Co-operatives are always disliked where they have been tried and failed; this is nearly always because the village members were not taught the principles of co-operation, nor how to run a society.

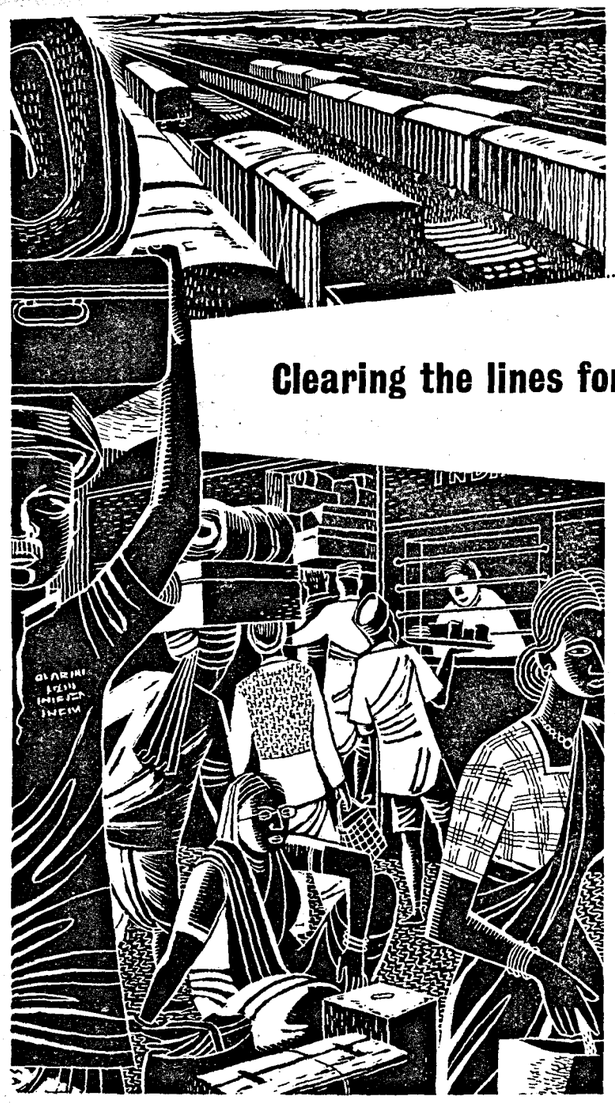
If planning for India's development is really to be done with village people (among the rest of the electorate), as it is claimed to be, then the demands of these people for industry have to be assessed. There is no evidence, for example, that the experimental introduction of 10,000 Ambar Charkas, through 200 Centres, has been planned after ascertaining a definite demand from village people.

By contrast, the pilot-development procedure of the National Small Industries Corporation seems to be much more realistic. Here, with more complex types of industrialisation in view, experiment with village people is sought, so that they are not the guinea-pigs in the laboratory, but the laboratory assistants.

Must India Repeat Other Countries' Mistakes?

It would appear that unemployment in rural India must increase, as a result of any conceivable development policy. The Bhoodan movement has an immense value in recreating an attitude towards land and perhaps other social property in India in which such possessions are regarded as a common trust. But the practical aspects of Bhoodan seem to this writer to offer only a wider sharing of poverty. This is not what village people want, spiritually, socially or economically, although they mercifully do not form these categories as we do.

Consolidation of land-holdings, which is today revitalising farming



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BURMAH-SHELL... IN INDIA'S LIFE AND PART OF IT

in the Punjab, is a more practical solution towards a shared prosperity of farmers; but any better organisation of land-use, like all improved practices in agriculture, must result in reducing the numbers of persons needed to work on the land. As farm-produce and skills increase, the volume of labour decreases, even without powered cultivation. This experience of every other country where agriculture has been made more productive must be repeated in India; it cannot be avoided. But there is no need to repeat all the other experiences of countries which have industrialised themselves. In particular, there seems no need to reduce the rural populations.

There is every good reason to maintain the predominance of agriculture in India. These reasons do not only spring from economic considerations; politics, and more emotional values connected with the fundamentals of culture-patterns in India, all contribute to the logic of such planning. Village people feel the supreme importance of agriculture more strongly than anyone; and they are over 80 per cent of the electorate—in other words, of those who are theoretically the planners. When analysed, this village feeling (by no means confined to farmers) rests not only on the knowledge that farming is the source of their economic living. Here, again, the conviction that their skill in land-use is the true foundation of their human dignity comes up strongly with village people. If this supposed heritage of knowledge and skill be assailed, what has the villager left on which to base his claim to be treated with equal respect?

Yet the agricultural Extension field-worker of the NES must undermine the farmer's necessary pride. In order to get better crop-yields, the farmer has to be shown that he is an ignorant and clumsy fellow in his present misuse of the land. Even on this vital issue, he has to face the fact that the townsman knows better than he does. It is too much to expect every one of over 12,000 gram sevaks to be a diplomat. Consequently the basic and necessary pride of every villager in Extension areas now depends on the progressive farmers; they must show that, with the improved practices, they are far more skilful than any townsman could be at raising more and better quality produce. The progressive farmers will succeed; but there are many stupid and conservative farmers who will not.

Non-Economic Factors

Here is another network of non-economic factors which suggests that better organised industry is a necessity in rural India. There seems to be no good reason why India should not work out a pattern of development which is not completely based on economics. If this be done, we shall have a matrix for growth which is radically different from industrialisation as experienced in Western countries, in Russia, and even in Japan.

The drift from villages to cities does not seem to have been at all decisive in India as it has been elsewhere. Large concentrations of industrial labour have nowhere brought their members more satisfaction in their work; indeed they have destroyed the personal pleasures of craftsmanship. Perhaps automation may restore personal satisfaction in a comparable skill, based on mental acuity, instead of manual dexterity; but this is generations away from us in India. Nowhere else in the world, though, has the pattern of migrant labour in urban industry been so persistent as in India. No other country seems to have experienced this unwillingness of the worker from the country to settle in the factory surroundings. Much of the reason for this lies in complete past failure to promote a tolerable social life for industrial labour in India. Yet the unbalanced political force which this small section of the population can now exert, may now cause more permanent settlement around factories by people from the villages, as has happened in every other country.

A well-balanced plan would establish better social and home conditions equally for farmers and all other village people, while improving conditions for the industrial labour already settled in the cities. This, of course, is the effort already being made; but probably it would be politically safer to meet the demand for industrialization in the villages, and thus to capitalize a certain bias away from city-life which probably still exists in India.

Promotion of Rural Industries

In the last two years, since the Ford Foundation Committee's Report, the administrative jungle of official agencies concerned with the development of rural industries has become a little less tangled. First comes the All-India Khadi and Village Industries Board, now part of the Union Ministry of Production. Of the other All India Boards, Handicrafts is linked logically, but confusingly, with the Indian Co-operative Union, which is not quite an official body; Handlooms is part of the Union Ministry of Commerce and Industry, which also sponsors the National Small Industries Corporation. The National Extension Service also takes a hand both in the Union Ministry of Community Development and through the State's organisations under Development Commissioners. The Central Social Welfare Board has a particular interest in developing industries for village ladies. Each State probably has its appropriate Department to cultivate rural industry, for example the Planning Research and Action Institute of Uttar Pradesh. It would serve no purpose to list all of these.

In the past, private enterprise has done a good deal of this promotion. The Tata Iron and Steel Company's town of Jamshedpur is an example of one form of development. The Ogale Glassworks near Karad in Bombay State represents a different form, where the labour is lodged in its surrounding villages. Religious bodies, particularly the Christian missions in rural India have done much to develop handicraft types of industry, mostly on a part-time basis.

From this brief review of the agencies of promotion, it will be seen that the Karve Committee's report on Village and Small Scale Industries had sound reason to suggest a separate Union Ministry to handle the whole situation. But, as can be seen from the rest of this article, this Committee left untouched whole sectors of the development of rural industry which presumably would have to be covered by any such Union Ministry.

First Principles of Rural Industrialization

It is suggested that some administrative overlap and a great deal of effort by fieldworkers in this development might be economized by a fresh look at the objectives and the means of achieving them which are available or cultivable in a reasonably near future.

A number of assumptions are made by the writer in constructing this outline of the points at which development is required in the rural

areas. Basic to all of these is his personal impression that village people are ready for industrial development, in all its senses: that they have the necessary intelligence and manual dexterity which can quickly absorb and retain the new knowledge and skills required, without waiting for literacy, and that they desire to improve their lives by working to do so. The other assumptions are as follows:

(i) that village people would, on the whole, prefer to remain in their villages, with their families, rather than shift to a town, provided the same opportunities of better work and the rewards of better living, including equal respect, were equally available in the villages.

(ii) that there is an increasing number of village people who need either part-time or full-time work in addition to farming, and its ancillary (or service) industries.

(iii) that there is already much crude plant and equipment in villages, some of which could easily be adapted for more efficient industrial processes, through applied research in collaboration with the villagers who now use such tools, by Extension personnel having some engineering training.

(iv) that there will be a continuing effort made by the NES to educate village people thoroughly in the methods of forming and running multi-purpose co-operative societies. It is this form of group private enterprise which is referred to in the rest of this article. But co-operatives may take a generation or so to establish, in their true, viable form, in which all the members control the operations. Consequently it may be necessary, in order to assure the growth and continuity of private enterprise, for the NES to build up contractors from within the villages. Contractors would ultimately be absorbed by co-operatives. The importance of private enterprise in groups arises from the need to cut the umbilical cord of patronage, which ties most village people to officials or other non-villagers with financial power.

(v) that work for money-payment, sometimes on individual contract, will steadily replace the socially static jajmani system in the villages.

With these assumptions, it is possible to look at the needs of village people for industry, as they might be seen by an informed villager. The range of points to be covered will therefore deal first with those (mainly service) industries which will be increasingly essential as farming improves. It will work upwards in the scale of industrial complexity towards those industries which may with equal economic advantage to all concerned be placed either in a rural or an urban area.

Industries Ancillary to Farming

No Indian farming at all can go on without Blacksmiths, Carpenters, Wheelwrights and Cart-builders. No improved farming is possible without improved home life, which will also require improved Masons and Potters resident in the villages. In all these crafts more skills and a better range of tools are needed, so that the craftsman can give more complex service and take less time over it. If this development will not increase his income sufficiently, the artisan must then form a co-operative with others of the same trade, sometimes in different villages. Together, the co-operative members can then more easily learn some manufacturing skills and thus sell either their services or their products over a wider, but still rural area.

Mechanics for cycles, motor-transport, diesel or electric pumping sets and perhaps other farm machinery are the next industrial servicemen to be trained as essential to improved farming. The mason will have to learn to work with concrete and perhaps steel reinforcement. The contractor for public works of civil engineering must be replaced by the co-operative of artisans. Perhaps the need for the local tailor and cobbler will vanish, as money and factory-made articles become available in village-shops (which should be consumer co-operatives); but in the meantime, the existing tools and skills are capable of better and more satisfactory production and marketing, through professional co-operatives.

Animal Husbandry might well become more widely specialised, like Dairy Farming. Every farmer needs servicemen to castrate bulls; breeding and veterinary treatment can also be treated as new rural industries. Similarly, in other countries rural people have specialised in collecting and storing improved seed, in preparing mixtures of fodder for all livestock, and of fertilisers. All these are essentially local, if not exactly village-by-village industries, and could well be developed as co-operatives with whole-time workers.

Supplementary Farming Industries

To fill the average 147 days when there is no work on the land, farming families must find some part-time gainful occupation. Surplus land-workers, as farming improves, will need other whole-time work for pay. Among the trades indicated above, there will not be room for many of either group, even if caste permits. There is therefore reason to locate in the villages some industries which do not contribute to farming. Because it tends to be based on land-produce, the All India Khadi and Village Industries' Board's list (Planning for Full Employment—1954) makes a useful corrective to the 1951 Census analysis. Considerations of availability of raw materials seem to be fundamental, as also the distances between markets and producers, especially for bulky, fragile or heavy raw materials or products.

Villagers as consumers seem to have no preference for goods produced in the villages. On the contrary, where distribution is adequate, and the retail price is down to the same level for a factory product which looks superficially as good as the hand-produced article from the village, the choice is always for the factory article. Village self-sufficiency is not the creed of village-people today, if indeed it ever was. Retail shopkeeping is however at the lowest level to-day that the writer has seen in 32 years of experience, beginning with cloth and yarn distribution. It would be a real service to village people to assist them in building consumer co-operatives, to replace the retail shops; it would seem logical to villagers to make the present shopkeepers key-figures in such co-operatives.

No further development of village industries is acceptable on the basis that if the product is not very good, but is cheap, it will be good enough for villagers to consume. This is a wholly unjustified extension of the dogma of village self-sufficiency, and can only hamper the legitimate and growing pride of village people in self-development.

(To be Continued)

UNITED ASIA
International magazine of Asian affairs, 12, Rampart Row, Bombay 1, India.

The New Look – I

Andhra Pradesh

New State with Large Potentialities

(By Observer)

THE inauguration of the Andhra Pradesh State on November 1, marked the consummation of the four-and-a-half decades ceaseless efforts of Andhras for a State which would embrace all the Telugu-speaking people. Andhra Pradesh, with an area of 110, 250 square miles and 32.5 million population now ranks among the four biggest States in the Indian Union. It is potentially, one of the most prosperous States, with its vast untapped minerals, its growing industrial and power potential and its effectively harnessed water resources.

And yet the new State is not the Visala Andhra, which many Andhras dreamt of, because certain small areas inhabited by Telugu-speaking people are not included in its territory. What they have now is an enlarged Andhra State, constituted out of the merger of 8 Telugu speaking districts in the former Hyderabad State with the existing Andhra State.

No Visala Andhra

This need not be taken to reflect linguistic fanaticism nor is it made in reservation of any future claim to these "excluded" areas. It may be taken more or less as granted that Andhras, by and large, have reconciled themselves to the exclusion of these areas from Andhra Pradesh for good and for ever, even as they reconciled themselves to the abandonment of their claim to Madras city in 1951. It is hoped that safeguards for linguistic minorities incorporated in the States Reorganisation legislation would afford adequate protection to Telugu-speaking people in the States contiguous to Andhra Pradesh like Madras, Mysore and Orissa.

Time was when the Andhra agitation for a separate State was stigmatised as an encouragement to anti-national forces and as tending to undermine national unity. Experience has, however, proved, that at least as far as Andhras are concerned, these apprehensions and prognostications were without foundation and justification. The establishment of the Andhra State has not proved detrimental to national unity or strength. On the other hand, it was the reluctance of the forces-that-be to learn from experience, e.g. that of Andhra and to twiddle with the issues involved in States Reorganisation that resulted in many of the deplorable and unfortunate manifestations of linguistic extremism and exhibitions or mass violence in a number of places that marred efforts to re-draw the territorial map of India.

Past Mishandling of Claim

The point needs elaboration in order to make the implications clear. It has been the conviction of the present writer, who is a close observer of the Andhra scene for a number of years, that it was the hesitation and delay in setting up the State earlier which induced the Andhra electorate to send the Congress into the wilderness in the 1952 general election. It was also indirectly the cause for the martyrdom of Potti Sriramulu and the subsequent disturbances in Vijayawada and elsewhere which brought forth the announcement regarding the formation of the State. Were a favourable decision taken earlier, say, before the last general elections, neither of these regrettable developments would have occurred and there would have been no occasion for the accusation that it was the creation of the Andhra State in the circumstances in which it was done that led to the violent demonstrations in Bombay, Calcutta, Cuttack, Patna, in the Punjab and more recently in Ahmedabad, in the wake of proposals for States' reorganisation.

The Andhras retracted from their earlier attitude born of frustration by sending the Communists into the wilderness in the interim general election held for the Andhra Assembly in 1954, subsequent to separation. They demonstrated thereby the correctness of the conclusion referred to above that in seeking the establishment of a separate Andhra State they were not actuated by parochial feelings, linguistic fanaticism or anti-national bias.

Wise Decision

In the context of past history, it must be unhesitatingly conceded that the decision of the Congress High Command and the Government of India to set up an Andhra Pradesh State immediately, without waiting for five years, as the States' Reorganisation Commission had recommended, by merging the Telangana districts with the existing Andhra State, was a wise one, dictated by and disclosing statesmanship of a high order. It ranks among one of the more prudent of the decisions they were called upon to take in connection with the reorganisation of States' boundaries.

The decision was arrived at in an atmosphere free from acerbity and controversy, despite the initial dissidence of a few individuals and the opposition of a small section of the Telengana public. It was facilitated in a large measure by the reasonable and accommodating spirit in which representatives of the two areas concerned approached the issues involved, and their realisation that whatever compromises and accommodations they had to acquiesce in would be only for the brief transition period. Safeguards for Telengana, which in some respects were not entirely favourable to the areas comprised in and population of the existing Andhra State, were agreed to by the latter in their desire mainly to ensure that no impediments should stand in the way of the realisation of the larger Andhra State for which they had been aspiring all along. Even those who entertained apprehensions that the Andhra-Telangana Pact would involve sacrificing to some extent the interests of the people of the existing Andhra State in the matter of developmental schemes, representation in the services etc under the enlarged set-up did not oppose the Pact, realising that such compromises were necessary in the interests of the balanced and even progress of the new State-to-be.

Regional Committee, No Separation

The Regional Committee for Telangana was also accepted in the same spirit of accommodation, mainly to allay latent fears of the people of Telangana that the Government and the legislature of the composite Andhra State might not devote adequate attention to the needs of the comparatively undeveloped Telangana districts. The constitution of the Committee was a concession to Telangana sentiment which, it hop-

ed, would not perpetuate the feeling of separateness, viz. that its interests and progress are something different from those of the rest of the State. On the other hand it is quite likely that as integration of the services, schemes and programmes of development, educational needs and facilities etc., between the two areas proceeds, the Committee might agree to dissolve itself. In practice, it may be expected that the process of adjustment and integration would be quite expeditious as in the case of Rayalaseema and the Circars districts, where it was completed much more expeditiously and smoothly after the formation of Andhra than many had expected.

One significant and vital factor in the rapid progress of this adjustment would be the retention of Hyderabad as the capital of the State. In fact, it was one of the fundamental factors in their consideration when Andhras readily acquiesced in some of the compromises which the creation of the new State entailed. It involved the fulfilment and realisation of a long-cherished aspiration of Telegu-speaking people, because Hyderabad is in the heart of the ancient Kakatiya and Swetavahana Empires, the memory of which Andhras everywhere cherish with pride. It also meant fulfilment of the ambition which they had at the time of the formation of the present Andhra State and which induced them to accept Kurnool as its "temporary" capital.

Economic Potential

What will be immediately gained through the administrative integration of the Andhra and Telangana areas can be converted into a permanent gain and advantage of the two areas only by integration of the hearts and outlooks of the people. From it alone will the maximum benefits of a composite Andhra State emerge. As it is, all the conditions postulated for the peaceful and rapid progress of the Andhra Pradesh State are there. It will have a number of industries such as sugar, cement, paper and tobacco, and prospects for the development of other industries like mica, minerals etc., exist in abundance.

When the Rs 79 crores Nagarjuna Sagar project on the Krishna river is completed, the State will have ample irrigation and power facilities for the extension of agriculture and the establishment of a number of small-scale and village industries, and when these facilities are combined with those that would be available from the Tungabhadra project particularly after its High level Canal, which would benefit Rayalsema, is completed, the State would have one of the best and most extensive irrigation systems in the country.

In the educational field, the State will have three Universities—Andhra, Venkateswara and Osmania—which would cater to the needs of higher general and technical education. Besides, Andhra Pradesh possesses potentialities for the development of a number of industries, as and when its so far untapped natural resources are tapped for public and national benefit.

Far Sighted Leadership Wanted

All these natural advantages which the State possesses can be fully utilized only if the State has a wise and farsighted leadership—governmental and administrative—and if such leadership can overcome the limitations of communal, sectional and caste predilections which seem to dominate its politics, and which necessarily clash with the larger and more comprehensive interests of the people as a whole.

Such leadership will have to be provided immediately by the Congress, if the initiative is not to be captured by other parties. In a sense, Congress leadership in Telangana and Congress leadership in the present Andhra State have, in the first instance, to adjust themselves to each other before they can present a united front against other parties who would be contending with them. They will have simultaneously to secure the confidence of the people in both areas, which hitherto had remained separate by competently steering the ship of the new State in the next few years, in fact, in the next few months, as interim election for Andhra Pradesh Assembly from the Telangana area would be held simultaneously with the next general elections.

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The New Look—II

Punjab—PEPSU Merger

Ved Prakash

THE reorganised State of Punjab has a natural unity in geographical, economic and social aspects. Formerly there were numerous patches of Punjab and PEPSU which were inextricably mixed up and had become sanctuaries for the tax dodgers, bootleggers and other anti-social elements. These have been obliterated by integration and Punjab has become a big, prosperous and well-knit unit.

To know Punjab, one has to meet its friendly, cheerful and hardworking people, see its numerous historic ruins and its natural beauty, unspoilt by commercialisation. In the past, the eight States which formed PEPSU were regarded as dreamy and romantic retreats where the old Rajas ruled in their full regalia and time stood still. Yet in the few short years of independence and formation of the States Union, the people of these sheltered retreats proved themselves fully capable of tackling all the problems which face a modern state.

The States of Punjab and PEPSU with their assets pooled together are in a far better position to meet any eventuality and work for the benefit of their people than before. Of the eighteen districts, spread over an area of 46,616 square miles which make up the new Punjab, thirteen (with 54 tehsils) belong to the historic Punjab, the 'Sword Arm of India' and 5 (with 19 tehsils) to PEPSU. There will be three Divisions in the reorganised State, viz Jullunder, Ambala and PEPSU, with 27 sub-divisions (21 of Punjab and 6 of PEPSU). The total population will be 1,61,00,000 of whom 1,26,00,000 are of the Punjab and 35,00,000 of PEPSU.

The new Legislative Assembly will have 186 members—126 from Punjab and 60 from PEPSU, while the Legislative Council will have a total membership of 46, of which 40 are from Punjab and six from PEPSU. Members of Legislative Council from PEPSU have now been elected by the elected members of PEPSU Legislative Assembly in persuance of the States Reorganisation (Elections to Provisional State Legislature) Rules, 1956. There was no Upper House in PEPSU and the Punjab Legislative Council had only 40 members. After the ensuing General Elections, the strength of the State Vidhan Sabha and Vidhan Parishad will be 40 and 154 respectively.

A new feature of reorganised Punjab, not provided for in the SRC Report, is the implementation of the Regional Formula. Broadly speaking, the Formula claims to maintain unity of the Punjab by integrating the present Punjab and the PEPSU territories, though the new State will be demarcated into two regions based on the language spoken in them. These two regions would have, for administrative and development purposes, Regional Committees consisting of respective members of the Assembly and would include the Ministers of the region but not the Chief Minister of the State. While the Regional Committees would be free to advise on all matters entrusted to them (specified in the Formula) and by Convention, their advice would generally be accepted, their position is not statutory, nor is their advice mandatory. The final decision in each matter would rest with the State Cabinet, which would of course include Ministers from both the regions. The Governor of the State would be given powers to take final decision in case there are differences in the views of the two Regional Committees on matters entrusted to them.

The Regional Committees will deal with the following matters:

1. Development and economic planning, within the framework of the general development plans and policies formulated by the State Legislatures.

2. Local self-government, that is to say the Constitutional powers of Municipal Corporations, Improvement Trusts, District Board and other local authorities for the purpose of self-government or village administration.

3. Public Health and sanitation, local hospitals and dispensaries.

4. Primary and Secondary education.

5. Agriculture.

6. Cottage and Small-Scale Industries.

7. Preservation, protection and improvement of live stock and prevention of animal diseases; veterinary training and practice.

8. Prevention of cattle trespass.

9. Protection of wild animals and birds.

10. Fisheries.

11. Inns and inn keepers.

12. Markets and fairs.

13. Cooperatives.

14. Charities and charitable institutions, religious endowments and religious institutions.

The official language of each region will, at the district level and below, be the respective regional languages. The State will be bilingual, recognising both Punjabi (in Gurmukhi script) and Hindi (in Devnagari Script) as the official languages.

Economically, integrated Punjab will be a prosperous State and there cannot be any two opinions about it. The industrialists will have a larger market for their goods as the market was partially limited hitherto by political boundaries of the States and the different structures of taxes in vogue. There was some reduplication of undertakings by private institutions and Government which would be avoided in future and make for greater industrial efficiency. As the area of each of the States, heretofore, was too small for the establishment of any heavy industry, the Central Government did not take any interest in establishing heavy industries in Punjab. Greater Punjab can easily justify its claim for the establishment of industries like Wagon Building, Structural and Foundry Shop, Textile and Heavy Chemicals, and these claims will be greatly strengthened after the completion of the Bhakra-Nangal Project which will simultaneously augment cotton production and power supply.

The integration will be a political success, if the Regional Committees work smoothly, without communal or linguistic bias and in a statesmanlike spirit, for the lasting good of the people. The possibility has to be guarded against that the Regional Committees do not degenerate into bodies for fomenting separatism instead of fostering harmony.

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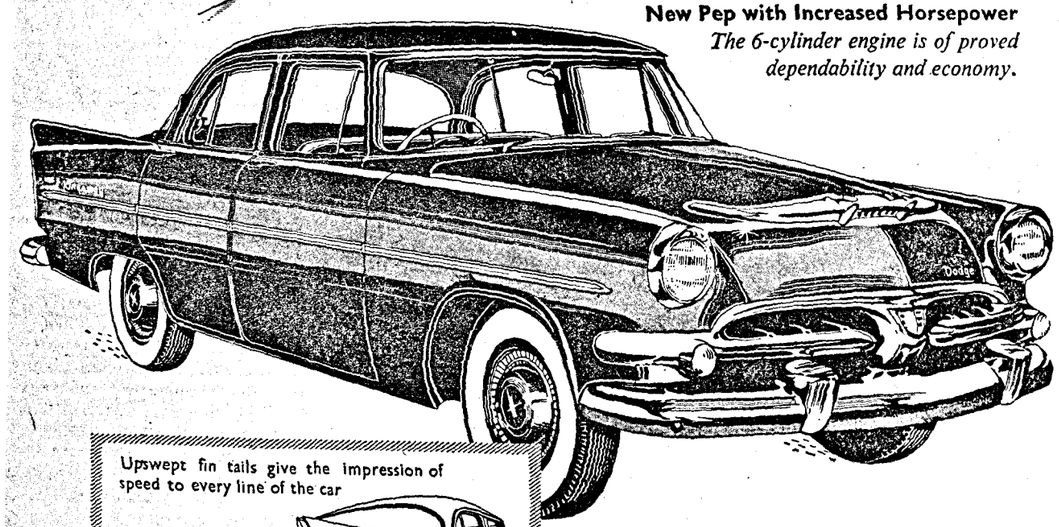
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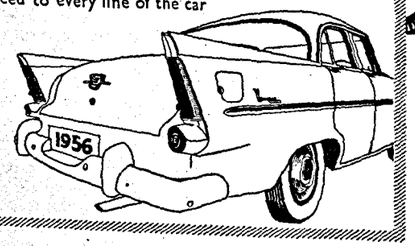
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The New Look—III

Karnataka is Reborn

(By a Kannadiga)

WITH the formation of Karnataka or the bigger Mysore State, as Mysoreans would have it, a new force, long talked about, but never easily identified, has emerged in the Indian Union. It was a force that had once meant much in history, alike in political, cultural, economic and philosophical fields; and it was a force that was slowly bridging the gulf between the north and the south, the east and the west, ideally situated as it was for this happy mission.

The New State

But then with the advent first of Muslim power and later of British authority, the process of disintegration started. Scattered among various contending powers and then among various administrative units, the spirit of Karnataka could manifest itself freely only in Mysore and to some extent in the Kannada-speaking districts of Bombay while elsewhere it had to accommodate itself to altered circumstances. But not for very long, however. The birth of nationalism and the agitation over the Bengal partition soon revived in the Kannada-speaking people the desire for re-unification; and the resulting agitation, flaring up and cooling down by turns, can be said to have ended only with the inauguration of Karnataka or the bigger Mysore State on November 1 last.

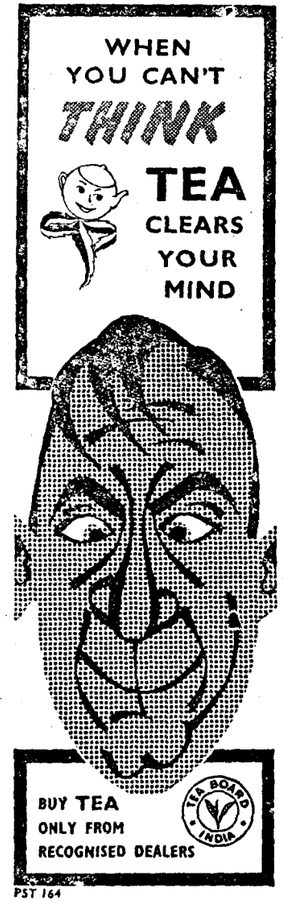
On that day, districts and talukas divided among five different administrative units, Bombay, Madras, Mysore, Hyderabad and Coorg, came together to constitute a single State with an area of about 72,730 square miles and a population of nearly two crores. Superlatives like the 'largest', the most 'populous' and the 'richest' that have been freely showered on some of the newly-created States in the country cannot apply to Karnataka; and if there is anything superlative about this State, it is to be found in the rich variety of terrain, resources, man-power, talent and enterprise in this region and also in the happy combination of all factors, tangible and intangible, for a tremendous spurt of progress.

Karnataka has a 200-mile long coastline, studded with good natural harbours and abounding in facilities for large-scale fishing; it has a chain of mountains, bursting with forest resources and providing some of the grandest spectacles of scenic beauty imaginable; it has both plateau and plain, the former dry and the latter extremely wet, growing food and money crops of considerable value; it is rich in minerals and power sources, a few exploited and the rest yet to be taken up for exploitation; it has innumerable rivers, particularly in the coastal region, good both for navigation and irrigation; it has industries, both large-scale and small-scale, especially in Mysore, which hold promise of expansion to other regions; it has famed handicrafts which could flourish again with a little encouragement; it revels in historical relics and monuments, masterpieces of sculpture, places of pilgrimage and scenic grandeur and all that the better instincts of man can ask for; it has a largely congenial climate, reaching the peak of excellence at places like Bangalore; and, more than all, it has a hard-working, intelligent and enterprising population which is responsive to new ideas and methods and which, at the same time, is steeped in folk culture.

The pressure on land is not very heavy yet, except perhaps in the coastal region; and there is plenty of waste land that can be brought under the plough with a proper exploitation of the rivers and tanks in the region. Several irrigation projects have been undertaken already; and more are surely indicated in the arid regions of the east and north-east. There is plenty of scope for the cheap supply of power for industrial enterprise, what with the hydro-electric schemes already implemented and the ones that are likely to be taken up now. The depressed Malnad region, shunned for long, is only crying to be developed; and the unused wealth it contains is not inconsiderable. Again, the vast coastline and the natural harbours on it await proper utilisation. Educationally, South Kanara and certain urban areas of the old Mysore State and Bombay Karnataka are very advanced; and the trend towards technical training, so important to material progress, has already made considerable headway.

Harmonising Regional Interests

In short, all the conditions necessary for the rapid expansion of agriculture, trade and industry are there; and also adequate man-power. But is the right type of leadership available? That is a question that awaits answer. Politically, the State appears to be stable at present, despite the coming together of various groups from various regions with natural differences in tradition and outlook. But this stability is more to be attributed to the sudden impact of a great dream realised than to any evidence of cooperation and cohesion. A tussle for power between the Mysore group and the Bombay Karnataka group is inevitable, with representatives of other areas siding with the one or the other and tilting the balance this



PST 164

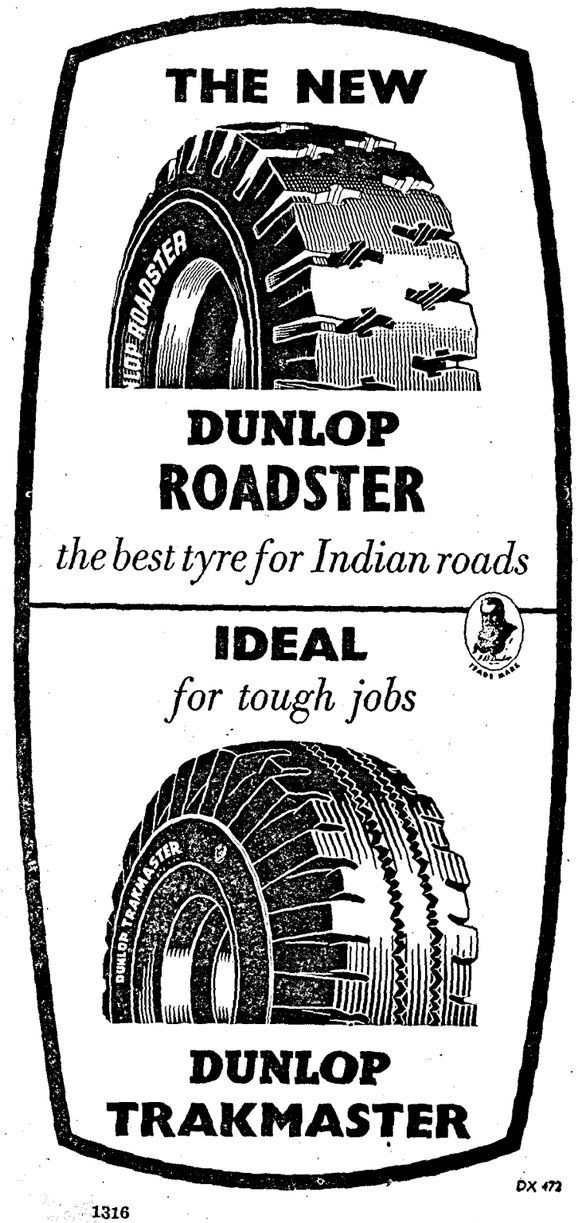
way or that. Indeed, this tussle can be said to have begun even at the time of the election of the new leader for the Legislature Congress Party, though wiser counsels resulted ultimately in a unanimous choice. But that can hardly be the end of the tug-of-war.

It is not only regional considerations, but also sectional prejudices and ambitions that are behind this cleavage; and it is time alone that can provide a remedy to this. Meanwhile, much will depend on the leadership of the new State. Shri Nijalingappa, the new leader of the Congress Party and Chief Minister, is no doubt an able and enlightened man, and he has had the advantage, at least for the time being, of being acceptable to all the groups. But whether and, if so, how long he would be able to retain the support of the other leaders, all with followers and ambitions of their own, remain to be seen. Shri Hanumanthaiya and Shri Manjappa, both former Chief Ministers of the State of Mysore, may have retired from the arena of contest for the time being; but whether they will be content to remain in retirement for ever is more than can be predicted. The challenge of the opportunities that face Karnataka is truly great; and it may yet induce that harmony of spirit in the leadership which is so essential to the rapid progress of the new State. It is a hope that Karnatakis ardently cherish as they contemplate the prospects before the new State.

Bridging the Gulf

Apart from the lack or inadequacy of understanding and cohesion in the leadership, there are also certain minor factors which may come in the way of the smooth progress of the new State. One of them is the recurring stress on the importance of the former Mysore State in the new set-up. It may be that certain parts of the new State are relatively backward, particularly in what was Bombay Karnataka and Hyderabad Karnataka once; but the blame for this does not rest on them, and they certainly would not like to be taken advantage of on that score. Even otherwise, the airs that certain Mysoreans are apt to put on as more advanced specimens of Karnataki culture and enterprise cannot but jar on the others. Again, there are certain areas like the Kanaras that have come into the new State with bitter experience of neglect in their old administrative orbits. And Coorg has felt that it was quite happy under the old dispensation, and it may well be waiting to see whether it will be equally happy in the new order. These areas will need particular attention.

All these call for a band of leaders who are not bothered by petty considerations of region, community or caste and who can bring to bear a broad, liberal outlook on the tasks of emotional harmonisation, administrative integration and overall development awaiting the new State. With such leadership, Karnataka could not only grow into a strong and progressive State in itself and a source of stability and power to the Republic, but also resume its interrupted function of providing a link of understanding and cultural synthesis among the various States of the new Union, bridging as it does the north and the south, the east and the west.



New Political Map of India

After States' Reorganisation

AFTER the reorganisation effected on the first of this month, the Indian Union is composed of 14 States and six centrally administered territories; 98 per cent of the total population are covered by the States and about two per cent by the territories. Jammu ad Kashmir is one of the 14 States.

Of the former Part A States, Assam, Orissa and Uttar Pradesh remain unaffected.

Of the seven Part B States, Hyderabad has disappeared from the map; Telengana has gone to Andhra, the Marathi and Canarese speaking districts of the State have gone to Bombay and Mysore respectively. So has Madhya Bharat which has been integrated with Madhya Pradesh, Saurashtra which has gone to Bombay and PEPSU which is now one with Punjab. The remaining Part B States, Mysore, Rajasthan and Kerala (former Travancore-Cochin) are now full fledged States —equal in status with the other States.

Of the Part C States, four viz Delhi, Himachal Pradesh, Manipur and Tripura are now centrally administered territories, along with Andaman-Nicobar and Laccadive-Amindivi group of Islands. Bhopal and Vindhya Pradesh have been joined with Madhya Pradesh. Kutch has been merged with Bombay, Coorg with Mysore and Ajmer with Rajasthan.

The area and population (according to the 1951 Census) of the reorganised States are as follows:

(1) Andhra

Language: Telugu, which has the largest number of speakers in India after Hindi. Population: Increased from 25.5 mn to 31.3 mn. Area has increased by 42,355 sq miles from 63,608 sq miles to 105,963 sq miles. It is the fifth largest State in area and ranks fourth in respect of population. The entire increase in area is due to the addition of the Telengana districts (42,355 sq miles) of Hyderabad.

(2) Assam

Predominant language: Assamese, though the percentage of population speaking the dominant language is lowest in Assam compared to any other State. Assam has not been affected by reorganisation. Population: 9 mn. Area: 85,012 sq miles; Ranks seventh in area and 13th in population.

(3) Bihar

Language: Hindi. With the transfer to West Bengal of 3,030 sq miles of Purnea district and Purulia subdivision, the State's population and area have declined from 40.2 mn to 38.82 mn and 70,330 sq miles to 67,300 sq miles respectively. In area it ranks ninth while in population it comes third.

(4) Bombay

The major bilingual State in the Indian Union (Punjab is another), the two main language groups being Marathi (26 mn speakers) and Gujarati (16 mn speakers). The population of the State has doubled, from 24.8 mn to 48 mn. Simultaneously its area has increased by 79,480 sq miles from 111,434 sq miles to 190,919 sq miles. Before reorganisation, the State had 32 districts of which Bombay Deccan (Southern) comprising of three districts with an area of 15,978 sq miles and another district (Kanara: area 4,000 sq miles) were transferred to Mysore. The gain in size is accounted for by the incorporation of Vidarbha (area: 36,678 sq miles) of Madhya Pradesh and of the Marathawada districts (area: 25,511 sq miles) of the Hyderabad State and the States of Saurashtra and Kutch (area: 21,451 and 16,724 sq miles respectively).

In area, Bombay is the largest State in the Indian Union and in population it is second only to Uttar Pradesh.

(5) Kerala

Language: Malayalam. The population of this State (former Travancore-Cochin) has almost doubled from 7.8 mn before reorganisation to 13.55 mn. There has also been a corresponding increase in its area which is now 15,035 sq miles as against 8,846 sq miles before November 1. Despite the increase in its area by 6,189 sq miles Kerala is the smallest of the fourteen reconstituted States. It ranks twelfth in population.

The State is composed of the former State of Travancore-Cochin (minus four taluks of Trivandrum districts and a part of the Shencottah Taluk in the Quilon District), Malabar district (without Laccadive-Minicoy Islands which are now a centrally administered territory) and the Kesargod Taluk of South Kanara district.

(6) Madhya Pradesh

Like Bihar and Uttar Pradesh, Madhya Pradesh is also a Hindi speaking State. After reorganisation, the State has a population of 26.1 mn (of which nearly 4 mn are tribals) as compared with 18.4 mn in the past. Its area has increased by 41,021 sq miles to 170,902 sq miles. With its present area, it is second only to Bombay while in population, it ranks seventh. It has lost 36,708 sq miles of Vidarbha to Bombay State but has gained in area by the integration of Bhopal (area: 6878 sq miles), Madhya Bharat (area: 46,478 sq miles) and Vindhya Pradesh (area: 23,603 sq miles).

(7) Madras

Language: Tamil. Population has declined from 35.7 mn to 30.0 mn and area has declined by 10,252 sq miles from 60,362 sq miles to 50,110 sq miles. Kollegal Taluk has gone to Mysore, Kesargod taluk to Kerala while five taluks from Travancore-Cochin have been added to it after reorganisation. Rank: fifth according to population and eleventh in area.

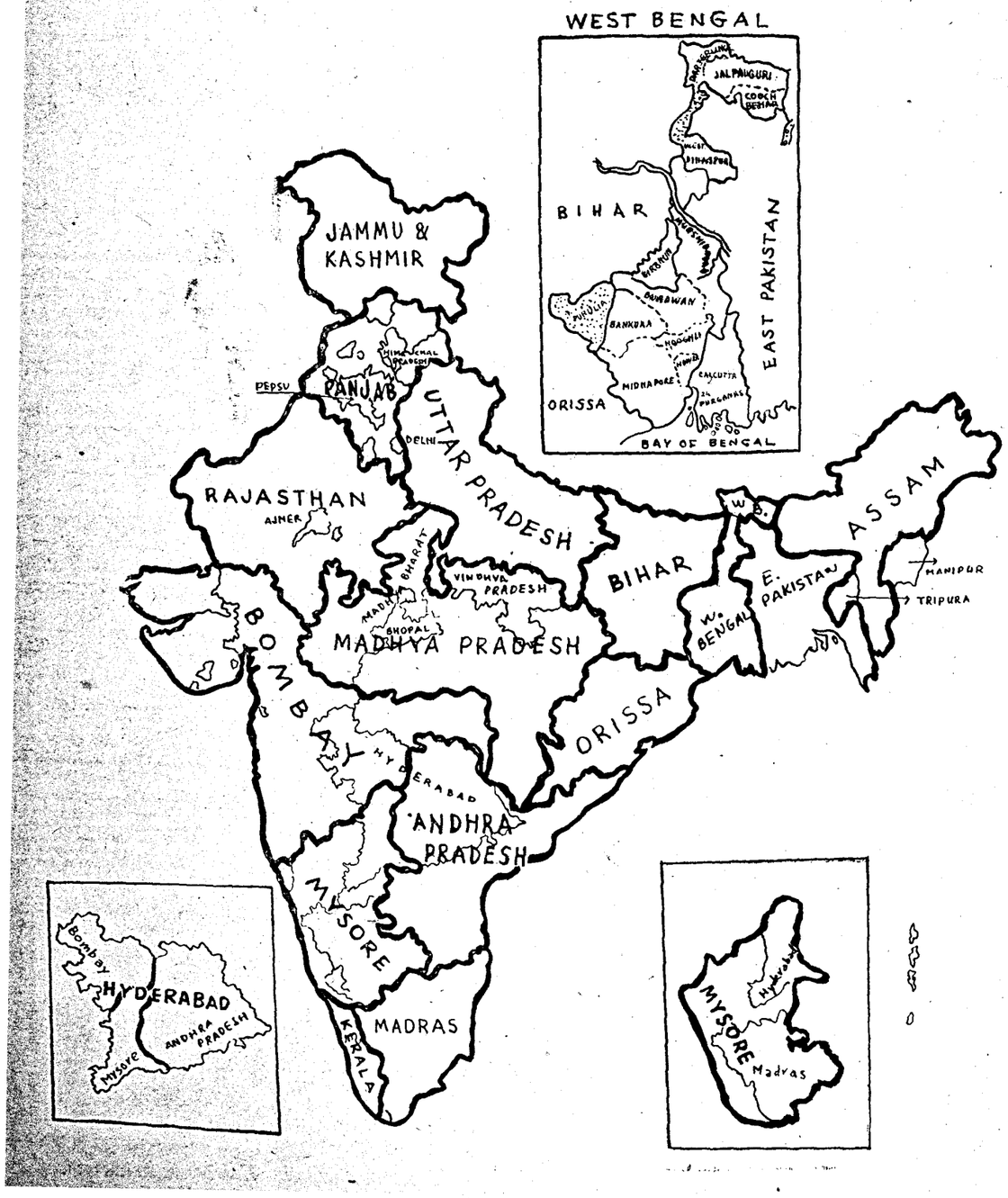
(8) Mysore

Language: Kannada. Both the population and area of Mysore have more than doubled, from 9.8 mn and 33,309 sq miles to 19.4 mn and 74,093 sq miles respectively. Though the old name is retained, Mysore is virtually a new State, Karnataka of the Kannada speaking people. It has gained in area by 40,784 sq miles by the incorporation of Belgaum (minus Chandgad Taluk) Bijapur, and Dharwar districts (area roughly 17,430 sq miles) and Kanara district (area 3,971 sq miles) of Bombay; Gulbarga, Raichur and Bidar districts (area: roughly 18,000 sq miles) of Hyderabad. It ranks eighth both in area and in population.

(9) Orissa

Language: Oriya. Orissa has not been affected by States re-organisation. Population 14.6 mn. Area: 60,136 sq miles. Rank: tenth in area and eleventh in population.

Indian Union After The States' Reorganisation



(10) Punjab

Language: Punjabi and Hindi. Population has increased from 12.6 mn to 16.0 mn. It has gained 10,078 sq miles in area from 37,378 sq miles to 47,456 sq miles at present wholly from the merger of PEPSU. Ranks twelfth in area and ninth in population.

(11) Rajasthan

Language: Rajasthani. Population has increased to 16 mn from 15.3 mn while area has increased by 1,871 sq miles from 130,207 sq miles to 132,078 sq miles. Rajasthan has lost Sironj subdivision of Kotah district to Madhya Pradesh but gained Ajmer (area: 2417 sq miles) and Abu Road taluk of Banaskantha district of Bombay and Sunel Tappa of Bhanpura tehsil of Mandsaur district of Madhya Bharat.

Ranks third in area, tenth in population.

(12) Uttar Pradesh

Language: Hindi. Unaffected by re-organisation. Population: 63 mn. Area: 113,409 sq miles. Ranks fourth in area and first in population.

(13) West Bengal

Language: Bengali. Population has increased from 25 mn to 26.2 mn and area by 3,030 sq miles from 30,775 sq miles to 33,805 sq miles by the addition of the Purulia subdivision of Manbhum district (minus Chas thana, Chandil thana and Patamda Police station of Barabhum thana) and of the Kishanganj subdivision of Purnea district which lies to the east of Mahananda river. The portion of Gopalpur thana of Purnea district which lies to the north of the National highway in the said thana, including the highway has also been transferred to West Bengal from the State of Bihar. Ranks 13th in area and sixth in population.

(14) Jammu and Kashmir

Language: Urdu. Unaffected by States reorganisation. Population: 4.4 mn, rank: fourteenth. Area: 92,780 sq miles. Rank: sixth.

Centrally Administered Territories

1) Delhi. Area: 578 sq miles. Population: 1.7 mn.
2) Himachal Pradesh. Area: 10,909 sq miles. Population: 1.1 mn.
3) Manipur. Area: 8,662 sq miles. Population: 6 lakhs.
4) Tripura. Area: 4,032 sq miles. Population: 6 lakhs.
5) Andamans and Nicobar Area: 3,215 sq miles. Population: 31,000.
6) Laccadive, Minicoy & Amindivi Islands. Area: 384 sq miles, Population 21,000.

POPULATION PATTERN OF REORGANISED STATES

	Geog area (sq. miles)	Rank	Total popln ('000)	Rank	Density (persons per sq. mile)	Rank	Total land per capita (acres)	Agr popln ('000)	Net area sown 1951-52 ('000 acres)	Net area sown per head of agr popln. (acres)
Andhra	105,677	V	31,253	IV	296	VII	2.16	21,050	25,332	1.20
Assam	85,012	VII	9,044	XIII	106	XIII	6.02	6,633	5,081	0.77
Bihar	66,161	IX	38,355	III	580	IV	1.10	32,920	20,519	0.62
Bombay	191,367	I	48,272	II	252	IX	2.54	29,867	58,294	1.95
Kerala	14,601	XIV	13,544	XII	928	I	0.69	7,266	4,274	0.59
Madhya Pradesh	170,909	II	26,102	VII	153	XI	4.19	20,350	35,339	1.74
Madras	50,171	XI	29,980	V	598	III	1.07	18,814	13,273	0.71
Mysore	74,093	VIII	19,401	VIII	262	VIII	2.44	13,820	23,753	1.72
Orissa	60,136	X	14,646	XI	244	X	2.63	11,612	13,996	1.21
Punjab	47,427	XII	16,135	IX	340	VI	1.88	10,604	15,868	1.50
Rajasthan	132,439	III	15,940	X	120	XII	5.32	11,108	23,010	2.07
Uttar Pradesh	113,433	IV	63,216	I	557	V	1.15	46,897	40,609	0.87
West Bengal	34,944	XIII	26,681	VI	764	II	0.84	15,886	12,637	0.80
Jammu and Kashmir	92,780	VI	4,410	XIV	48	XIV	13.46	NA	1,532	NA
Total States	1,239,150	—	356,979	—	288	—	2.22	246,827	293,517	1.19
All India	1,266,890	—	361,101	—	285	—	2.25	248,996	295,044	1.18

AGRICULTURAL PATTERN OF REORGANISED STATES

('000 tons)

	Rice	Wheat	Others	Total cereals	Pulses	Total foodgrains	Raw sugar (Gur)	Oilseeds	Cotton*	Jute†
Andhra ..	2,946	10	2,282	5,238	299	5,537	499	1,205	140	..
Assam ..	1,631	2	8	1,641	30	1,671	66	56	8	1,212
Bihar ..	2,553	412	616	3,581	969	4,550	292	64	2	588
Bombay ..	1,402	668	4,107	6,177	1,041	7,218	560	1,154	1,923	..
Kerala ..	927	**	10	937	7.	944	31	21	9	..
Madhya Pradesh ..	2,861	1,358	1,617	5,836	1,501	7,337	89	450	419	..
Madras ..	2,525	1	1,825	4,351	102	4,453	335	870	282	..
Mysore ..	1,083	81	2,259	3,423	409	3,832	286	532	411	...
Orissa ..	2,129	3	90	2,222	274	2,496	101	64	2	245
Punjab ..	202	1,710	968	2,880	1,558	4,438	557	149	605	...
Rajasthan ..	86	899	2,046	3,031	738	3,769	57	237	163	..
Uttar Pradesh ..	2,433	2,984	3,389	8,806	2,827	11,633	2,843	726	27	86
West Bengal ..	4,145	43	75	4,263	418	4,681	129	47	‡	1,958
Jammu and Kashmir	214	74	113	401	2	403	1	15	..	..
Total States ..	25,137	8,245	19,405	52,787	10,175	62,962	5,846	5,592	3,991	4,089
All India ..	25,474	8,348	19,527	53,349	10,187	63,536	5,859	5,596	3,998	4,137

* Thousand bales of 392 lbs each of lint cotton. ** Less than 500 tons. .. = Nil.
† Thousand bales of 400 lbs each. ‡ Less than 500 bales.
Note:—Production data are based on Final Estimates for 1955-56 and are subject to revision.
Source: Ministry of Food and Agriculture.



Carrying passengers and freight, Indian Airlines Corporation has an average load of about 4,500 lb. on every flight

SOMETIMES, freight claims aboard an aircraft come first. Would-be passengers are disappointed — especially if they hear afterwards of vacant seats. But, remember, the weight of a passenger may be taken up by a consignment of life-saving drugs, a shipment of vital foodgrains, or a bag of important mail!

The payload of an aircraft is made up by passengers *and* freight — it cannot be reckoned in terms of the number of seats provided. Please remember this, if *you* fail to get a seat on a certain flight. Remember, too, that Indian Airlines Corporation belongs to the people of India . . . and its wings fly in the service of all!

INDIAN AIRLINES CORPORATION

Mahatma Gandhi Road, Bombay 1. Telephone: 251540, 251544 (6 lines)

Around Calcutta Markets

Indian Iron's New Issue

Wednesday Evening

IN the past fortnight, movements in equities have been mainly influenced by war-like developments in Egypt and the disturbing events in Eastern Europe. At the time of this writing, Lyons Range is no longer under the grip of war fears. Equities are where they were a fortnight ago. With the news about cease-fire in Egypt, buyers withdrew. In consequence, equities have rather lost ground during the last fortnight. This is partly due to liquidation by war buyers. In part, however, it is also due to doubts about the smooth implementation of the Second Plan.

In the retrospect of the last fortnight, it would seem that Lyons Range was never apprehensive that developments in Egypt would lead to a third world war. Despite Russian warnings to Britain and France about the possibility of an extension of the war in Egypt, Lyons Range did not lose its poise. Though Moscow's warnings and overtures to Washington had a steadying effect on equities, it proved short-lived as equities slid back again on the news of cease-fire in Egypt.

As was to be expected, bullion and gunny markets responded more promptly to developments in Egypt. Bullion and gunny prices spurted up. Improvement in gunny prices had a sustaining influence on Jute shares. But these shares did not move up confidently because of the simultaneous rise in raw jute prices. There are reports of heavy American orders for hessian. Those who are "bullish" about the outlook for Jute shares emphasise this aspect. But it should not be ignored that raw jute prices continue to be steady.

Nor was it surprising that warlike developments in Egypt would have a sustaining effect on Coal shares and on Miscellaneous and Engineering shares. Even so, it was significant that, despite the spurt in speculative scrips, neither Miscellaneous nor Engineering shares were very active. Indeed, the absence of any material rise in cash scrips reflected the stock markets' view that a third world war was not likely.

Fluctuations in Indian Iron will be influenced mainly by the Chairman's letter to shareholders along with the annual report of the Company. Though working results for the year to March last were satisfactory, Indian Iron were affected by some of the details included in the Chairman's letter to shareholders. In that letter, shareholders were officially informed that the Company will issue 5,183,708 ordinary shares of (Rs 10 each for cash at a premium of Rs 3-8 per share.

There was nothing new in this information. But some operators were inclined to interpret "bearishly" the other disclosure that these new right shares will not participate in any dividend in respect of any period ending on or before March 31, 1957. This merely means that the new shares will not be eligible for dividend during the current year. This is only natural. Right shares have not yet been issued, while there are only five months to go before the accounting year will close. In the circumstances, no one could reasonably expect that these new shares will be eligible for dividend in the current year.

In 1953, the Indian Iron and Steel Co undertook an expansion programme. This is still being implemented and will be completed by the end of 1958. But, in furtherance of the Government's Second Plan, the Company has decided to undertake a further expansion programme. Under this second expansion plan, the Company's steel making and finishing mills' capacity will be increased by a further 100,000 tons, giving a total output capacity of 800,000 tons of saleable steel and 280,000 tons of foundry pig iron per annum.

New expansion schemes are estimated to cost Rs 14.80 crores. Negotiations with the World Bank are in progress for a loan covering the amount which will have to be spent abroad in connection with the second expansion plan. To facilitate such a loan from the World Bank, the Company has given notice of its intention to redeem the First Mortgage Debentures. This will involve a little over Rs 94 lakhs. New Delhi and the State Bank of India have agreed to the creation of the proposed further first charge in favour of the World Bank.

Expenditure to be incurred by the Company in Indian currency in connection with the second expansion plan, as also the amount required to repay the Company's First Mortgage Debentures, is to be raised by the issue of new ordinary shares. Excluding the amount needed for redeeming the First Mortgage Debentures and the loan finally sanctioned by the World Bank, it is assumed that the Company will have to secure a little over Rs 5-1/3 crores out of its own resources. To secure this latter amount, the right issue is being offered.

At present, the Company's authorised capital is Rs 8½ crores. To cover the new issue, the Company's authorised capital will be increased to Rs 14 crores. This will involve a doubling of the ordinary share capital. Will the Company be able to maintain the dividend on the increased capital? Details of the second expansion plan indicate that output, sales, earnings and profits of the Company may expand sufficiently to enable it to maintain the dividend on the increased capital. Investors are anxiously awaiting the Chairman's observations on this major aspect of the right issue in his annual address a few weeks hence.

Chloride Batteries

For Atomic Reactors

THE safety and security of the two nuclear reactors installed at the Calder Hall Atomic Power Station are ensured with the assistance of two large batteries supplied by Chloride Batteries Limited of Clifton Junction, Swinton, Manchester.

The pumps, fans, instrumentation and emergency lighting for each reactor are normally supplied by the rectifiers, but should their output fail, the batteries automatically take over the important load. Absolute reliability of the batteries is essential, as a complete failure of these services could cause severe damage to the reactors. Following an emergency discharge, the rectifier is capable of quickly charging its battery and supplying the reactors auxiliary services at the same time.

Similar large Chloride Stationary Batteries are being progressively manufactured at the Exide Factory near Calcutta and are working in automatic Telephone Exchanges, in new Project Power Stations and Sub-Stations in many Parts of India.

Around Bombay Markets

Dull Moorat

Thursday, Morning

IN sharp contrast to the brisk activity and firm prices witnessed during moorat trading last year, hesitancy and uncertainty marked the moorat session this year. This was due partly to the tension prevailing in the Middle East and the possibility of India withdrawing from the Commonwealth. The general inclination was to await further developments. The volume of trading was therefore extremely limited although the usual enthusiasm associated with moorat trading was not absent completely. The price range continued to be narrow and uneventful.

In the Mulji Jetha Market, moorat was a lifeless affair and the total transactions put through were perhaps the smallest during recent years. In the cotton market, the moorat was no livelier an affair. The authorities decided to keep the market open for a short session on the following day in order to induce some trading at the beginning of the new year. The session, however, turned out to be a flop.

Divali is associated with stock-taking, particularly for the trading and business community. It is natural, therefore, to assess the prospects on this occasion. To be able to do that, it is necessary to review the share market trend at least in broad outlines, during the year that has just passed. In view of conflicting reports of changes in economic policy, especially in regard to the role of the private sector, investors lacked confidence for the greater part of the year.

Against such a background, it is no wonder that even inflationary possibilities, evident in the early months of the year, did not bring about any impressive rise in equity values. Almost until August, the pattern of trading in the stock market was two-sided. In August-September, new peak levels were reached and industrials in general were buoyant. But this bullish phase was like a flash in the pan and all the industrials were once again back to their bottom in the subsequent months when the Government initiated a series of measures to curb the rising trend in prices.

Towards the close of July, the nationalisation of the Suez Canal produced a flutter and as the situation deteriorated, nervousness and uncertainty became more pronounced. Contrary to normal market reaction to war scare, the continued tension over Suez failed to bring about a rise in prices as operators were acutely conscious that a prolonged stalemate in Suez would severely impair the progress of Second Five-Year Plan. . It is this fear of a possible set-back to national development which dictated caution. Indeed, this was more than evident in the reaction of the market to the brink-of-war developments in West Asia. Until peace is restored and the Suez canal is reopened for traffic, the stock market cannot be expected to give a better showing.

Cotton

Bearish Trend

COTTON futures, it will be recalled, had a complete 'black-out' until mid-June. When trading was eventually resumed, it was on the basis of two contracts instead of one, a departure from past practice. Trading since June has been distinctly cautious, as operators were wide awake to the possibility of further intervention on the part of the Government or the Forward Markets Commission.

If the market had been on the leash, as it were, for the greater part of the year, what about the prospects in the New Year? The statistical position of cotton clearly shows that there is everything to be gained and nothing to lose. Production has been on the increase; so also consumption and exports. In fact, India became a net exporter of cotton during the 1955-56 cotton season, a striking proof of the progress that the country has been making in the development of raw cotton. Production of raw cotton is currently estimated at around 53 lakh bales, and mill consumption at around 46 lakh bales. Consumption will naturally increase if and when the ceiling on mill-production of cloth is removed, as indeed Government is likely to do sooner or later.

The performance in the piece-goods market during Divali was poor in the extreme as compared to phenomenal volume of sales registered in the previous years. Poor offtake of cloth means accumulation of stocks with mills which is hardly conducive to better sentiment in the raw cotton market. All these factors have contributed towards maintaining a more or less bearish trend in cotton futures market. Suez crisis has prolonged it. The blocking of the Suez route, shipping difficulties and consequent rise in freight charges will not help exports, however cheap our raw cotton may be. And exports have been one of the bright spots during the year.

Oilseeds

Firm Divali to Divali

THE oilseeds market ruled firm early in October-November last year and the same trend is noticed this year also. In fact, relatively better sentiment has prevailed since July on reports of damage to crops from heavy rains in the groundnut producing areas, and better export outlook for castor oil in the USA and the UK, not to mention expectation of a reduction in the export duty on linseed oil since materialised (on Sept 21, 1956) and the higher prices obtained for oils and oilseeds in the overseas markets. From February to July, the market remained somewhat weak as buyers held off and quotations from overseas markets were also lower. Sentiment was also affected by the ban on exports of mustard and rapeseed oils effective from May 16, 1956. Fear of burdens in the forms of increase in excise duty, cess or export duty on vegetable oils in the Central Budget had inhibited activity earlier.

Towards the close of the year, linseeds came into prominence as a result of abolition of export duty and the subsequent improvement in the internal demand and improved export prospects.

Sentiment in regard to groundnut and castor has also been influenced lately by crop prospects. In groundnuts, downward revision of the crop estimates in Gujerat, Saurashtra, etc led to a generally firmer trend. In castor, however, the downward revision of crop estimates in Brazil spelt better prospects for the offtake of Indian castorseed and oils by the USA. In the event, both groundnut and castor were moving around the higher levels.

The Indian Iron and Steel Company Limited

Notice

NOTICE is hereby given that the Annual General Meeting (being the Thirtyninth Ordinary General Meeting) of the Company will be held at the Registered Office, 12 Mission Row, Calcutta at 11 a.m. on Friday the 30th November, 1956 for the following purposes:

1. To receive and adopt the Audited Accounts for the year ended 31st March 1956, and the Directors' and Auditors' Reports thereon.

2. To declare a dividend on the Ordinary share capital. The dividend, if declared, will be paid on or after the 17th December, 1956 to those Shareholders whose names appear in the Company's Register on the 30th November, 1956 or to their mandatees.

3. To appoint Directors in place of those retiring.

4. To appoint Auditors and fix their remuneration.

5. As special business to consider and if thought fit to pass with or without modification the following resolutions which will be proposed as special resolutions.

(1) That sub-clause 3(16) of the Memorandum of Association of the Company be deleted and substituted by the following two sub-clauses:—

"16(a) To subscribe contribute or guarantee money for any national, charitable, benevolent, political, public, general or useful object or fund or for any exhibition".

"16(b) To establish and support, or aid in the establishment and support of associations, institutions, funds, trusts and conveniences calculated to benefit persons who are or have been employed by or who are serving or have served the Company or its predecessors in business or the dependents or connections of such persons and to grant pensions and allowances and to make payments towards insurance".

(2) That Article 150(18) of the Company's Articles of Association be deleted and substituted by the two following sub-clauses:—

"(18a) Subject to the provisions of Section 293 (1)(e) of the Companies Act 1956 to establish maintain support and contribute or subscribe to any national, charitable, benevolent, political, public, general or useful object or fund and any institutions, society or club, which may be for the benefit of the Company or may be connected with any town or place where the Company carries on business".

"(18b) To give pensions, gratuities, allowances, bonuses, profit sharing bonuses or benefits or other charitable aids payments or monies to or for the benefit of persons who are or have been employed by or who are serving or have served the Company or its predecessors in business or the wives, children, dependents or connections of such person or persons as may appear to the Directors just and proper whether any such person his widow children or dependents or connections have or have not a legal claim upon the Company".

6. As special business to consider and if thought fit to pass the following resolution, namely:—

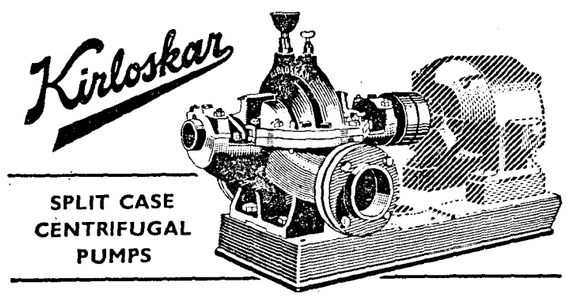
"That the Books, Registers and other documents required to be maintained by the Company and kept open for inspection under the provisions of the Companies Act, 1956, and particularly under Sections 49, 118, 144, 163, 196, 301, 302, 304, 307, 362 and 372 of the said Act, shall be available for inspection at the Registered Office of the Company by the persons entitled thereto to the extent and in the manner and on payment of the requisite fees, if any, specified in the aforesaid provisions, between the hours of 10 a.m. and 12 noon on each business day. Provided, however, that the register required to be maintained under Section 307 of the Act shall be open for inspection of the members or holders of debentures of the Company between the times above mentioned only during the period prescribed by sub-section 5(a) of Section 307".

The Share Registers and the Transfer Books of the Company will be closed from the 20th November 1956 to the 30th November 1956 both days inclusive.

A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote on a poll instead of himself and a proxy need not be a member.

By Order of the Board
MARTIN BURN LIMITED
F. G. Liversedge
Managing Director
Managing Agents.

Calcutta.
5th November, 1956.



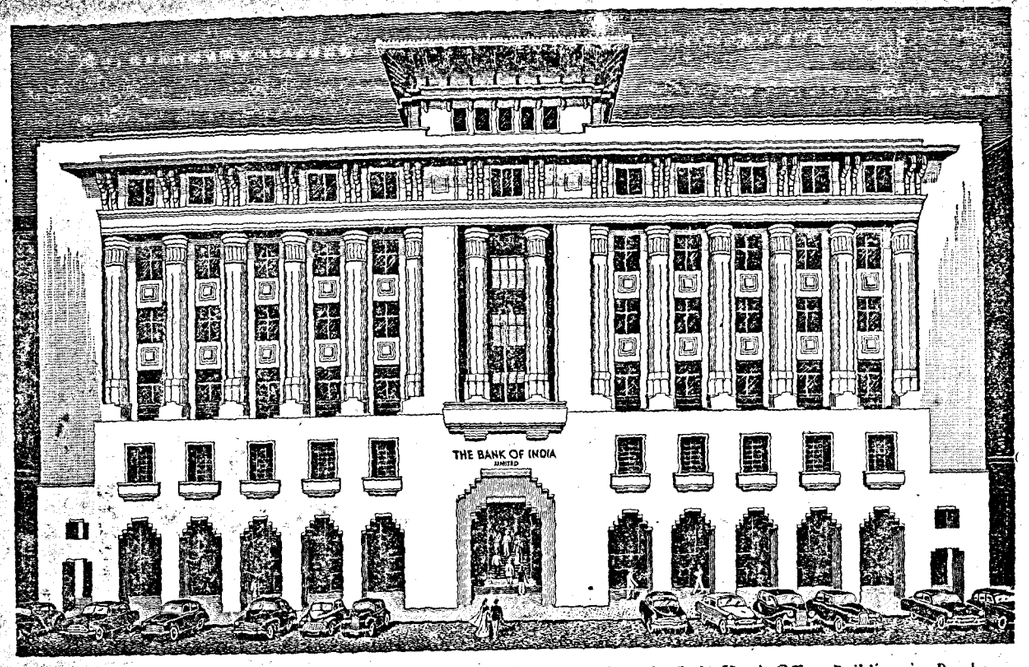
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All types of Banking business transacted :

Current Accounts — Savings Bank Accounts — Fixed Deposits — Loans and Overdrafts — Cash Credit Accounts — Discount of Bills and Hundis — Safe Custody — Foreign Exchange and Letters of Credit — Demand Drafts & Telegraphic Transfers — Executor and Trusteeship — Safe Deposit Vaults — Guarantees etc.

Figures on 30-6-1956

Capital Authorised	Rs 5,00,00,000
Capital Subscribed	Rs 5,00,00,000
Capital Paid-up	Rs 2,50,00,000
Reserve Fund	Rs 3,52,00,000
Deposits	Rs 75,58,47,500
Working Funds	Rs 97,35,67,500

THE BANK OF INDIA LIMITED

Golden Jubilee

1906-1956

Head Office : Bombay

THE BOARD OF DIRECTORS

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Sir Joseph Kay, K.B.E.
Mr. Dinsha K. Daji
Mr. Ramniwas Ramnarain
Mr. Bhagvandas Chunilal Mehta
Mr. Krishnaraj M. D. Thackersey
Mr. A. D. Shroff
Mr. Madanmohan Mangaldas
Mr. N. K. Petigara
Sir Vithal N. Chandavarkar

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ABROAD : London, Aden, Karachi (Pakistan), Singapore. 5 Branches in East Africa at Nairobi, Mombasa, Kampala, Jinja and Dar-es-Salaam; 2 Branches in Japan at Tokyo & Osaka.

AGENTS : In all the principal countries of the world.

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GOVERNMENT OF MADRAS

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Bandung Way to Peace

IT would be idle to pretend that the approach of four of the five Colombo Powers to the situation in Hungary and in Egypt is not different. But this is not the central theme of the joint statement issued by the Prime Ministers of India, Indonesia, Burma and Ceylon. Their main emphasis is on the imperative need "to support and strengthen the UN in its task of preserving peace". Thinking persons throughout the world will echo their concern over the aggressive designs of Big Powers. "Recent events have demonstrated with startling clarity that", they warn the world, "strong nations can still commit aggression on weaker countries and attempt to impose their will upon them, resulting in bitter conflict and human suffering". It was too hastily assumed that nuclear weapons had succeeded, where the United Nations had failed, in preventing a third world war. Events in Egypt may still be cited by some in support of the old theory of world balance of power. But many will deplore the development in Egypt as a sequel to regional military alliances and the consequent undermining of the authority of the United Nations.

Two problems arise out of the recent alarming developments in Egypt and Hungary. Can the United Nations tolerate, or allow, ugly demonstrations by Big Powers, that might is right? This theory of international relationship has been discarded long ago. Colonialism has been equally denounced. But, recent world events are poignant reminders that neither colonialism nor the suppression of the weak by the strong powers is a thing of the past. To maintain peace, the United Nations were formed. One of the main functions of the United Nations is to eliminate the sources of world conflict. To preserve world peace, the United Nations must have both moral and military authority. It has been one of the flaws of the United Nations that more time and energy have been wasted in espousing the principle of collective security. Since the "cold war", regional military alliances and pacts have undermined the basis of collective security. In the present state of the world, the principle of collective security cannot be abandoned. But its implementation in Korea has disclosed that the principle can be exploited by some Big Powers. For the first time, the United Nations have created an international force for operation in Egypt, which is truly international. There are many who are convinced that without the authority of decisive military sanction, the United Nations must remain ineffective.

This is a counsel of despair. Four of the five Colombo Powers have reiterated their conviction that "the only way to peace is through the practice of the Bandung principles". There is no conflict between Bandung and the United Nations. But some of the stronger member-States have been accused of aggressive designs. Many Asian and African countries have emerged recently as independent nations. In others, the struggle for freedom continues. All Asian and African countries are militarily weak. These small nations are, therefore, all the more alarmed at the revival of colonialism and of the attempts by the strong nations to commit aggression on weaker countries. Amity among Bandung countries and the failure of the United Nations to stop aggression by the Big Powers lend weight to four Colombo Powers' insistence that world peace

can only be maintained on the basis of freedom and disarmament. These are the two principles which the United Nations must strive urgently to implement. Then alone can the United Nations function effectively, and world peace be ensured. These basic issues are not unrelated to the recent tragic developments in Egypt and Hungary. Egypt and Hungary are likely to be repeated unless the United Nations make determined efforts to create the fundamental conditions of world peace.

Even those who deplore the inability of the United Nations to solve these basic issues will appreciate the prompt response of the UN to developments in Egypt and Hungary. There is now cease-fire in Egypt. But the aggressors have agreed to cease fire on certain conditions. Israel, Britain and France have not yet withdrawn their armed forces from Egypt. In refusing to withdraw their troops, except under certain conditions, these aggressors are violating the directions of the General Assembly. Under the resolutions passed by the Assembly, member-States are commited to support the United Nations in restoring **status quo ante**. Prime Ministers of Colombo Powers have underlined the directions of the General Assembly by demanding immediate and unconditional withdrawal of foreign forces from Egyptian territory. They endorse President Nasser's opposition to the Anglo-French attempt to resume control over the Suez Canal by their emphatic opposition to intervention in the affairs of another State, meant to protect special interests, but which "is sometimes justified on the plea of international cooperation". This is the essence of the Suez Canal problem.

Four of the five Colombo Powers, who had discussions on recent world events in New Delhi this week, are as much distressed by "the tragic events in Hungary" as by the aggression in Egypt. They are as emphatic about the withdrawal of Soviet troops from Hungary as about the withdrawal of foreign troops from the territory of Egypt. They are as much concerned about the relief of distress in Hungary as of the need for relief in Egypt. But it is evident from the statement issued by the four Prime Ministers that their approach to the issue in Hungary is different from that in Egypt. Their accusation of Israel, Britain and France is without any qualification, but Russia is not accused of committing aggression in Hungary. They are diplomatic in their treatment of the Hungarian problem. Unlike the AICC, they do not talk of the "civil conflict" in Hungary. But they deplore that large-scale violence "used on all sides" has resulted "in the killing of thousands of people, and has brought misery and destruction to that country (Hungary)". Confusion widely prevails on the Hungarian issue. Russia has been severely condemned for her military action in Hungary. There will be no quarrel with the four Prime Ministers' espousal of "the inalienable right of every country to shape for itself its own destiny". But the realistic appraisal of the developing situation in Hungary, contained in our last week's issue, is confirmed by Mr Walter Lippmann. The Hungarian drama is doubly tragic. It is tragic to see so brave a people crushed. It is also tragic, Mr Lippmann rightly concludes, in the sense that the outcome has been "fatally ordained" since the Nagy Government "lost control of the rebellion".

Eastern Europe's future is far more important than the issue of Russia's recent action in Hungary. Because of the deeper issues involved, it is deeply to be deplored that Russian troops had to re-enter Hungary after their evacuation from that country. There would have been unqualified support of the Hungarian resistance to Russia had it been sponsored and supported by the Hungarian people and workers. The Hungarian people and workers are much more determined than the reactionary rebels that Hungary should be treated on an equal basis by Russia. Like Poland's, this legitimate aspiration of Hungary would have been conceded by Moscow. But the reactionary counter-revolution has introduced additional complications. Fears have been expressed that the Hungarian rebellion compel the Kremlin to abandon the recent efforts towards the establishment of a "commonwealth of Socialist States". Time alone can reveal whether such apprehensions have any basis. In Hungary, the regime sponsored by Moscow has announced its intention to broaden the basis of the administration. Hungarian experience has not provoked Moscow to reverse its policy to Poland. Neither in Poland nor in Hungary, the process of liberalisation of the administration will be jettisoned. There is yet no indication of a revival of Stalinism in Russia. Whether the Warsaw Pact can be abolished without NATO's liquidation, is a relevant question. But far more significant is the question whether the Hungarian experience will provoke Russia to reverse her plans for creating a "commonwealth of Socialist States". That would be a tragedy for Russia as well as for her neighbouring Eastern European States. There will, meanwhile, be hope that the Kremlin will have the imagination and the statesmanship to proceed with the plan for a "commonwealth of Socialist States", undeterred by developments in Hungary.

Monetary Stringency

MONEY market stringency in what would still be the slack season or at best, the threshold of the busy season by an earlier reckoning, has reached a point that the Finance Minister had to come down to Bombay and Calcutta to confer with bankers. If money market conditions are abnormal judged by past criteria, the method of seeking a solution is no less unusual, going by past conventions. Stricklers for correct form may have their misgivings about leaving the bank rate or monetary policy to be determined by such democratic methods. But one should not perhaps cavil at the means employed provided the ends are adequately served.

At the conference convened by the Reserve Bank, the Finance Minister discussed with the chief executives of the scheduled banks "recent monetary and banking trends and the measures necessary to meet the credit requirements of the coming busy season". At the end of the conference in Bombay, the following press communique was issued:

"Among the matters discussed were the rising trend of bank advances, the relationship between deposit rates and advance rates, the impact of large import surpluses during recent months on the domestic money supply, delays in the payment of supply bills by Government, and the small increase in bank deposits as compared with the increase in note circulation. The talks were of an exploratory character and no decisions were taken".

That stringency is acute, there is no question. The absolute volume of bank advances, the percentage of advances to total assets of the banks and non-availability of credit at current money rates—all show how

severe it is. The question is, what is the reason for this severe stringency? It is not possible to relate the stringency directly to the loan floatations in July or September. If Government borrowing had denuded the market of funds, Government balances with the Reserve Bank would not have come down as they did over the past three months. Nor can the stringency be accounted for by the slow or tardy return of currency to the banking system which is the normal experience of slack seasons. There has been a drop of Rs 96 crores in note circulation from the peak reached in the busy season (second week of May) to the low of the slack season (third week of October). In fact, the volume of return of currency from circulation this year has been the largest in the last five years. For a comparable figure, we have to go back to the slack season of 1953, when contraction of note circulation reached Rs 91 crores. But there is a significant difference. While the contraction of currency was highest this year, there has been no comparable or even significant drop in advances; in fact bank advances at the end of October were only Rs 11 crores lower than what they were at the peak of the busy season. This again is the lowest slack season decline in the past five years.

The most outstanding development in the last few months, however, was the heavy deficit in foreign payments, which led to a decline in the foreign assets of the Reserve Bank of Rs 126 crores, compared to the nominal decline of only Rs 1 crore last year. This was many times larger than the decline in any year during the past five years. The loss of sterling assets has been an important contributory factor, if not the principal factor, responsible for the stringency. This is because the loss has not been off-set by budgetary deficits to any considerable extent. This must be deliberate and the question naturally arises, what was the intention of the authorities in allowing balance of payment deficits to produce such a markedly contractionist effect on the money supply?

The only explanation for following such a course of action can be that the authorities were alarmed by rising prices and therefore did not feel it necessary to off-set the loss of foreign assets by timely and adequate remedial action. It is also possible that the structure of bank assets have been so distorted by the strains to which they have been subjected that they may have found the scope for open market operation too limited, and relied on borrowing from the Reserve Bank to provide the needed measure of elasticity.

Judging from the outside, and viewing the situation in retrospect, the authorities appear to have shrunk from facing the issue of adequacy of credit supply squarely and relied on qualitative control, through directives to scheduled banks, to keep the situation in hand. The latter, however, though certainly a move in the right direction offers no escape from the question of deciding the adequacy of credit supply in a given situation and of devising some tests for judging it. How to determine the right volume of credit supply in a mixed economy where a measure of expansion is also considered desirable in the unplanned sector and allowance has necessarily to be made for financing the larger volume of trade which must go hand in hand with the progress of planned development? Commercial banks cannot very well neglect what is their primary function nor can they decline to shoulder additional responsibilities for financing some needs of industry which would be left elsewhere to specialised institutions and a more active capital market.

Whatever the tests that the authorities may have in mind, surely money supply should not be allowed to follow mechanically fluctuations in foreign balances? The money market had been insulated, as a matter of fact, in the past against external influences more by accident than by design; this had enabled it to maintain its interest rate structure unaffected by the rapid rise in most money markets abroad. Since international equilibrium is not sought to be maintained, anyway, by operating on domestic money supply, it is difficult to see the rationale for allowing the effects of fluctuations in foreign balances to be passed on to the internal economy.

Once it is conceded that money supply should not be allowed to fluctuate with every fluctuation in the balance of payments, there remain only two sources of augmenting or reducing money supply viz budgetary deficit or surplus, and open market operations. Budget deficits result from various causes. They may arise because they cannot be helped or the budget may be deliberately unbalanced in order to achieve certain desirable results. But neither the circumstances which determine the size of the budgetary deficit nor the operations of the Reserve Bank suggest that the volume of this deficit can be regulated or has been regulated in order to meet the legitimate demands of the money market in the present phase of expansion of the economy. Far from being guided by the latter, the Reserve Bank has been unduly inhibited in its monetary policy by what it vaguely suspected to be symptoms of inflationary pressure. While it must put down speculative demand, how can it deny the legitimate demand for credit which the economy needs if it is to perform its tasks?

The banking system, under the strain to which it has been subjected by the lack of a sensible monetary policy, has developed some undesirable features which have drawn wide attention. The unseemly competition for deposits among scheduled banks and lack of any relation between borrowing and lending rates are some of these. Both the problem of inter-bank competition for deposits and rates to be charged on advances however, are for the bankers to solve in their own way. What stops them from charging more for advances, if that is what they want to do, feel they should do, is the fear of losing deposits to others. Here the position is complicated by the differences in status of the State Bank, which does not have to fear withdrawal of deposits as much as the others, and of the exchange banks, which operate on such a comfortable margins that they have a clear advantage in competing for deposits, as compared to the Indian joint stock banks.

It would be unfortunate if the fractional increase in lending rates announced by the Reserve Bank under the Bill Market Scheme leads to a general rise in advance rates. In so far as the concession hitherto given for popularising this particular form of lending is no longer necessary, the change is justified in that it rationalises the lending operations of the Reserve Bank. It is to be hoped that this slight adjustment will clear the decks for smoother and more vigorous open market operations. But it is also to be hoped that the intention is not to force money rates up for which it would be difficult to find justification since the Reserve Bank cannot seriously be thinking of curbing inflationary pressures through monetary discipline.

Weekly Notes

Adverse Terms of Trade

ECONOMICS is as open to changes of fashion as frocks. For some time past our pre-occupation with other, and perhaps more vital, issues has thrown into relative disuse the rather vital concept of the terms of international trade. With a very meagre domestic savings potential, and a not-too-bulging fund of foreign borrowings, even slight movements in these terms are capable of having quite considerable effects. Of course as the country's imports consist increasingly of machinery etc. under medium and long term contracts—not infrequently entered into in a hurry—the import price index will lose some of its characteristics, both of flexibility and variety. As a longer term effect, it may be pointed out that the servicing of these debts now being incurred will again bring into prominence the question of the terms of trade. But that can wait for the moment.

The latest statistics of movements in the terms of trade show some rather disquieting features. The terms of trade (average value of index of imports divided by the average value index of exports) with base 1952-53 = 100 stood at 99 in 1953-54. In the following year it came down to 91, showing a gain to the country. But since then there has been a dangerous rise—in 1955-56 it was 97, and in the first quarter of 1956-57, it stood at 100. How far the removal and, in other cases, the lowering, of export duties have affected the terms need to be examined. While we must export to live, we cannot subsidise our exports.

1953-53=100	Exp	Imp	Terms of Trade
1953-54	94	93	99
1954-55	98	89	91
1955-56	90	87	97
1956-57 I	89	89	100

Net Investment in U K

A RECENT White Paper had shown that in the U K, prices had risen since the war mainly because home costs had risen faster than the national output. The latest National Income Blue Book has given some further details of this process, as also making available for the first time official figures which divide the total fixed investment between capital consumption and net investment in the U K, for 1938 and 1948-55.

In 1955, wages and salaries comprised two-thirds of total home costs. Gross profits i e profits of corporate enterprises before taxation, depreciation or allowance to reserves—these reserves are the main sources of funds for new industrial investment—make up one-fifth of the total home costs. Other incomes make up the rest of home costs.

Between 1954 and 1955, total home costs per unit of output rose faster in 1955 than in 1954. While in 1954 wages and salaries per unit of output and profits per unit of output rose by about the same amount viz 2 per cent, in 1955 wages and salaries per unit of output rose by as much as 5 per cent as against a 1 per cent rise in profits per unit of output. The rise in wages and salaries is common to all industrial sub-groups—manufacturing, mining and quarrying, building and contracting, and electricity, gas and water.

This position compares unfavourably with the recent report by officials on German competition which suggests that between 1950 and 1955 labour costs per unit of output in manufacturing industry rose by more than a quarter in the U K and only about 2 per cent in Germany. From 1954 to 1955 they do not appear to have risen in West Germany.

Every year since the war there has been an increase in the volume of resources put into fixed investment (i e excluding stocks. Part of this is to offset capital consumption (the using up of assets by wear and tear and obsolescence). The rest, net investment, is the real addition to capital assets. By excluding housing from the data relating to capital consumption and net investment, it is possible to get an approximate idea of what may be termed "production" investment. The main conclusions are:

(i) By 1950, total net investment had recovered to 93 per cent of 1938. By 1955 it was 37 per cent above 1938.

(ii) By 1955, net investment in plant and machinery was 152 per cent higher than 1938.

(iii) In 1955 net investment in housing was only 88 per cent of 1938.

(iv) As an inevitable concomitant of a growth in the stock of capital assets, capital consumption in 1955 was 40 per cent higher than in 1938.

(v) As a proportion of national income, net fixed investment was 6 per cent in 1938 as well as in 1946-52, but 8½ per cent in 1955.

Heavy Machinery Plant for Durgapur

TO build a heavy engineering works in the vicinity of Durgapur, West Bengal, a new company is being formed with British and Indian interests. The Associated Cement Co. Ltd., of Bombay, and Vickers Ltd., and Babcock & Wilcox Ltd., of London, have concluded arrangements for the formation of this company which is to be known as ACC-Vickers-Babcock Private Ltd. (AVB).

The new company plans to build a heavy-engineering works to manufacture cement-making machinery, mining machinery, large pumps, heavy gears, steam generating plant of all types, pressure vessels, cranes, and mechanical-handling equipment. Construction of the AVB works will begin as soon as the Government of India's approval—now being sought—has been obtained.

Tata's Contribution to Training of Engineering Personnel

HOW far has Tata Steel Works been able to carry out Jamshedji Tata's injunction "Let the Indian learn to do things for himself"? A sympathetic American observer who has been studying conditions of industrial labour in this country but would not care to be dubbed as a labour economist was puzzled somewhat that after being the pioneers in the manufacture of steel and nearly half a century of experience, the company should have to depend on foreign technical assistance so heavily in carrying out expansions to their plants, however large the expansion might be. This is not a studied observation but a first thought. Perhaps the answer is that the type of technical assistance that is needed for the expansion of plant capacity that has now been undertaken cannot be developed except by a country which has made much greater progress in steel making, at least quantitatively, than we have done.

Development of steel technology labours under certain handicaps which are not often realised. For a variety of reasons it has to be a slow process. For one thing, new techniques are costly; they cannot be developed in a laboratory. Even pilot plants are not enough for only a plant of minimum capacity may be expected to remove the errors of radiation losses etc, cases where rules of similarity can be applied are very rare. That is, where, say, a 1/10th scale model can be used for quantitative examination of changes which occur on the industrial scale are not many. So, much of the research has to be carried out either in the plant or on a scale which is not too different. This raises expenses and resources available to managements, even in the most prosperous units, are not adequate for their needs. From the stand point of technique, the result is conservatism. The tendency is to favour construction of conventional plant rather than run the risks inherent in developing new processes. Indeed conventional processes have been gradually perfected—empirically—over several decades to such a state that isolated changes can hardly fail to be harmful. Even under these handicaps, advances in steel technology are so remarkable that the Economic Commission for Europe has found it worthwhile to publish annual reports on the subject!

To what extent these impediments to experimentation and new developments in technology have stood in the way of turning out steel men of the required calibre who can undertake independently large scale projects of construction is a question that can be answered only at the highest technical level. If we have not come up to that level, it does not follow that the founder's injunction has not been carried out by Tata Steel Works. In fact the Jamshedpur Technical Institute, which celebrated its 35th anniversary this week has been a perennial source of supply, and a very fruitful source, of trained personnel of high calibre, not only to the Tata's and other engineering firms all over India but also to Government departments. By turning out a large number of qualified Indian personnel to take over key jobs, the Institute has certainly helped to fulfil Jamshedji Tata's injunction. When the Institute started, the Tata Steel Works employed some 250 foreign technicians. Today, this number has dwindled to a mere half a dozen, largely due to its effort. This is no mean contribution by itself, but it by no means gives an adequate idea of the total contribution..

Junior Supervisory Staff

IN its pioneer work in the early days, the Jamshedpur Technical Institute had a humbler mate, whose services should also not be forgotten. It was the technical wing of the National University set up in the early days of the Swadeshi movement, the wing that survived the frowns of the Government of the day. It has now developed into a full fledged University and is contributing its share to the training of technical personnel. An essential and an important part of the programme of expansion of manufacture of steel is the training of technicians on a scale hitherto unimagined but which may soon prove totally inadequate, if the target of steel production has to be stepped up at the rate contemplated in the Third Five Year Plan. In the programme of training now being undertaken on the recommendations of the Engineering Personnel Committee, 8 out of the 18 new degree colleges and 29 out of 62 polytechnics are to be set up in the Eastern Zone—West Bengal, Bihar, Orissa and Assam. The Ministry of Education of the Government of India has accepted these recommendations which are now being implemented.

It is easier, however, to open new engineering schools and colleges than to provide facilities for practical training for the trainees, whether they are diploma holders or graduate engineers. Engineering establishments have little spare capacity for the purpose and attempts are being made by the Ministry of Iron and Steel to utilise what spare capacity there is, by farming out trainees among them. The problem of training up for junior supervisory positions is the hardest, if only because the number to be trained up is so large. The magnitude of the problem may well be inferred from the numbers who are being sent abroad by the Ministry of Iron and Steel to Soviet Russia, U S, U K and Germany.

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Forward Trading in Jute and Jute Goods to be Resumed

A CRYPTIC press note from New Delhi has announced that Government has accepted the recommendation of the Forward Markets Commission that forward contracts, of the specific delivery type as well as others, in raw jute and jute goods may be permitted within the city of Calcutta and nowhere else in India. It was four years ago that Government suspended forward trading in Calcutta after there was detected a very large volume of speculative transactions of a nature detrimental to the industry. All sections of the raw jute and jute goods trade suffered to varying degrees as a result of this continued ban on forward trading in the last four years. Perhaps the worst sufferers were the raw jute interests. The Forward Markets Commission visited Calcutta more than once, and held discussions with the Indian Jute Mills Association and raw jute interests. The end is now almost in sight, and before long, the regular exchange should be functioning and when a properly organised exchange starts, working, it is fervently hoped that the disreputable Katni market will wither away. But these four years have given the Katni market both experience and strength. It is only if the numerous big interests in the raw jute and jute good sections turn deliberately away from it that the Katni market will weaken, and eventually come to an end.

The press note adds that while the East India Jute and Hessian Exchange Ltd, the largest and best organised of the jute exchanges of Calcutta, has been recognised, the final sanction before transactions can commence is conditional upon this exchange previously adopting such Articles of Association as would satisfy the Commission. During the last couple of years, there have been a series of meetings on this very question, and one wonders how the Commission could recommend, and the Government accept the recommendation, that forward trading in jute and jute goods be allowed and that East India be recognised, without previously approving the Articles of Agreement of East India, specifically the provisions relating to the representations of the various interests on the Exchange and the terms and conditions of business, including the safeguards and emergency provisions? This is like putting the cart before the horse.

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Baghdad Pact Lingers On

PANDIT NEHRU may be hasty in his inference that SEATO and the Baghdad Pact are to be regarded as casualties of the aggression against Egypt by Israel, Britain and France. There is no doubt that Muslim members of the Baghdad Pact are embarassed over the aggression in Egypt. At the recent Teheran Conference, they have condemned Israel, Britain and France as aggressors and have demanded the withdrawal of foreign troops. But Turkey, Iraq, Iran and Pakistan do not seem opposed to the continued existence of the Baghdad Pact. They have not explicity disowned Britain, though they have been strong in their condemnation of the Anglo-French aggression against Egypt. Britain has lost prestige in the Muslim world, while America has gained ground in Arab States.

Turkey was the ostensible sponsor of the Baghdad Pact as an alliance of west Asian States against Russia. Britain entered the Pact to maintain its defence commitments to Iraq as well as to strengthen a military alliance aimed against Russia. Iran was cajoled into the Baghdad Pact because of her strategic position. So was Pakistan. America welcomed the formation of this northern tier of defence in west Asia against Communist Russia, but did not become a full member of the Baghdad Pact. This Pact was resented alike by India and non-participating Arab States on similar grounds. India and these Arab States are opposed to military alliances for two reasons. One is that these alliances do not ensure, but disturb peace in the regions concerned. No less significant is their other objection that such regional military alliances are exploited by outside Powers to maintain their spheres of influence in the regions concerned.

Both Britain and Turkey have tried to exploit the Baghdad Pact for perpetuating their influences in Arab States. These attempts have had the opposite effect. Arab States of west Asia are suspicious of the designs of both Turkey and Britain. With the possible exception of Iraq, Britain has now no friend in the Arab world. To Turkey, even Iraq is not friendly. Cairo has not only succeeded in resisting Ankara's efforts to dominate Arab States. President Nasser has won Arab States to his policy of freeing west Asia from British and Western domination. Simultaneously, Britain's policy to Cyprus has antagonised Turkey. Not only has the Baghdad Pact offered Russia the opportunity to enter the West Asian scene, it has consolidated Arab States in their opposition to Turkey. The Pact may linger on. But it is not likely to remain in active existence.

"Ike" Again

AMERICANS like "Ike". Mr Eisenhower's victory in the Presidential elections was expected. But disturbing developments in Egypt and Hungary immediately before the elections may explain his landslide victory. No other President, with the exception of Franklin D Roosevelt, has been as popular or as respected in America in this century as Eisenhower. Despite his recent ailments and the political complexion of his running mate, the American people have voted Mr Eisenhower back to power in the belief that he is better fitted to preserve world peace and to maintain American traditions and culture. Mr Eisenhower's attitude to developments in Egypt and Hungary has enhanced his prestige with the American people.

Mr Eisenhower is a soldier-statesman. Not only the American people, but the world outside has had more than one occasion to appreciate his restraining influence on his Secretary of State and on Pentagon. Even as he is widely respected as a man of peace with honour, the American people have voted him back to power because they have confidence that, in the event of a global war, Eisenhower is the best President that the country can have. There are few statesmen in America or in any other country who can, like Mr Eisenhower, be regarded as the best choice for peace or for war. Mr Adlai Stevenson has many qualities. It has been his misfortune that twice he has had to contest the elections against Mr Eisenhower. Tradition is against his nomination for the Presidency for the third time, even as it is against a third term for the same President. This is all the more unfortunate for Mr Stevenson.

Mr Eisenhower has been the people's choice for the second term. But they have not voted the Republican Party back to power. Both the Houses of the Congress are now controlled and dominated by the Democrats. This is an unmistakable evidence of the American voters' political maturity. They like "Ike", but they have no faith in the Republican Party. This verdict of the American people will be endorsed by the outside world. In the last two years, Mr Eisenhower has shown that his foreign policy is not influenced by the Right-wing of his Party. In the next four years, he will have to depend on the Democrats for carrying on his administration. There will have to be an unofficial coalition Administration in America for the next four years. This may create certain conflicts in President Eisenhower's domestic policy. But the consequences of such an unofficial coalition on Washington's foreign policy for the next four years will not be unwelcomed by those people or countries who adhere to the principle of solution of world disputes through negotiation.



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J. R. Lowell.

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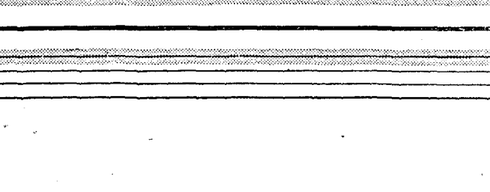
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Letter to the Editor

Time and the Choice of Technique

THE article in your issue of September 15 by Mr Chakraborty on 'Time and the Choice of Technique' raises a point of great importance, but his conclusion appears to be standing on its head.

If two types of plant promise the same annual surplus of value of output over current costs (gross-return) per unit of initial cost, while one is more durable than the other, clearly the more durable is to be preferred. The advantage of the more durable plant shows itself in lower ratio of amortisation to gross output, and so a higher rate of net return on the investment. About this there is no disagreement. But in such a case there is no question of a choice of technique. In getting a more durable plant at the same cost as a less durable one we are getting something for nothing. The question of choice arises when there is a cost of durability, that is when the less durable plant has a lower initial cost, so that, it promises a higher annual gross return per unit of initial cost over its life.

Suppose that, of two plants each costing 100 to instal one promises 15 of gross return per annum for 10 years, and the other 25 for 5 years. Then each can be amortised over its life (the first at the rate of 10 per annum and the second at the rate of 20 per annum) while yielding a net return of 5% on its initial cost. If we neglect interest the two plants offer equally eligible investments. But interest cannot be neglected. Looking at the matter from the point of view of a private capitalist, interest on the amortisation fund has to be considered. Looking forward to the end of the fifth year if an investor has chosen the short-lived plant, he will have a capital of 100 in liquid form available to be reinvested in equipment representing a new incarnation of his capital, and he will have enjoyed 5% per annum on 100. plus interest on the amortisation fund, which will have gradually risen to 100 over the five years. If he has chosen the long-lived plant he will have a capital of 100, half in the form of the unexpired life of his plant and half in the amortisation fund. The amortisation fund will have risen only to 50 over the five years, and will have brought in so much the less interest. Thus the shorter-lived plant is the more promising investment, and its advantage is greater the higher the rate of interest.

When we look at the matter from the point of view of the national economy, we have to consider the annual contribution to amortisation funds as part of the national savings, representing resources available for investment. The return on investment is the increase in national product which additional capital makes possible. That part of the gross return on new capital which is not yet needed to replace it is invested in further new capital which yields a real return. When the time comes to replace the first incarnation of the capital there is a draft upon the real investible resources of the nation, which have meanwhile been swollen by the product of the investments that have been made out of the amortisation fund. Thus in the national calculation the real return on the investment of the amortisation fund plays the same role as the interest received on it in the private calculation.

The national return on investment is not a very precise concept, but in a developing country suffering from acute shortage of investible resources it must be very high. The higher this rate is considered to be, the greater the importance that must be attached to a high ratio of gross to net yield on the investment being planned today. This surely, is only common sense?

Looking at the question in terms of the capital-to-output ratio, the only way to compare capital ratios for techniques which require investments of different lengths of life is to reduce them each to terms of a perpetual investment (the initial capital of each kind being replaced, out of its own gross earnings, in a succession of new incarnations at the end of each period of working life). The true capital-to-output ratio in each case is the ratio, not of initial cost, but of the capital committed, to the rate of output. The capital committed, if we neglect interest, is simply half the initial cost, whatever the length of life of each incarnation may be. But when interest is taken into account, the ratio of capital committed to initial cost is greater the longer is the expected length of life of each incarnation of the investment. Longer-lived plant (compared to shorter-lived) represents a heavier investment, and can be justified only if it promises a correspondingly higher net return.

In any concrete case, of course, to work out the true social cost and the true social net return on any particular investment project is extremely complicated and must involve a great deal of rather rickety guesswork, but the above argument at least points to the sort of considerations that have to be taken into account.

Joan Robinson

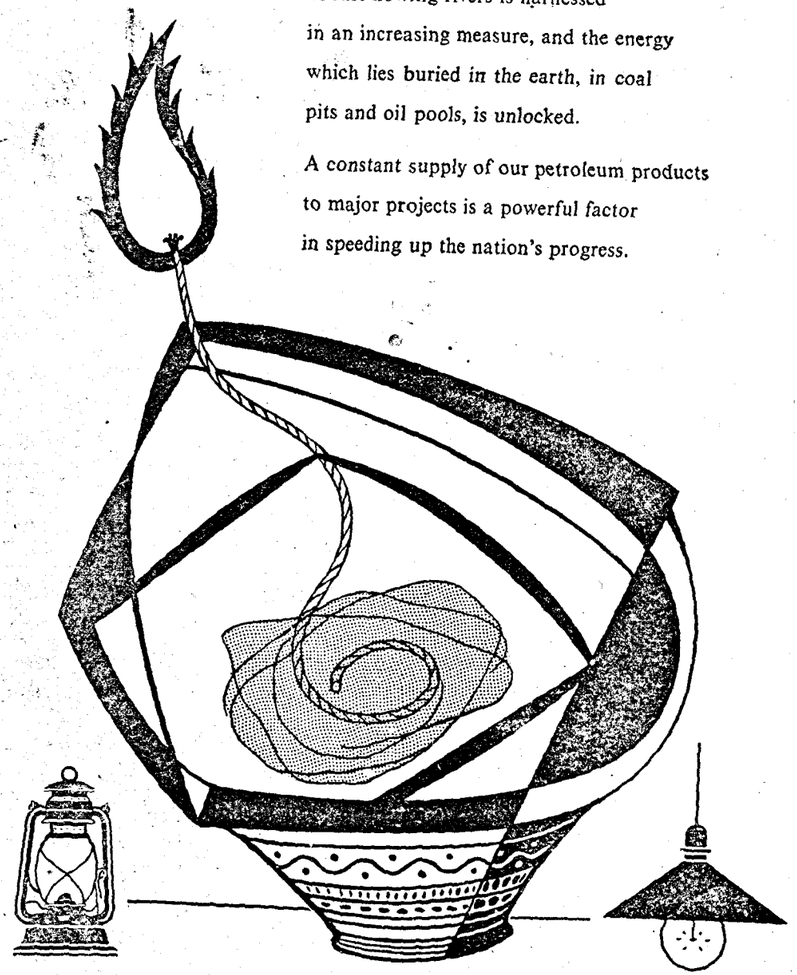
62, Grange Road,
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From the London End

Eden's Forest Fire

THE public and parliamentary revulsion to all that has been done in the name of Britain has now been transformd in a unique manner into one of the most devastating attacks on the Prime Minister—an attack even more bitter and widespread than that which led to the downfall of Mr Neville Chamberlain in 1940. The cry is being made that "Britain's name is suspect, because Eden is suspect". The largest demonstration ever seen in Trafalgar Square since the days of the hunger marches in 1932 was organised at a moment's notice on the slogan "Eden must go and go now!" The forest fire which Eden claimed would develop in the Middle East is now sweeping British public opinion against him (and most remarkable of all not against his Government). Few British Prime Ministers have inflamed the public more than Eden.

It is gradually being revealed that each and every concession he has made to the United Nations was not the result of deliberate policy but of pressure from his own party and the British people. Never has the Government of the United Kingdom shown a greater bankruptcy in policy and action than now. And even then, whatever cohesion and unity was being maintained in the Cabinet, it was the result of Eden's threat (to his colleagues and his party) to request the Queen for a dissolution of Parliament and to call a general election—a prospect which every Tory knew could spell the end of Conservative rule for years to come. And so by concessions and threats he has managed to hold the reins of power. For how long? The **Economist** states that while "judgment on the Prime Minister is held suspended for the moment" the question of alternatives is being put "in the political corridors." It is certain that before the year is out Britain will find itself with a new Prime Minister. In Tory circles the name of Mr R A Butler is held high—he led the Cabinet revolt which resulted in the cease-fire in Egypt and it was he who recognized the threats contained in Bulganin's note. But even this choice is not certain. The powerful Lord Salisbury may have other choices in mind, particularly that of Mr H McMillan—a man who has supported Eden's adventures fully. The conflicts between the leading Tory personalities may thus make a general election inevitable.

Britain's Oil Supplies Now

The recklessness of Eden has resulted in those very jeopardies which the Anglo-French action was allegedly designed to avoid. The Suez Canal is now unlikely to be navigable for six months. More important, the supplies of oil to the United Kingdom and Western Europe have been seriously jeopardised. The seriousness of this latter prospect is indicated by the decision of the British Government to impose a ten per cent cut in oil consumption and rationing. United Kingdom's dependence on Middle Eastern oil cannot be exaggerated. Of the total Middle Eastern output of 162.5m tons in 1955, just under 50 million tons were produced on British accounts. Britain's net imports amount to over 33m tons a year and by far the greater proportion of these imports arrive from Kuwait, i e through the Suez Canal. Iraqi oil, which is supplied through pipe lines to Syrian ports, has been seriously damaged and Saudi Arabia has refused to supply oil to British tankers. The magnitude of the disruption in oil supplies that can result from the Middle Eastern war can be gauged from the fact that of the 146m tons exported from the Middle East in 1955, nearly 72 per cent came through the Mediterranean—65m tons in tankers through the Suez Canal and 40m tons through pipe lines to ports in Lebanon and Syria.

The quantity of oil that is stored in the United Kingdom has not been revealed for security reasons. It has, however, been estimated that United Kingdom's stocks amount to no more than 6 to 8 weeks' supply. With the Canal blocked, the pipe lines in danger and the American attitude far from clear, a quick and acceptable solution to the problems of the Middle East would appear to be the only feasible line of action, for any British Government at the present time. Asking for a quick solution from a Government led by so adventurous and stubborn a Prime Minister must depend in the final analysis, on the extent to which the Government itself can be extricated from the whims and fancies of such a leader.

This is by no means the only problem. The British dependence on the Middle East can also be gauged by the distribution of British's control over the various international sources of oil and petroleum. The British Petroleum Company's aggregate control on oil sources is concentrated wholly in the Middle East. None of the other major American and Dutch companies have all their eggs in the Middle Eastern basket. In the following table the stakes of the various oil companies in the Middle East are given in relation to each of their stakes in the total world supply of oil. It will be seen that the American companies—Gulf oil, Standard oil, Texas and Socony Mobiloil, each possess less than half of their total control in Middle Eastern region.

Stakes in the Middle East

British capital investments in Middle Eastern oil amount to about £ 200M and the easiest way in which this sizeable volume of British assets can be reduced to dust is to lose the confidence and support of the Arab peoples. This is precisely what the Anglo-French action has led to. In all, the irresponsible action of the British Prime Minister has been a spectacle which finds no parallel in the history of British Government.

(1955 output in mns of metric tons)

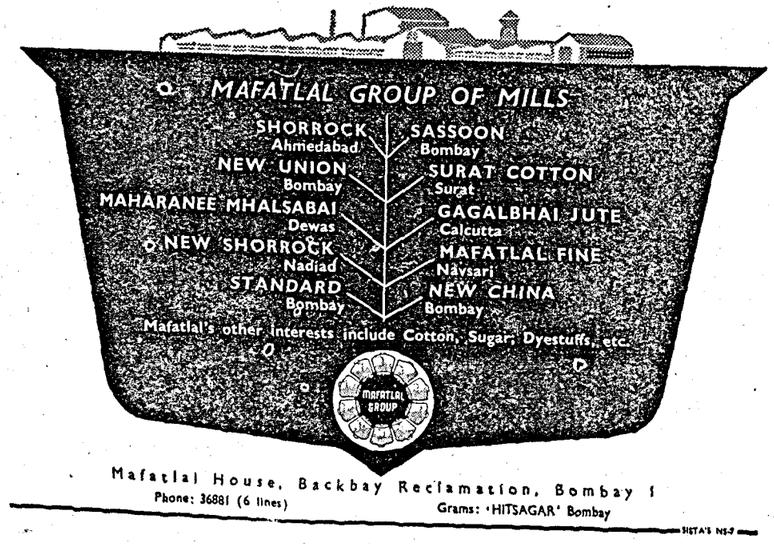
Middle East:	BP	Gulf	(RD)Shell	SO(NJ)	SO(Calif)	Texas	Socony Mobil
Kuwait	27.4	27.4	—	—	—	—	—
Saudi Arabia	—	—	—	14.2	14.2	14.2	4.8
Iraq	7.9	—	7.9	4.0	—	—	4.0
Iran	6.4	1.1	2.2	1.1	1.1	1.1	1.1
Qatar	1.3	—	1.3	0.7	—	—	0.7
Rest of ME	0.4	0.2	0.4	—	0.8	0.8	0.3
Total Middle East	43.4	28.7	11.8	20.0	16.1	16.1	10.9
Total World	43.4	48.4	78.9	111.6	37.6	45.4	31.9



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Official Papers

Two Valuable Judgements

Community Developments in India. Report of a Survey by M L Wilson. C P A, July 1956 Pp 30.
A Critical Analysis of India's Community Development Programme. By Carl C Taylor. C P A, September 1956. Pp. 62.

Reviewed by **Evelyn Wood**

BOTH these Reports are written by distinguished, professional men of long experience who were invited to make their comments by what is now the Ministry of Community Development. Both men did so as Ford Foundation Consultants on *Community Development.* Their approaches to the Community Development Programme promoted by the *National Extension Service* are very different. Mr Wilson has been associated with the United States Extension Service for over fifty years; he thus looks at the situation in India primarily as one interested in Extension as education for economic improvement. Dr Taylor, on the other hand, has the more analytical view of a rural sociologist, and tends to see the programme as the controlled building of a more orderly kind of society.

Mr Wilson's observations were made during field-trips in March and April 1956, in which he visited 9 States, 17 Extension Training Centres, 19 Development Blocks either of NES or Community Development type, 35 villages and talked with about 40 gram sevaks. He has been in India before. In the winter of 1952-53, when he visited 6 States and 7 Extension Training Centres. Thus his observations were to some extent grounded to form an estimate of growth during the three intervening years.

Dr Taylor's study took much more time. In a full year from July 1955, he visited 14 States, 40 Development Blocks and 150 villages; and he talked with 10 "District Officers", who were probably the Planning Officers for Development, the States' Development Commissioners, and in the field with Block Development Officers, Extension Specialists and gram sevaks, besides village people themselves. Dr Taylor, too, had previously spent six weeks here in early 1953, and seven months from April to October 1954. His examination must therefore be more cumulative.

In their earlier pages, both men adopt the diplomatic manner of lavishing compliments on the magnitude, intensity and effectiveness of India's programme of Community Development through Extension processes. It is this characteristic of Mr Wilson's reports which was picked out for Press comment, while Dr Taylor's equally laudatory document has been publicized more for its critical content. In fact both men are actually critical of the whole structure of the Extension Service in India as a tool for rural development, which they see in different forms. Both men are repeatedly insistent that the gram sevak must be primarily an educator, and they see that there is a strong tendency to burden him with so many other duties that he does not get time to fulfil his educational function.

Both men are particularly critical of the Social Education Organisation, which bears more directly on Community Development, as such. Both men notice the need for some basic knowledge of the social sciences to be part of the training of all Extension workers. Dr Taylor, on page 50, is rather less specific about this, but his feeling that such knowledge is not in fact being acquired or built up seems to be the more intense. But Mr Wilson's page 14 is quite specific on this point.

A third, perhaps equally distinguished (but not so venerable) American social scientist, who has spent much time in India, has questioned the soundness of this rather fulsome manner of reporting on development to the Government of India. He suggests that when the appetite for foreign flattery has been satiated, there may remain no digestive capacity for the criticism. Further pursuit of this analogy would trespass on medical science.

Forms of Development

Mr Wilson on pages 22-23 puts his finger firmly on the only means of developing these useful forms of private enterprise in villages. Dr Taylor's comments on pages 60-61 are equally illuminating. Both men call for much more sharply defined working concepts of what co-operatives are, but of course Dr Taylor throws the net wider, as is natural to a sociologist. One very useful suggestion, for what he calls a "farm plan" appears on Mr Wilson's page 24-25; in several places besides this, he is particularly lucid about organized credit. From page 26 onwards, Mr Wilson draws parallels between the American and the Indian use of Extension as a means of community development which may be overdrawn; only time and the more careful studies of social anthropologists will be able to tell.

At the very end of his Report, Mr Wilson makes welcoming references to the Programme Evaluation Organization and to the National Centre or Institute for higher studies and training in the field of Community Development. He interprets both these as signs of great health and flexibility in the Indian programme of development. By this Institute he possibly means the National Institute for Fundamental Education, recently established by the Union Ministry of Education. Oddly enough he does not refer to the ten Institutes for Higher Rural Education which have also been recently promoted by the same Ministry. These Institutes seem to have been referred to by Dr Taylor on page 33, but he does not anywhere mention the Fundamental Education Institute.

Of course the subject is so vast that no person, however expert, can cover every aspect of India's programme of rural development. In fact the "uniqueness" of the Indian programme to which both men frequently refer, is characterized by the fact that the NES is supposedly ready to tackle any aspect of village life and work in which it appears that village people are ready for improvement. In other countries, Extension is a more limited process of education; in the United States, for example, confined to Agriculture and Home Science. But here, in India Health has at least equal importance in Extension teachings. Political mechanisms, children's education, physical communications and such industries as will fit into the rural pattern are all part of Extension's load in India, which is not the case in other countries. Without doubt, the range of subject matter as well as the numbers of population involved make India's the greatest social experiment in all history. (Taylor pages 58-59).

Dr Taylor's Strongest Points

Provided the massive evidence produced in Dr Taylor's paper is absorbed and not allowed to pass undigested, it can give an enormous lift to the whole process of rural development through Extension. This is the most important study of the process yet produced. It is not easy reading, but anyone interested in the subject should give it close attention. There is too much to compress in a brief notice. This reviewer can do no more than list the major points, which are constructively raised in great detail.

Working with Groups

It is found that systematic group-teaching is little practised; progressive individuals are chosen to experiment with, when introducing improved practices (pages 11ff.). Techniques of group-working seem to be unknown. Therefore progress is slow and the new groundwork is insecure (pages 19, 29, 30). There is a tendency to work with any villager who is offered as a "leader", without considering his actual position of influence; the natural uprising of leaders from groups with which Extension works is not considered (pages 17ff.). In these respects there is no improvement in the NES since 1953 (page 18).

Dr Taylor says that the group-working and leader-discovery techniques are more successfully practised in other countries where rural development is pursued. He repeatedly refers to a body of experienced knowledge from which India should draw, but he discreetly avoids naming actual sources (pages 5-55 and 62, final paragraph). In fact, at the foot of page 6, he rather ostentatiously ignores the example of Pharaonic Egypt—and modern Russia! Perhaps this is wise.

He draws useful distinctions between propaganda and the more controlled, two-way channels of communication (pages 7 and 11). The paragraphs bridging pages 11 and 12 are worthy of being written in letters of fire over every Development Block Headquarters. Oddly enough Dr Taylor misses what seems to this reviewer to be the most vital of all motives which drive today's village people in India. This is the weariness of their position of inferiority, so long accepted, which they now express. The positive side of this is the new hunger of villages to be treated with more respect by townsfolk. Village people want to be valued for their good points of skill and knowledge at work, and their ethics of the home. They do not ask for respect towards their social organisation; in this they know themselves to be bad. Dr Taylor does not seem to see the burning need both for good repute, and personal satisfaction in work and home-keeping which are perhaps the strongest driving forces acting on village people today.

Selection and Training of Extension Workers

On the training of all cadres in the NES, Dr Taylor has many practical recommendations, chiefly based on importing current field experience into the Training Centres (page 20 ff.). But, strangely enough, he does not mention the alternative of carrying on the training in the village-field, with villagers helping as trainers. Yet this has worked well, in the reviewer's own experience.

At the District Headquarters level, Dr Taylor finds the weakest link in the programme (page 25, and considers that more technical officers are essential. At the Block level, the selection and training of BDO's is poor (pages 23 and 30); and the Social Education Organisers are vague and unplanned (pages 30-32). It is likely that he leans towards the upgrading of selected gramsevaks for most Block Level and District Extension jobs (page 33). This reviewer would agree completely; but is surprised that the factor of vocation for working with villagers is never mentioned.

Continuous Evaluation of Programme

Dr Taylor's comments on the Programme Evaluation Organization (pages 48-49) are pregnant with creative possibilities. This page cannot be quoted, but must be read in the original. His wider plea for more employment of social scientists in the Programme (page 50 ff.) is almost equally exciting. But will the plea be admitted by implementation?

Last, but not least, Dr Taylor is the only foreign observer whose comments have been read by this reviewer (a voracious reader) who admits that scientists have much to learn from village people in India. (page 58). Perhaps this justifies all the flattery of his Report.

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A Quarterly Magazine of Asian Affairs

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Book Review

University Extension and Workers' Education

Labour and Learning—Albert Mansbridge, Oxford and N.E.A. by M. P. Smith. Basil Blackwell, Oxford, 1956. Pp 92, Price 7s. 6d.

Reviewed by **S D Punekar**

THE scope of this little book is very limited. It restricts itself strictly to the role of the Oxford University in the movement for workers' education. This limitation has its merits and defects. The part played by Oxford teachers like Jowett, Gore, Zimmern, Ball, Marriott, Turner, Acland, Green, Toynbee, Brown, Collier, Smith and many others is traced in hazy details. Same can be said about Albert Mansbridge, the founder of Workers' Educational Association, and of the two Americans (Vrooman and Beard) who established the Ruskin College. The author has collected no doubt a lot of information, but his insistence on centering it on the Oxford University only has made the picture somewhat lop-sided. A history of workers' education in Great Britain or a biography of Albert Mansbridge would have been more readable.

There is considerable avoidable repetition and the author seems to be fond of quoting extensively from speeches and reports. Unfortunately some of the quotations do not exactly fit in the context. If the book is written for a lay reader, it appears that much has been taken for granted. Names and events without previous references are paraded before him. The confusion is heightened by the lack of chronological narration. The book opens with the Oxford Report of 1908, goes back to the establishment in 1903 of the WEA, comes to the Central Library for students (1916), returns to the establishment of the Ruskin College (1899), and then jumps back to the middle of the last century when the working Men's College (1854) and Toynbee Hall were founded.

Workers' education, and particularly the work of the British universities in that field, provides considerable material for a fascinating tale. The first school for workers was started at Glasgow in 1800, and was followed twenty-three years later by another school in London. An important step was taken by F D Maurice when he founded in London in 1854 the Working Men's College. The credit of starting the University Extension Lectures goes to the Cambridge University, which began its extra-mural work in 1873. Oxford followed in 1878 and ten years later, instituted resident summer meetings. The modern phase of workers' education in and by universities began from 1899, when two American students founded the Ruskin College, as a residential institution affiliated to the Oxford University. Then came on the scene Albert Mansbridge, a missionary in the cause of workers' education, who founded the WEA and sought support of the universities. Another important step was taken by the Oxford University in 1908 when it organised the first tutorial class. In the next year, a number of socialist students of Ruskin College organised in the Plebs League revolted against neutrality in teaching and aided by a majority of alumni, founded the Central Labour College, with marked Marxist leanings. The College and the League had to shift to London for further progress.

Most of these events have taken place outside Oxford and hence have been left out in the book under review. The University of Oxford has no doubt played an important part in workers' education and due credit should go to it. However, London and Cambridge should not have been overlooked even in a book dealing with Oxford.

Two facts stand out in this book —first is the mission of Albert Mansbridge and second is the clash between labour and learning. Mansbridge, the great little man, the son of a carpenter, made workers' education his life's mission. He started his life without any apparent advantages, left school to be an office junior and led the life of a middle class intellectual. He scrupulously shunned politics, glory and wealth but was active in the field of co-operation, religion and education. In 1903, he organised the National Association for Promoting the Higher Education of Workingmen which later became the Workers' Educational Association. The Association drew its support from adult education schools, trade unions, working men's clubs, co-operative societies, universities and public spirited individuals. Its original aim was to bring together workers' organisations and to equip the workers, whatever their occupation for life would be, for the work of citizenship. The education was to be of university standard and hence Mansbridge sought the aid of the universities and of public authorities. The technique and organisation of adult education required the assistance of university trained teachers and hence the universities were requested to assist in the maintenance of the standard of education, though the choice of subjects and of tutors was left with the students. Mansbridge succeeded in enlisting the support of the university authorities mainly because of his missionary spirit and his genial, non-partisan and religious nature. It was not uncommon to see bitter political enemies willingly co-operating with Mansbridge in the WEA. The following passage (p 68) reveals this interesting aspect:

"Perhaps the most interesting gathering of all was that which met at Mr Mansbridge's lodgings in Wellington Square on the evening of the conference. The bishop and a number of workmen were staying in the house and they were joined by one friend after another who dropped in for a talk. Most branches of education were represented: Whitehall (which sat on the window-sill), Cambridge in the person of a Fellow of Trinity, the Oxford professoriate, and the elementary teacher; there was capital in the shape of a London banker, and there was labour galore (in both sexes) . . . Wellington Square is not perhaps the place a romance-writer would select for his vision of Utopia; but that night at least it seemed a 'centre of the intellectual aspirations of the whole community'."

Mansbridge gathered around him a band of sincere workers wholly devoted to the cause of workers' education. There was, for example, Phillip Brown, (p 40) who put in exceedingly hard work in the WEA for an extremely small salary. He had many offers of easier work, more ambitious openings and much higher

salaries. He refused them all, because he wished to devote himself to the work that he considered most important, the work of a tutor to classes of working men. Similar was the spirit of Gerard Collier, son of a railway magnate and a peer. To such men, WEA work was not a profession but a cause.

Mansbridge's great achievement lies in smoothening the inevitable clash between labour and learning between the workers and the university, between the masses and the classes. Oxford as the conservative abode of learning for the British aristocracy could not easily welcome the higher aspirations of the lower classes. Fear was expressed that "before long the children of artisans will be in the seats of the mighty, and the sons of peers earning the minimum wage" (p 41). Threats were held out that if working men were admitted to Oxford, parents would send their sons to Cambridge! The new social order, however, was accepted and the credit goes to Mansbridge.

In India, universities have kept themselves aloof from the labour class localities and problems. The Royal Commission on Indian Labour recommended the university authorities to consider the possibility of conducting inquiries and investigations into labour conditions an obligatory part of courses in Economics. This recommendation has been given effect to only by a few universities during the last 25 years. Fortunately, however, some of the universities are now thinking of starting extension lectures for workers, though their scope is limited. The University of Bombay, for example, will soon have its first extension series for workers and the course will consist of lectures on labour problems by University teachers and labour leaders. The lectures will be in Hindi and Marathi and will be given in working class localities. Each lecture will be for 45 minutes, and will be followed by discussion. The course appears to have been modelled on the Oxford tutorial class, which was first organised in 1908.

The Oxford class admitted 20 to 30 persons, who met once a week in the winter over a period of three years. Even weekly period comprised of an hour's lecture, followed by an hour's discussion, the students undertaking from the start to attend for the full period of three years and to do prescribed written work. The classes were under the control of a joint committee consisting of equal number of representatives of the University and working class organisations. The quality of work done in these classes was often of a good university standard. Financial support was obtained from the Board of Education and from local education authorities. The experiment was successful and was followed by all other British universities. A small defect, however, crept in and that was the middle class character of education. The curriculum, mainly aiming at popularising the regular university courses, went no further than what was demanded by the middle class supporters of university extension.

It is hoped that the Bombay experiment will be successful as the first step of workers' education in an Indian University. It is based on the extension principle that if it is not possible (mainly because of financial reasons) for the workers to come to the university, the university should go to the workers to offer its benefits. It would have been desirable at this stage to form an organisation like the WEA, which would have contributed to the success of the experiment. General apathy of workers, partisan interest of trade unions, academic leanings of teachers, middle class character of education; indifference of State and of local education authorities and lack of clear objectives are some of the possible obstacles to be faced.

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Worm's Eye View

Rural Industries

(Continued from previous issue and concluded)

Evelyn Wood

SOME hand-processes produce a better article, usually in the sense that it is either more durable, or has a distinctive, individual appearance. These are the hand-processes worth further development, both because of the service which they render to the village-craftsman's pride, and because there is a large group of snob-consumers outside the villages who will pay fancy prices for such products. On the margin earned by such marketing—which should be the specific function of the official development agencies, outside the villages, and abroad—extra money to compensate the hand-producers can provide for their economic advancement, as well. The commercial principle of crediting high profits to a special development fund should be followed.

With all the qualifications previously expressed in this paper, then, here is an outline of the specific areas for development in the supplementary village industries:

1. Textiles

From the villagers viewpoint, the production of cotton, wool and silk cloth (and mixtures) must be considered as a number of separate industries. These range from the first preparation of the raw fibres to the finishing of the cloth after it has left the loom. Compatible with the principle of supporting the artisans' pride, there is little room for part-time work by hand anywhere along this range. Some individual hand-spinners may be dexterous enough to produce first-class yarn seasonally; their product will go into cloth for the snob-consumers' market. The same market can be supplied by weavers of individual designs.

Many of these latter definitely prefer using mill yarn to achieve their effects. As a conservative wearer of expensive khadi for 25 years, the writer has a strong personal bias in favour of this material. But even the finest khadi must disappear sooner or later; and the coarse varieties which sentimentally compete with plain mill-cloth should be replaced as soon as possible. The Ambar Charka may do the job of producing yarn which will compete with power-spun yarn, in cotton only; it remains to be objectively seen how the weavers accept it. To the writer, this whole experiment seems to be a process of forcing choices on village people, which will not serve their self-development at all.

Apart from those hand-producers who can improve their output to serve the snob-market, the remainder of village textile industry can become competitive in quality, and thus advance further, by taking to power-production. In this context, provided the taxpayer bears the financial risk, Mr T T Krishnamachari's theory that village operators can compete in price also, on straight economic terms, with mill-products should be tested by experiment. This should only be done where there is a village-producer's co-operative which will select one or two members to make the power-experiment. In this way alone there can be a common interest and education for the remainder of the members, who carry on with hand processes while the experiment is in progress. These remaining members must be closely associated with the control of the experiment.

Such an experiment would have the great advantage of introducing into village life a class of mechanic who is capable of servicing the power-machines; and such persons can also affect the farmers' attitudes to other machinery.

2. Other Fibre Manufactures

Exactly the same plan of development seems to be applicable to the end-products of coir, sisal, sann-hemp and perhaps jute. Village people should either be helped to make first class string, ropes and mats with machinery; or, if they make them more slowly by hand, they should cater for the snob-consumer and not for the utility buyer who shops on prices.

3. Foodstuff Processing

The preparation of foodgrains, either for the kitchen, or for direct consumption, when puffed or perched, and by reduction to flour, are all essential village tasks in India, though they have long ago entirely passed over to factories in Western countries. But a preference e g for hand-pounded rice should not be permitted to condemn village ladies to this mechanical task; this instance is a case where engineering research applied in the villages may find a way of producing the same results of more nutritive rice by a more efficient process.

Many other foodstuffs which are produced raw in the villages, need to be made fit for long storage and marketing. Such village industries would seem to be particularly suitable for part time work by the ladies. Some nuts, roots, fruits and vegetables can be preserved by drying, others need cooking. All need packing, sometimes in airtight containers. Fish and meat where produced need more knowledge of preparatory hygienic processes. Eggs can be preserved, but even if marketed fresh will yield much better returns with proper packing. All these possibilities for rural industry depend not only on co-operative organization, but also on a new understanding of hygiene and cleanly appearance by the village people who undertake them. A mere acceptance of routinized processes will not serve the aim of the self-development of village people. Given such understanding of hygiene, a far greater production of milk and milk products is immediately possible, by cancelling the wastage involved today in plain dirt.

This whole situation seems to call for co-operatives which can be slowly mechanized, as understanding of market-needs grows. The processing of sugarcane, for example, does not have to start with a full scale factory for which the taxpayer has to advance the capital. There is no reason why the indigenous processes of making gur and khandsari should not be much improved, through applied research. This may mean adding units of machinery, not at first power-driven. When a small sugar-factory is finally assembled, there is no reason why it should not manufacture gur to any taste-requiring degree of impurity, though without waste. The prized pale colour is easily secured by simple processes. This depends on the genuine consumer-demand for this traditional article. The same argument applies to

the production of honey; let the real demand be registered through normal, commercial marketing procedures, adding the modern refinements of consumer-research.

Oil-extraction presents a similar case for gradual mechanization; but in the meantime there is plenty to be done to improve the primitive oil-press, so as to reduce wastage and introduce some elementary cleanliness. At the same time experimental soap-making might be worth trying; or the manufacture of paints for that matter. But both such industries mean importing chemicals into the villages.

In this kind of industry, it cannot be sufficiently stressed that institutional research has proved valueless. Only when the technician is prepared to live and share discovery with village people is there any prospect of further development in the villages. The working skill is there, in village-homes; a village artisan in an institution always gives a false picture of his capacity in the village.

4. Leather Manufacture

As with Food, so with Leather; the raw material is available in rural areas, and should be processed there, if only to avoid waste. The question is how far beyond the improved flaying and salting of hides should the villager go. This can only be answered by starting the improvements with the above first processes, and slowly improving existing equipment, simultaneously with techniques. When quite different equipment has to be introduced, it is time to consider shifting such an industry out of the village, for social as well as economic reasons. There is no other reason why elaborate handsewn footwear and travel goods should not be produced for the snob-consumer market, as in textiles, provided aptitudes are there to develop all the intermediate processes in the village as well. Factories in the countryside seem to be the answer.

5. Plantation Crops' Processing

For some reason, probably puritanism, the essential processing of several important crops is omitted from the Khadi Board's lists (while a triviality like Bee-keeping is included). Tobacco, for example can be carried to the stage of making bidis or huqa-cut with the present implements and skill in villages; it can be a part-time job. Coffee, pepper, cardamom and coconut can be processed to a stable condition for marketing by village people. Tea and Rubber are more difficult; but where factory-machines are necessary, there seems nothing to stop the gradual acquisition of plant in a rural area by a sound co-operative.

6. Working with Wood and Leaves

Cane, Bamboo and the more solid woods, some leaves, reeds and grasses which make decorative articles, furnish excellent handicraft materials, again for the consumer to whom price is no object. An essential to the flourishing of such hand-industries is a strong co-operative system, with skilful marketing. Utility products from these raw materials may well be allowed to pass over to mechanized industry in the towns, unless there be capital to build factories for the co-operatives in rural areas. In this case, such industries become full-time and need not be in the village unless it be to save transport costs on the materials.

There is of course a possibility that demand on such craftsmen may rise from village people as soon as economic conditions improve, and comfort becomes a desired value. This is not so today; yet there is some demand for furniture as prestige, which must be met, in consistency to the need to serve village people's legitimate pride.

Workers in Cane, Bamboo and Leaves or Reeds must appear as members of the essential Industries which are ancillary to farming in areas where the preferred type of village house is made of these materials.

7. Glass & Ceramics

There is little reason to keep this group of hand-industries in the villages. The cost of transporting the finished goods to market is always greater than the cost of transporting the raw materials to the potter; the glass-worker is not quite so heavily handicapped. These are cases for the improvement of techniques and gradual mechanization, in co-operatives, which will almost certainly have to require resettlement of village-potters so as to form larger groups. It is not uneconomical to produce glazed pottery in very small units. The occupation is seasonal, and its high-priced market is proportionately small. Without glazing, the wastage is very heavy. Glass Bangles are a highly skilled product, which would probably benefit from just the same treatment of grouping. Again, factories in rural areas are probably the answer.

8. Brick & Tile-making. Thatching

It looks as if all three of these industries, which are quite separate, must meet with more demand as villages improve. Bricks can apparently be made almost anywhere; but they seem to call for applied research, so that the work may be made in every way more rewarding to the labourers. In some regions, even now, brick-making must be considered as much an ancillary to improved farming as is improved masonary work of all kinds.

Tiles seem to be a product specialized to regions which have the right clay. Research might find more such regions, associated with brick-making. But often rammed earth houses are very suitable, with a good roof, which may be of tiles. Both these industries seem to call for co-operatives, and as rapid advance as is financially practicable towards installation of better plant. The superior clay needed for tiles may also help to produce low-cost methods of improved storage for grains.

Where thatch is considered to be a good roof, it may pay to develop specialized services in the best techniques possible, instead of leaving it to neighbours to help each other. The selection and preparation of the reeds of grasses for thatching certainly seems to be worth further development through both research and horizontal dispersion of village-experience.

9. Paper Products

The market for handmade paper is on exactly the same footing as that for textiles: much greater skill and better implements are required, which can be paid for by selective marketing to snob-consumers.

10. Matches, Metal Work Etc

The industries considered in this group are those for which the raw material has to be imported into the village. There seems to be no reason why this should continue; such industries have to be mechanized in time, and might as well be pursued in urban areas. But it will always be better, from all points of view that the writer can see, to plant industrial colonies in rural areas adjacent both to the sources of raw materials, and to good transport facilities for marketing. These industries are not successful as part-time occupations; in particular match-making becomes an unbearable drudgery, and is done with

shame by villagers, for the sake of the little money it brings.

All ten groups of supplementary industries have some equipment and skills already developed in the villages. From the artisan's viewpoint, they must furnish (a) a better level of personal satisfaction in his work; (b) a better economic return for it; and (c) a more secure feeling that his product is considered to be good by non-villagers. To attain these ends, much technical development is required, and in this the village artisan must collaborate. It is very questionable how far most of such industries can offer part-time work to persons who spend most of their labour-days in the year at farming. Without this condition, the industries fall properly into the next category.

Industries Which are Wholly Alternative to Agriculture

This is the group which does not have roots in any present equipment in villages; nor are village people immediately available with the skills required.

There is no choice about some of these industries; from the character of their raw materials and processes, they have to be in rural areas. Such are Sugar and Cement Factories. Large Paper and Steel plants are probably best placed in rural areas whence their raw materials come. Transport facilities are important for factories producing heavy articles; such plants will be confined to a railway line. Whenever such a large factory is set down in the countryside, whether or not it has to be there for raw materials or other economic reasons, the owners have a two-sided social duty. They must contribute to the development of the lives of the surrounding village people whom they have disturbed; and they must provide for the spare-time occupation of the factory employees so that the village people are not offended by distinction of wealth and better opportunity.

This two-directional social duty applies with even greater force to the managements of mining enterprise—which is always in rural areas. Of their nature, the heavily capitalized mines and factories in rural areas can never belong to village people. The only exceptions to this rule are possible co-operative factories; and in this case the managements and technicians at first employed will be townsfolk, until a city-educated younger generation of villagers is ready to take over. At all times, however, the large factory owned by villagers as co-operators must observe the same social duties as the older forms of private enterprise, and also the newer forms of public ownership.

Some industries are clearly out of the immediate range of village people to staff and promote. Co-operative Sugar factories have been very successful. The Milk Products Factory of the Kaira Farmers Union at Anand, in Gujerat, is probably the outstanding example of the most complex undertaking yet attempted by Union of village co-operatives. Technical (and some financial) aid from UNICEF made this possible.

The system of "Industrial Parks" started by the Union Ministry of Commerce and Industry may prove fruitful, though it has not as yet advanced far into rural areas. It should lead to the promotion of true rural industries by skilled men, rather on the following lines. The most difficult kind of industrial venture to start in a rural area is the small factory which is run by highly skilled artisans, who have managed to collect some capital, not necessarily as a co-operative society. So far, such industries seem to have been mainly confined to the suburbs of large industrial cities. That they can move out into the villages is proved by "freak" areas where exceptional skills, materials or some other factor has enabled local development. Examples are the many small factories for agricultural implements around Batala, in East Punjab, Cutlery-production near Calicut in Malabar; and many units, mostly textile, in the Coimbatore District of Madras State. Mysore State also has many small factories between Mysore and Bangalore Cities.

Maintenance of finance, quality-standards and marketing are the principal problems of such industries. Frequently their promoters do not realise their technical deficiencies, though they are usually clear that they have inadequate skill in commercial handling of the products. It is hoped that systems of sub-contracting by the larger industrial units may support such rural factories; but a great deal of technical and business development will be required before sub-contracting will work well.

Technical Personnel for Extension of Industry to Villages

This is the problem that seems not yet to have been faced by the promoting agencies acting in concert. Engineers and other technicians are in short supply now, whatever may be the planned prospects. Starting from the essential service-industries, such as those of the Blacksmiths, which are ancillary to improved farming; and ranging upwards to the largest alternative industries of all forms of management and ownership which may be placed in rural areas, every such development will require technicians who have also the vocation and training for Extension work with village people. This is the reason why the non-economic and non-technical needs of village people have been underscored in this article.

Even when a large factory is placed for strategic or economic reasons in a rural area, some personnel have to work on cultivating village people's interests, and as far as possible in combining them with the spare-time interests of the non-villager factory workers. This is not quite a technical job; although, if villagers are to be recruited to

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work in the factory, engineering or other production-techniques will enter the scope of the work. However, this is social adjustment rather than Extension work; it can be most readily done by the same type of person.

But in all other aspects of rural industrialization, specifically Extension, technicians are required in large numbers. Part of the work of such personnel will be research into improvements of existing tools and skills, which wil have to be pursued along with the skilled villagers. Part of the Extension work will be the two-way communication job of teaching village artisans about new tools and processes, and new skills. This will frequently require communication over the barriers of illiteracy. If anything new is to be made, for example, it must be possible for the designer to make it clear by drawing and dimensioning, however simplified, so that the artisan of village origins can work to a paper specification. This skill of communication has yet to be developed in a country which has not yet accepted audio-visual teaching methods as necessary forms of communications at any educational level.

There is no doubt that the job can be done. It has been done locally by many pioneers of industry in rural areas. And no country has historically shown such skill in teaching millions through visual aids as India of the myriad sculptures. But there are signs that economic debate must end, and the administrative jungle of promotion must get down to agreement on principles. Whatever be the sector of industrial development for which each promoting agency is responsible, its personnel must all see the scope of development required by village people as a whole. Only then can the limited numbers of Extension technicians be used to the best advantage of village people. If the most efficient development agency, or that which has been longest established, gets a start on the others, industrial development in India can only be lopsided, one way or the other.

It must always be remembered that village people are not concerned with which development agency they are to work, any more than they are concerned with scientific categories of analysis. They are just as likely to take a specialist on textile machinery and tax him with questions about how to build a school as they are to look for the right PWD overseer to help them. Consequently every technician must know what is the structure of the whole of the aid in industrialization that can be offered to village folk, whether it be within his particular All-India Board or Corporation, or in some other.

A broader knowledge of the whole plan for development and the official means of executng it have to be possessed by every field-worker in contact with village people. This suggests that the administrative jungle must somehow turn itself into a civilized park, with clear signboards so that even painstaking dunderheads like this writer can find the way among the mysteries of official, and semi-official executive administration.

There now, probably that last bit of secretariatese jargon is all wrong!

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Golden Jubilee

Glorious Record of the Canara Bank
1906—1956

IT is Indian banking institutions like the Canara Bank which have enlarged their service and opened out branches, without order or directive and without any subsidy or artificial support. Again, it is Indian banks which are shareholder-owned public institutions, as distinct from State ventures, which have been rendering this useful service to the country quietly and without any drum-beating or fanfare. It is, therefore, heart-rending to find that there is no recognition of all the good work that has been done or is being done by these institutions, so vital for our economy."

—Shri C H Bhabha, President, Indian Banks' Association, speech at the Golden Jubilee of the Canara Bank, held at Bangalore.

A Child of the Swadeshi Movement

The history of the Canara Bank is a record of steady and systematic progress of an institution from a modest beginning into the high position it has gained as one of the leading scheduled banks. The national consciousness that was awakened at the beginning of this century after the partition of Bengal, and the Swadeshi movement which followed, stirred a band of patriots headed by Shri A Subba Rao Pai to undertake many nation-building activities for the benefit of the people in their area, similar to those undertaken by patriots in the Punjab, Maharashtra, Bengal and other parts of India. The Canara High School and the Canara Girls' Elementary School founded at Mangalore were the first of a series of institutions started by them.

The Canara Hindu Permanent Fund Limited

At the same time, the need to improve the economic condition of the people was also agitating their minds. This could be done, they rightly felt, by starting an institution to foster the habit of thrift and promote saving and would extend financial assistance to businessmen to run and improve their business. This became a burning desire and led them to study carefully the working of "Nidhis" of Madura and other towns of the South and to start on this model "The Canara Hindu Permanent Fund Limited." The Fund was instituted on the first of July in 1906 at Mangalore, in a rented building, with a capital of 2,000 shares of Rs 50 each. Shri A Subba Rao Pai was so enthusiastic about this Fund that he went all around, in hackney coach and bullock cart, explained the benefits of the Fund to the common people and collected shares from people of all walks of life. In fact, this was one of the first joint-stock enterprises in South Kanara.

The First Board of Directors

The first Board of Directors consisted of 24 Directors chosen not only from the different parts of South Kanara but also from the Shimoga District of Mysore. The combination of people from such distant parts of the country at a time when communications were undeveloped showed the fervour and devotion as well as the pioneering spirit of the founders.

Credit facilities in those days at Mangalore, a port of considerable importance to Coorg and Mysore, were meagre; merchants had to borrow at very high rates of interest from individuals, and no indigenous bank existed to give facilities to the common people for saving or for financing their businesses. The Fund, however, worked more for the service of the people than for gaining profits. It was so solicitous of the welfare of its clientele that it had incorporated in its articles of association a provision that a rate not exceeding 10% was to be charged for advances when higher rates were quite common. On account of its enlightened policy and because the persons at the helm were educated, patriotic and devoted to service, the Fund quickly won the hearts of the people, and gained the fullest confidence of its constituents. The proceedings of the Directors of those days show how vigilant and cautious they were, how minutely they looked into the affairs of the Fund to avoid any possibility of losses and how they strengthened the institution rupee by rupee.

Hastening Slowly

They initiated a policy of consolidation before progress. This has all along been followed and strictly adhered to by the management in succeeding years. Indeed, this has been the most remarkable feature of the history of the Bank.

There has been nothing more spectacular in the history of the Bank than the resourceful manner in which in the course of its natural growth to maturity it has adapted itself to the changing times, and played its full part in the building up of the economic strength of the people in an ever-widening area. Even the composition of the Board of Directors had been a mirror of the life around. It consisted of leading lawyers, eminent retired Government servants and talented businessmen. This harmonious blending of the different view points proved to be a great asset to the Bank and ensured its stability and steady progress.

The premature demise of Shri A Subba Rao Pai within three years of the starting of the Fund was a great blow; however the men at the helm realized that the strengthening and developing of all the institutions in the founding of which he had played such an important part was the best way of showing their regard towards his great personality; and they devoted their best attention to the "Fund" with the result that the "Fund" grew strong and, with its help business developed steadily in Mangalore.

The Canara Bank

In 1910, the Board of Directors, at the suggestion of Shri K Subramaniam, who had played an important part in the spreading of commercial education in Bombay, reconstituted the "Fund" into a regular Bank and appropriately named it as the "Canara Bank Limited."

With the renaming of the institution, regular banking business came to be conducted to the great advantage of the people. The resources of the Bank steadily increased. As per Articles of Association, the Bank had set apart as high a part of its profits as 25% towards reserves even from its inception. The Bank gained in prestige year by year, and its fame as a beneficent institution spread far and wide. Even from its inception it had been charging interest on loans at rates which were moderate in relation to prevailing interest rates and was giving every facility to merchants to develop their business. The Bank has followed the principle—In the prosperity of its constituents lies the prosperity

of the Bank. By exercising moderation and caution in advancing money, it had checked many a businessman from undertaking perilous speculation and had thus acted as a steadying force.

Economy

It is interesting to note how the Bank exercised strictest economy in its expenditure. At first the Bank was located in a small rented building paying only Rs. 120 as rent per year. Even the safe was lent by a member of the Board of Directors! Other items of expenditure were reduced to the minimum. It was only in June 1916 that the original premises were purchased by the Bank. Incidentally it may be mentioned that the General Body meetings of the shareholders of the Bank were till 1917 held in the Canara High School, Mangalore!

Facing the Crises

At the beginning of the second decade of the life of the Bank, it had to face the commotion caused by the failure of many banks in the years 1913-1914 and later the excitement caused by the outbreak of a World War in 1914.

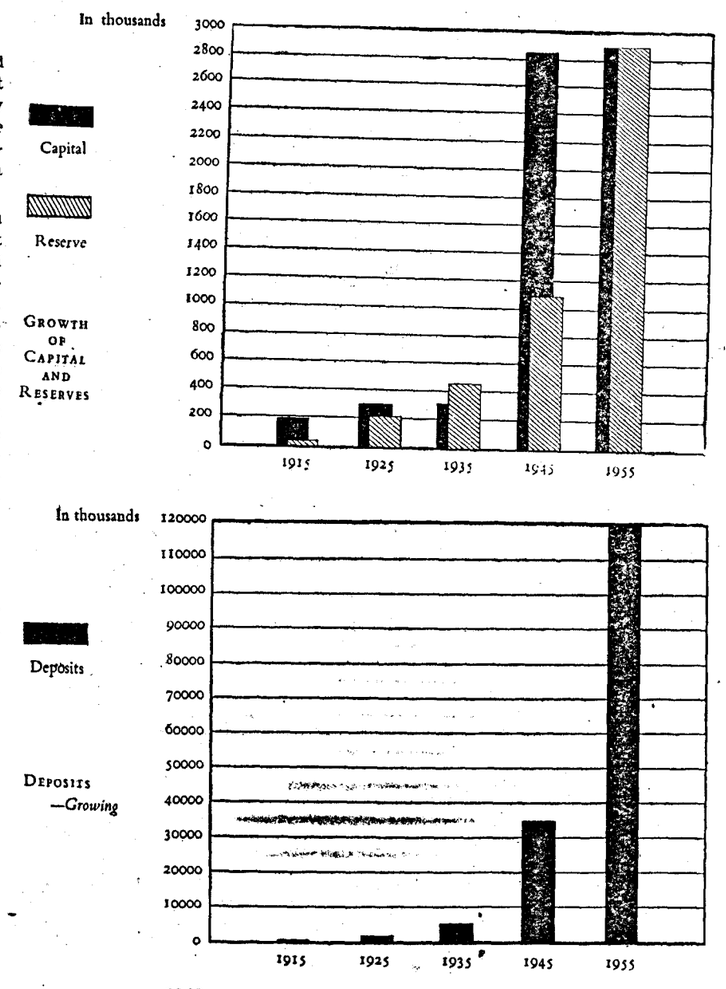
But the clientele reposed such confidence in the management that the Canara Bank not only remained unaffected by these crises but emerged stronger than it had been before. By careful scrutiny and by the best-owal of full attention to the affairs of the Bank, the Directors were able to conserve its profits and build up considerable reserves. In the report of the Directors in 1915, they have recorded "In spite of the disorganization in the financial and commercial world consequent on the continuance of European War, the business was satisfactory and progressive."

Another crisis came over the Banking World in 1922-1923 when several small banks collapsed all over India. But the cautious policy adopted and the goodwill earned kept the Canara Bank out of the whirlpool. In fact it had been so fortified by the goodwill of the people and the steel frame of the administrative machinery that the period of depression of 1928 and thereafter and the panic caused by the crash of the Travancore National Bank in 1938 passed over its head doing it no harm. When the then Chief Minister of Madras, Shri C Rajagopalachari proposed in 1938 that the banks do voluntarily request the Reserve Bank of India to look into the internal affairs of the Bank to allay the apprehensions of the people, the Canara Bank immediately and unhesitatingly accepted the advice, an act which enhanced its prestige. During the Second World War too, the Bank remained watchful and alert, and through its General Manager's Office at Bombay studied the National and International trends in finance and steered itself clear of all pitfalls and depths. The strength of the Bank can be appreciated not only because of this passive achievement but of the continued strength and popularity it has gained through the years. In fact it has become "Our Bank" to all those who had connection with it.

Expansion

From the year 1918, Shri A Srinivasa Pai, a leading lawyer of Mangalore and one who was associated with the Bank from its very inception became its President and guided the affairs of the Bank for the next twentyfive years with ability, tact, patience and forethought. His experience, wisdom and knowledge of affairs helped the Bank to build up its strong organization and perstige.

From the year 1926, began the remarkable development of the Bank in all directions. The management felt that the Bank had grown sufficiently strong during the precious twenty years and steps could then be taken for removing its local mantle and transform it into a Bank, strong enough to carry on the ever-increasing activities of modern banking in any part of the country.



This could only be possible if the share capital and the resources of the Bank were increased, if the branches could be spread over places inter-linked with each other by trade and business, if modern banking facilities of all types were extended to the general public. At the same time it was equally essential to build up a strong and impersonal administrative machinery with a well trained staff able to give courteous and efficient service to its clientele.

Increase in Capital and Resources

A casual glance at the annual balance sheets of the Bank reveals how carefully and how in conformity with the growth of the business, the share capital of the Bank has been raised from time to time. The fact that the ordinary shares and the preference shares issued from time to time were quickly purchased even in times of financial uncertainty shows the confidence reposed by the public in the Bank. The Balance sheets also show what a large part of the profits has been transferred to the Reserve Funds of various types. The resources of the Bank on account of its increasing business activities has grown through the years. The graph of the rise of the resources can be noted to be steep.

Spread of Branches

As the resources of the Bank increased and the circle of its clientele widened, the need to increase banking facilities by opening branches at places inter-linked for trade and money transactions with Mangalore and other inter-dependent towns was realized and slowly and after much mature consideration, branches were opened at various places. Today, they are spread all over South India, at almost all the important trade centres and ports. The first branch was opened at Karkala in 1926; later another was opened at Cochin. Branches were opened at select centres in South Kanara, Malabar, Mysore State and Bombay Presidency. The Bombay branch was opened as early as in 1928. The year 1945 saw the opening of 9 new branches, some of them being in the Tamil districts. After that year, branches were opened in the Hyderabd State, one at Nagpur (1946) and another at Karachi (1946) Today, the Bank has 51 branches pursuing a uniform policy of financing business in the very best interest of all concerned.

Increase in Work

The history of the Bank has also shown how gradually its scope of business has been extended along careful, well-defined lines. In the early days the loans that were granted were either loans on the security of gold or were unsecured loans to well-known parties. But gradually, as scientific knowledge of the banking principles developed and spread, the Bank was quick to offer varied services, which a modern bank could give, services both to the investors and to the borrowers. Today, an increasing number of people are becoming clients of one type or another of the Canara Bank.

The Foreign Department

A great step forward was taken by the Canara Bank when it opened its foreign department in 1953 and undertook the complicated task of handling the foreign business of its customers who conduct international trade or travel abroad. In this task, it secured the services of Mr D Freeman, who was for thirty years an officer in that department of the Lloyds Bank, London. He not only organized the foreign department of the Canara Bank but also trained several members of the staff of the branches in the technique of handling foreign business. For this purpose, regular classes were held at Bangalore to train members of the staff. Later several other members of the staff also received instructions from him at branches. This careful training has enabled the branches to handle this new business intelligently and efficiently. Today, this foreign department has become a natural and an integral part of the Bank's activity.

'Foreign Trade Digest'

While on this subject of Foreign Trade, a few words may be said about some special services the Bank is giving to its customers in this field. It publishes a regular bulletin entitled 'Foreign Trade Digest' giving information on foreign trade and distributes it, free of cost, among its customers and friends doing foreign business. Through the medium of this magazine, and through other measures, a special effort is further made to stimulate participation by its customers and others in international trade fairs, specially those sponsored by the Government of India. The Bank also sends its own posters for display in such international fairs and exhibitions.

Structure of Administration

The efforts of the Bank to increase the efficiency of its organization can be noted through the years. When the Bank was venturing on its career of expansion, it invited in 1931 Shri Vidyasagar Pandya, M L A, an eminent leader in the field of banking at Madras to make suggestions regarding alterations of the Memorandum and the Articles of Association and for the improvement of the organization of the administration. His valuable suggestions were adopted with great profit to the Bank. Careful attention was paid towards efficient control and supervision of branches. In 1943, the General Manager's Office was shifted to Bombay. This was in pursuance of the policy of raising the tone of the administrative structure. The financial trends could easily be watched from such a big financial centre as Bombay and the Bank could get the full benefit therefrom. Again with the opening of several branches spread over a large area the administrative office was shifted in 1954 from Mangalore to Bangalore a more central place from where guidance to the branches could be given in the quickest possible time and better coordination could be effected. The special attention bestowed by the management on the constitution of the steel frame of administration has not only increased its all-round efficiency but has also made it quite impersonal bereft of redtapism. The advice given by the Reserve Bank from time to time and after its periodical inspections has also been incorporated in the conduct of business. An eminent Banker who observed the organization of the Bank from close quarters remarked "If all the Directors of your Bank and its principal officers are replaced in a moment by their wives, the administration would still remain unaffected." This humourous remark conveys the true nature and the impersonal character of the structure of the administrative machinery of the Canara Bank.

Training of the Staff

The management has bestowed very great attention on the equipment and training of its staff as part of its drive for administrative efficiency. The present General Manager was deputed for training in two leading banks of Bombay and later was sent for about six months to study in the Midland Bank in London before his appointment for the post in 1932. As a result, the administrative and accounts departments were overhauled; the loans policy of the Bank was improved so as to increase liquidity

and minimize losses; the departments of publicity and public relations were brought in line with those existing in advanced institutions.

The management all through has been receptive of new scientific ideas in banking. In 1952, when branches had spread out and the volume of business expanded, the management felt that it would be better to know how such work was conducted in the leading banks of the West. In order to get this benefit the Bank sent during 1952—1954 six of its senior officers for training abroad for six months under an arrangement made with the good offices of the Reserve Bank of India and the India High Commissioner for the United Kingdom. They studied modern efficiency methods, Bank organization, loans procedure; and co-ordinating and development technique. These Officers today occupy key positions in the Bank and are giving the Bank the benefit of their training.

The training of other members of the staff has also been undertaken. Since 1954 the Bank is sending its officers regularly to the courses conducted by the Bankers Training College organized by the Reserve Bank of India.

The Canara Bank has organized two courses of its own, the basic course for beginners and the senior course for future officers, in order to train the members of its staff for its work. It gives them all the essential knowledge in banking, inculcates in them the special traditions of the Canara Bank and gives them initiation in the technique of modern banking. This has provided the Bank with a band of efficient workers pursuing a uniform policy in order that the Canara Bank may maintain an individuality of its own in the service of the Nation and make all those who come in contact with the Bank acquire and retain attachment to the institution.

The Bank was started with only 4 members on its staff. As the volume of its work grew and its branches multiplied, the number on the staff has also been increased. Today it may be interesting to note that over a thousand people are working in its different branches and in its administrative offices together.

The fifty years of the life of an institution like the Canara Bank is a sufficiently long period to take stock of its achievement and its drawbacks. The Bank is ever alert to consolidate the position it has gained and bring about improvements that are necessary with the passage of time. The management spares no pains to make the Bank "Our Bank" to all its constituents in whatever walks of life they be and in the different parts of the country with a view to raising the economic level of the Nation. The Directors are putting all efforts in making the Canara Bank play its due part in the economy of the Nation to the best of its capacity.

Staff Welfare

The directors have before them a scheme of raising a fund called "The Canara Bank Golden Jubilee Staff Welfare Fund". Among the objects of the Fund will be the economic, social, and moral advancement of the members of the staff and to help them to develop habits of thrift, self-help and better living and to give financial aid to members in case of sickness, or distress, and for education of children etc. The membership will be purely voluntary and the benefits of the funds will be confined to members who will manage the funds under a democratic constitution. The funds will be raised by monthly deposits from members at not less than one per cent of their salary and the Bank will contribute a substantial amount to form a nucleus of the Fund. If properly worked, the Fund is calculated to play an important part in promoting the welfare of the members. It is hoped that the majority of the members of the staff would join the Fund and work it out successfully.

The directors have also a scheme for housing loans to employees on hire purchase basis with a sufficiently long period of repayment. The amount of loan would depend upon the salary of the employee and the rate of interest would be as low as 3½% simple. This would enable a number of the Bank's employees to have houses of their own.

Further, the directors are also considering a pension scheme which can be chosen by the staff as an alternative to staff provident fund and also a scheme for employees' participation in Capital through the issue of a special class of shares. The details are being worked out and it is hoped these would be welcomed by the employees.

Scholarship Scheme

The administration of a scheme of educational loan scholarship, however, calls for certain special qualities. Thus, it is not enough if the authorities are able to spot a candidate who deserves to get it. It is necessary to be able to keep a continuing watch over the recipient, to follow up his career, to know precisely when he becomes capable of returning the loan and, above all, to ensure that the loan is returned. A mere philanthropic sense, though it forms the basis of the scheme, is not the only factor which will make it a success. Clearly, something more is needed. It requires a banker's insight into the creditworthiness of candidates and the banker's organising ability to supervise the return of the loan. A scheme of educational loan scholarship thus implies a healthy combination of educational altruism and financial realism.

It is precisely such a combination that is to be found in a remarkable experiment in loan scholarship that has been initiated by the sponsors of the Canara Bank Jubilee Education Fund. The enterprising authorities have evolved a scheme which seeks to blend the philanthropist's zeal for service in the cause of education with the Bank's organising ability, on the one hand, and to supplement the donor's financial resources with its own, on the other. A look at the scheme will reveal that it is both well conceived and ably devised, so that it ought to commend itself to all lovers of educational charity and, more especially, to those who hold that private banking can and should render genuine public service.

Briefly, the scheme involves the grant of a loan scholarship which will be five times the amount placed by a donor at the disposal of the Fund. Under this novel scheme, the Fund which is created by the donors is pledged as a security with the Bank which, in its turn, has agreed to grant loans up to five times the funds given as security, subject to a maximum of Rs 5 lakhs. The Canara Bank has itself donated Rs 20,000 to the Fund and the collections so far made amount to Rs 1,20,000. There is no doubt that the whole scheme is as economically sound as it is ethically worthy of the highest praise.

Main Features of the Scheme

It seems necessary, at this stage to bring out some of the main features of the scheme. The Fund, which is a registered body, derives its finances mainly from the donations made to it. It will, of course, be augmented by other sources of income such as interest on investments. The Bank, as already stated, will hold the Fund as a security against the loan it sanctions up to five times the security offered. It will charge only 4 per cent simple interest on these loans. Besides the financial help it renders, the Bank will make available to the Fund its organisation for the purpose of ensuring the return of the loans given to scholars. The scheme provides that the first instalment of the loan to a scholar is to be repaid not later than one year after the completion of the course of his studies made possible through the scholarship.

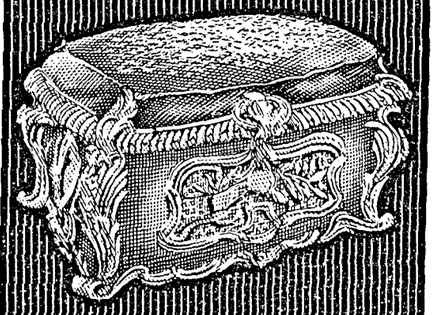
A notable feature of the scheme is that it provides for taking out both a life policy on the recipient of the scholarship and third party security on his behalf. The idea is to grant 10 loan scholarships of Rs 1 000 each year to begin with. The same group of scholars will be granted Rs 1,000 every year till they complete their studies and, at the same time, ten fresh scholars will be selected for aid every year.

There are several considerations which suggest that the scheme will achieve all the success it deserves. In the first place, loan scholars all the world over are deeply conscious of the value of the help they receive at the impressionable period of their life, and, therefore, grateful. In banking parlance, they are a highly creditworthy lot. Indeed, the experience of other funds which the sponsors of the present scheme have studied has been very encouraging. Secondly, the taking out of a life policy and third party security still further reduces the risk of loss.

To the donor, it should have a special appeal, because it enables him to be more generous than his purse can permit. He has the additional satisfaction that his donation will remain intact and be available on a continuing basis to generations of students. He is further relieved of the anxiety to collect the loan, for the Bank will ensure that it is repaid. Nor need he fear that the loan will go to an undeserving person, for the Fund will see to it that it is the deserving scholar that gets the aid. As regards the scholar, he ought necessarily to welcome the scheme which allows him to pursue his studies without financial worries to disturb the even tenor of his academic career.

Private enterprise in India is on trial. And private banking, as the citadel of this enterprise, owes a special responsibility to the society. It is up to it to vindicate itself through actively aligning itself with schemes which serve the public. If all Indian banks could establish "Educational Funds" on the lines of the Canara Bank's scheme, they would be further adding to their stature in the public eye. Their present detractors would then be compelled to recognise that private banking could be harnessed to the task of rendering efficient public service.

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Around Calcutta Markets

Dull Trading

Wednesday Evening

DULL conditions continue to prevail on the stock market here. Trading is mostly professional. Only jobbers seem interested, while investors keep away from the market. Even speculators seem uninterested in equities. And the outside public does not seem to be in. This explains why the volume of business has shrunk considerably. In a thin market, price fluctuations remain narrow. There is neither any selling pressure, nor any buying support. So, equities are marking time. Meanwhile, the outlook remains uncertain.

On second thoughts, Lyons Range realised that the annual report of Indian Iron was not discouraging. Ex-dividend quotations for Indian Iron have tended to be steady. In sympathy, other clearing shares remain steady. At the time of this writing, there is some evidence of selective support for sound equities, but only at slightly lower levels. Even so, the existence of buyers, even though at slightly lower prices, has had a sustaining influence on the whole market.

War And After

To some extent, the current inactivity in stock markets is due to losses incurred by some operators during the west Asian war crisis. Two weeks ago, some speculators bought war equities in anticipation that the war in Egypt would hasten a third world war. As soon as they discovered that their expectations were premature, they started unloading their holdings. This liquidation was absorbed by "shorts". That was why the fall in equities after the Egyptian cease-fire was not heavy. This may be a correct description of Lyons Range a week or ten days ago. But the current week's lack of activity remains to be explained.

Some "shorts" hastened to cover their sales a few days ago as it seemed that, despite cease-fire, the situation in Egypt continued to be tense. That is why, there is no replacement buying by "shorts" at the moment. By the beginning of the current week war fears had receded. But neither speculators nor investors have entered the market as buyers because the outlook remains uncertain. There is nothing in the economic policy, formulated by AICC at the recent Calcutta session, to disturb markets. But investors are waiting for the release of the Congress election manifesto to have a clearer idea of the Congress economic policy in the near future.

Congress Policy

Not only is the Congress economic policy disturbing, there is much in it which should enthuse the private sector. There is, of course, emphasis on the socialistic pattern of society. But there seems to be more emphasis on the ideal of a "co-operative commonwealth". Co-operative farming seems to be the Congress middle-way between landlordism and collectivisation. In the industrial sphere, there is a reference to co-operation between labour and industry. Labour's right to share in the management of industry is mentioned. Apart from this aspect of the economic policy, there is nothing in it to disturb the private sector. There is no over-emphasis on the public sector. And it is throughout assumed that there is no inherent conflict between the two sectors.

If Congress is interested in pursuing an escapist policy, it should suit the private sector. From what the economic policy leaves unsaid, the organised private sector should take comfort. There is not a single reference in the economic policy to the Government's plans of encouraging village and small-scale industries. Indeed, the Congress President's Note to AICC is liable to the interpretation that the Congress is now reconciled to mechanisation of mechanisable small-scale industries. This is a possible reorientation of the economic policy of Congress which should be welcomed by the organised private sector.

Foreign Exchange

It is not the economic policy of the Congress, but the Note by TTK on the resources budget for the Second Plan which is causing anxiety to stock markets. TTK is not pessimistic about foreign aid. There is some left-over amount from the first Plan. American food and raw material supplies on a loan basis will enable the Government to exploit rupee counterpart funds. Prospects of loans by the World Bank are encouraging. Above all, India's foreign aid requirements for the second Plan are not so heavy as to extend the loanable resources of rich western countries.

Tax Fears

Despite encouraging prospects of foreign aid, there will be need for further mobilisation of internal resources. Under the Second Plan, the target for more taxation is placed at Rs 450 crores. Only Rs 50 crores more are likely to come out of the increases in taxation in the last budget and in the current financial year. Tax resources will, therefore, have to be increased by an additional Rs 400 crores. TTK stresses the need for broadening the tax base. This may be differently interpreted. It may mean that more people will have to be brought into the tax net. It may also mean that the main aspects of the Kaldor tax plan will have to be introduced. Neither interpretation is "bearish" for industry or for stock markets.

Quietly Steady

This is the wider background against which the current phase of stock markets has to be viewed. In the last three weeks, tea auction prices have moved up. But Tea shares remain inactive. Similarly, Jute goods have improved. But Jute shares remain idle. Data relating to mill stocks of jute goods at the end of last month are rather confusing and misleading. But output declined during last October. Exports and despatches are likely to pick up. Mill stocks are, therefore, likely to decline. Raw jute prices, of course, rule steady. But jute goods are equally firm. Immediate prospects for Jute shares do not seem unpromising.

It is only natural that Miscellaneous and Engineering shares should follow fluctuations in speculative scrips like Indian Iron and Texmaco. Even so, sound Miscellaneous and Engineering shares have been relatively steady in recent days. There is always buying support for these shares at set-backs. This is an encouraging feature of recent trading in Lyons Range. According to reports, the Guest Keen Williams issue has been successful, though not as successful as some of the recent new issues like National Carbon. This belies pessimism about the forthcoming new issues.

Around Bombay Markets

Madras Plantation Award Upsets

Thursday, Morning

MUCH of the international tension has been removed by the ceasefire and the setting up of an international police force. To that extent, therefore, uncertainties in the market have also disappeared. The steadier undertone which followed the dull Moorat trading, however, could not be maintained. The Labour Tribunal Award for Madras Plantations threw the market into confusion once again. It was not only that Madras Plantations shares declined by 30 to 35 per cent; the repercussion of this debacle was quite serious in the Bombay market also. This was because of the INTUC Chief's warning that textile industry would follow suit by pressing for higher wages.

These apart, there has been persistent stringency in the money market with inter-bank call rate at more than 3¾ per cent. This is only the threshold of the busy season. How the demand for money is going to be met this season is any body's guess at the moment. Bankers are borrowing at higher and higher rates, but how long can they go on paying more for money without charging more for their advances? It is reported that leading banks have already intimated their clients that they will raise their lending rates to as much as 5½ per cent from 3½ to 4 per cent as at present.

As though these were not enough, the extension of the public sector emphasised in the speeches at the Calcutta session of the AICC was yet another damper. The Finance Minister's emphasis on the necessity of raising internal and external resources and increased taxation was also bearishly interpreted by market circles, and naturally too. In view of prolonged tight money conditions and prospects of heavier taxation in the next budget, there is hardly any likelihood for capital appreciation in the equity market in the near future.

After the landslide in Madras Plantation stocks, with all sellers and practicily no buyers, in order to avoid panic, the authorities of the Madras Stock Exchange were forced to fix the minimum prices with immediate effect for all ordinary shares of planting companies quoted on the Exchange as on November 8, and these prices are to remain in force until further notice. The Award, if implemented will mean that the plantation industry will have to pay about Rs 15 crores by way of increased wages with retrospective effect from March 1952. The industry will also have to incur annually about Rs 5 crores for increased wages and other amenities. The United Planters Association of South India have taken the matter to the Supreme Court and applied for an interim stay order against the Award.

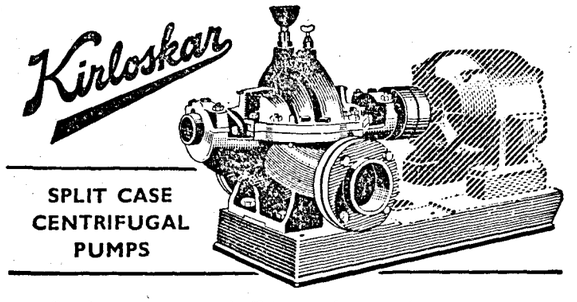
Dalal Street's reaction to the Plantations Award was noticeable in the sharp decline in the shares of the Bombay Burmah Trading Corporation. This company would be affected by the Award to the tune of about Rs 50 lakhs for the period of 1952 to 1956 and Rs 12½ lakhs each year thereafter. Burmah shares lost more than Rs 45 and other counters in the miscellaneous section closed on a distinctly bearish undertone.

Cotton

Bright Patches in Dull Market

THE cotton futures market had a predominantly bearish week. However, there were bright patches here and there, mainly on reports of damage to the crop in some cotton growing districts from heavy rains. There were of course the usual quota of reports and rumours that the export duty on cotton would be abolished or reduced and that there would be a reduction in the excise duty on cloth. Whenever such reports were rife, rates tended to steady up and in their absence, the reverse trend manifested itself.

On the international cotton front, a notable event was the successful implementation by the United States Department of Agriculture of its cotton sales drive, exceeding as it did the targetted 5 million bales. There have been reports both in America and other cotton growing countries that America may launch on yet another export sales drive, for disposing its surplus cotton. Up to the time of writing, no official plan of this nature has been announced. But the U S Department of Agriculture is reported to have pointed out to cotton interests that there would be no change in its export sales programme. This may mean either that the first extended export sales programme initiated at the beginning of the 1955-56 season would now be stopped as the target has been reached or that the same competitive sales would be continued for another year, with no change in the method of export sales.



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Burn and Company Limited

Notice

NOTICE is hereby given that the Annual General Meeting (being the Sixtysecond Ordinary General Meeting) of the Company will be held on Friday the 7th December, 1956 at 11 A M at the Registered Office, 12, Mission Row, Calcutta to transact the following business.

1. To receive and adopt the Audited Accounts for the year ended 30th April, 1956 and the Directors' and Auditors' Reports thereon.
2. To declare a dividend. The Dividend if declared will be paid to the Shareholders on or after the 12th December 1956 whose names are on the Company's Register on the 7th December, 1956 or to their mandatees.
3. To appoint Directors in place of those retiring. In this connection notice is hereby given that a Special Notice as defined in Section 190 of the Companies Act 1956 has been received by the Company under Section 261 and 281 of that Act to move the following resolution as a Special Resolution at the Meeting:—

   "That Mr P N Banerjee who is an associate of the Managing Agents of the Company and has attained the age of 73 years be and is hereby appointed a Director of the Company and that it is hereby declared that the age limit prescribed by Section 280, of the Companies Act, 1956, shall not apply to him."
4. To appoint auditors and fix their remuneration.
5. As special business to consider and if thought fit to pass the following resolution, namely

   "That the Books, Registers and other documents required to be maintained by the Company and kept open for inspection under the provisions of the Companies Act, 1956, and particularly under Sections 49, 118, 144, 163, 196, 301, 302, 304, 307, 362 and 372 of the said Act, shall be available for inspection at the Registered Office of the Company by the persons entitled thereto to the extent and in the manner and on payment of the requisite fees, if any, specified in the aforesaid provisions, between the hours of 10 A M and 12 noon on each business day. Provided however, that the register required to be maintained under Section 307 of the Act shall be open for inspection of the members or holders of debentures of the Company between the times above mentioned only during the period prescribed by sub-section 5(a) of Section 307".
6. As special business to consider and if thought fit to pass with or without modification the following resolutions which will be proposed as special resolutions.

   (1) That the Memorandum of Association of the Company be altered by adding thereto after clause 3(u) thereof the following two sub-clauses

   "3(uu) To establish and support, or aid in the establishment and support of associations institutions, funds, trusts and conveniences calculated to benefit persons who are or have been employed by or who are serving or have served the Company or its predecessors in business or the dependents or connections of such persons and to grant pensions and allowances and to make payments towards insurances".

   "3(uuu) To subscribe contribute or guarantee money for any national, charitable, benevolent, political, public, general or useful object or fund or for any exhibition".

   2. That Article 151(17) of the Company's Articles of Association be deleted and substituted by the two following sub-clauses "(17a) To give pensions, gratuities, allowances, bonuses, profit sharing bonuses or benefits or other charitable aids payments or monies to or for the benefit of persons who are or have been employed by or who are serving or have served the Company or its predecessors in business or the wives, children, dependents or connections of such person or persons as may appear to the Directors just and proper whether any such person his widow children or dependents or connections have or have not a legal claim upon the Company". "(17b) Subject to the provisions of Section 293(1) (e) of the Companies Act 1956 to establish maintain support and contribute or subscribe to any national, charitable, benevolent, political, public, general or useful object or fund and any institution, society or club, which may be for the benefit of the Company or may be connected with any town or place where the Company carries on business".

The Ordinary Share Register of the Company will be closed from the 28th November, 1956 to 7th December, 1956 both days inclusive.

A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote on a poll instead of himself and a proxy need not be a member.

By Order of the Board
Martin Burn Limited
F G Liversedge
Managing Director
Managing Agents

Calcutta,
November 12, 1956.

NOTICE

It is hereby notified that LEVER BROTHERS (INDIA) PRIVATE LIMITED have converted themselves into a public limited company and that with effect from 1st November 1956, their name has been changed to HINDUSTAN LEVER LIMITED.

CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1452.96	1443.59	1438.23	1332.24
2. Rupee Coin	119.94	120.74	119.74	109.09
3. Deposits				
a) Central Government's	63.00	54.15	54.56	56.33
b) Banks'	52.47	54.37	50.38	53.58
c) Other Governments'	20.06	47.18	10.22	14.25
d) Others'	13.21	13.01	12.67	15.27
4. Foreign Securities	462.21	462.21	586.74	647.07
5. Balances held abroad	98.17	106.72	23.70	66.28
6. Rupee Securities	760.50	750.50	703.72	548.61
7. Investments	74.29	83.39	27.31	50.08
8. Loans and advances to Governments	00.84	00.6	3.88	2.84
Scheduled Banks				
1. Demand liabilities (net)	625.87	633.41	627.26	598.76
2. Time Liabilities	456.34	457.61	454.22	423.69
3. Cash on hand	34.09	38.31	39.56	35.19
4. Borrowings from Reserve Bank	68.84	57.81	65.71	6.86
of which against Usance Bills	43.43	40.29	38.20	4.80
5. Advances and Bills discounted	716.26	708.72	712.17	547.91
of which State Bank's	130.72	129.76	131.36	94.36
6. Invst. in Govt. Sec.	367.32	371.53	374.28	391.71
of which State Bank's	107.10	107.44	107.86	117.00
Cheque Clearance	141.43	135.20	129.66	139.62

†For Reserve Bank and Cheque Clearance week ended 9-11-56. (Scheduled Banks week ended) 2-11-56.

Bombay Money Rates	9-11-56	2-11-56	12-10-56	11-11-55.
Inter-Bank Call Rate	3¼	3½	3½	2⅝
3 months deposits	3½	3⅜	3½	3
6 months deposits	3½	3⅜	3½	3

Bombay Bullion — In Rupees and Annas

	15-11-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	105-4	104-9	103-10½	96-5
Forward	105-2½	104-11	103-6½	96-11
Silver (per 100 tolas)				
Spot	173-5	172-9	173-1	171-6
Forward	174-0	172-13	173-0	172-0

JUTE STATISTICS

(1956-57)

	Sept.	Aug.	July	July '55 to Sept. '56
Production ('000 tons)				
Hessian	35.5	35.4	34.3	405.2
Sacking	43.8	43.2	52.9	144.9
Others	5.2	6.0	6.9	18.1
TOTAL	84.5	89.6	94.1	268.2
Total production in the Corresponding months of:				
1955-56	87.4	81.4	84.1	252.9
1954-55	79.0	78.2	80.7	237.9
Stocks at the end of the month ('000 tons)				
Hessian	29.4	28.2	38.5	—
Sacking	88.2	88.6	93.2	—
Others	7.1	6.7	6.2	—
TOTAL	124.7	123.5	137.9	—
Total Stocks at the end of the Corresponding months of:				
1955-56	69.7	79.2	81.5	—
1954-55	68.0	70.7	80.8	—
Despatches:† ('000 tons)				
Hessian	34.4	45.9	33.3	113.6
Sacking	43.3	54.0	44.6	141.9
Others	4.2	5.7	6.3	16.2
TOTAL	81.9	105.6	84.2	271.7
Total despatches in the Corresponding months of:				
1955-56	95.8	82.7	91.6	270.1
1954-55	80.7	88.7	87.4	256.8
Raw jute consumption: (lakh bales of 400 lbs each)				
1956-57	4.93	5.00	5.25	15.18
1955-56	5.12	4.62	4.65	14.39
IJMA Mills' purchases of raw jute ('000 bales)				
Pakistani	48	83	43	1,74
In corresponding periods of:				
1955-56	1,10	1,59	1,90	4,59
1954-55	80	1,17	65	2,62
Indian	5.03	4.93	3,41	13,37
In corresponding periods of:				
1955-56	4,06	2,65	2,84	9,55
1954-55	3,74	3,61	2,92	1,027

† Despatches include exports and sales for internal consumption

Source : Indian Jute Mills Association

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group	Week Ending 13-10-56	Week Ago	Month Ago	Year Ago
I **Food Articles:**	**390.5**	**392.2**	**388.7**	**380.6**
Cereals	508	510	502	393
Pulses	392	387	388	322
Others	244	246	247	245
II **Industrial Raw Materials:**	**502.4**	**497.9**	**504.4**	**419.6**
Fibres	491	478	483	425
Oilseeds	556	555	557	400
Minerals	532	533	535	429
Others	418	421	422	452
III Semi Manufactures:	**441.2**	**408.6**	**404.7**	**335.2**
Leather	431	410	373	358
Mineral Oils	210	210	210	202
Vegetable Oils	593	584	570	388
Cotton Yarn	497	497	497	408
Metals	326	325	327	276
Oilcakes	473	472	483	362
Others	361	362	363	330
IV Manufactures:	**388.5**	**386.5**	**390.4**	**372 7**
Textiles	421	418	424	404
Jute	434	423	429	416
Cotton	426	426	426	399
Rayon & Silk	421	413	470	479
Woollen	266	266	266	278
Metal Products	290	388	390	371
Others	296	295	295	285
V **Miscellaneous:**	**590.2**	**589.1**	**584.2**	**557.8**
All Commodities:	**418.4**	**417.4**	**417.5**	**365.9**

EAST PAKISTAN'S RAW JUTE EXPORTS

(in 000 bales)

Destination	Aug	July	June	July 55* to May 56
India ..	67.4	28.5	19.5	1,333.2
France ..	24.2	16.0	32.4	444.2
Japan ..	17.4	8.0	21.9	163.1
Germany ..	38.0	11.2	22.2	514.7
U K ..	25.6	9.3	35.2	656.8
Netherlands ..	..	3.1	6.4	92.3
Belgium ..	19.2	4.1	13.9	576.9
Italy ..	12.6	8.5	15.1	279.5
U S A ..	10.9	5.8	29.5	360.0
China ..	1.5	0.6	22.1	215.9
Poland ..	11.2	5.6	[illegible]	63.4
Other Countries	45.4	32	[illegible]	685.2
Total ..	273.4	133.5	[illegible]	5,389.2

* Including cuttings and mista fibre.

Source : India Jute Mills Association.

INDUSTRIAL PRODUCTION

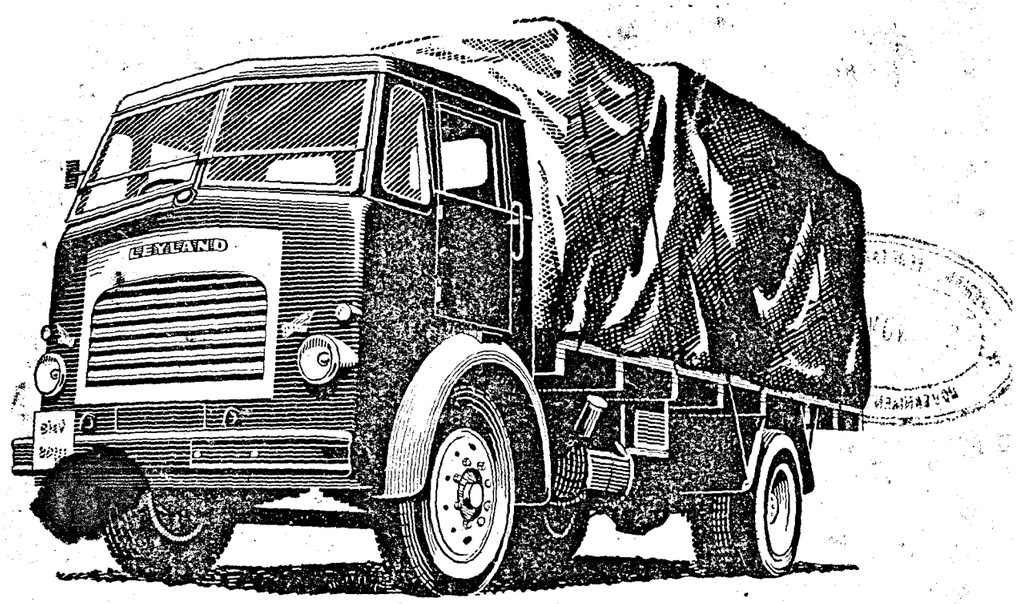
	Units	1956 July	June	May	April	Mar	Feb	Monthly Average 1955	1954	1953
I Consumer Goods										
1) Cotton Textiles	Crore yds	47.80	45.14	45.27	42.08	41.88	42.55	42.45	41.65	40.65
2) Woollen and Worsted Fabrics	lakh yds	14.36	14.52	11.53	10.83	12.53	11.94	11.63	11.46	—
3) Matches	000 cases	—	53.9	49.6	46.0	46.2	49.8	51.3	44.1	51.5
4) Sewing Machines	Nos	10,313	10,162	11,606	10,825	10,755	10,049	8,456	6,683	5,202
5) Vegetable Oil Products	tons	18,403	20,771	21,325	23,306	24,828	23,600	21,732	19,229	15,971
II Raw Materials or Intermediate Goods										
1) Cement	000 tons	402.7	422.5	419.3	395.0	430.5	394.3	373.9	366.5	315.0
2) Chemicals:										
a) Sulphuric Acid	,,	—	14.0	14.4	11.9	14.7	14.2	13.9	12.6	9.1
b) Caustic Soda	,,	—	3.2	3.0	3.0	2.9	3.2	2.9	2.4	1.9
c) Soda Ash	,,	4.5	5.9	6.3	6.5	7.5	7.5	6.4	4.0	4.7
3) Coal	lakh tons	31.65	31.94	33.16	32.23	33.62	33.58	31.84	30.64	29.87
4) Cotton Yarn	crore lbs	14.50	13.70	13.54	13.10	13.26	13.36	13.59	13.01	12.55
5) Jute Manufactures	000 tons	94.1	98.9	101.7	93.9	99.3	92.8	85.6	77.3	72.4
6) Non-ferrous Metals:										
a) Copper (Virgin)	tons	640.0	594.0	645.0	662.0	710.0	685.0	606.8	596.8	410.0
b) Aluminium	,,	660.8	627.6	646.8	481.2	397.4	621.1	602.1	407.2	313.2
c) Lead (Virgin)	,,	260.0	207.3	179.1	233.3	169.0	160.7	186.2	149.0	141.2
d) Antimony	,,	60.0	55.0	55.0	75.0	56.0	18.0	42.0	44.9	10.9
7) Paints and Varnishes	000 tons	—	3.33	3.13	3.39	3.90	3.10	3.25	3.06	2.67
8) Paper & Paper Boards	,,	16.7	15.7	16.5	15.5	16.2	14.8	15.4	12.9	11.7
9) Iron and Steel:										
a) Pig Iron	,,	149.6	133.6	142.3	146.6	158.3	158.2	146.4	149.4	137.9
b) Steel ingots & castings	,,	145.5	133.3	137.7	141.5	154.0	144.2	142.0	140.4	125.6
c) Semi-finished Steel	,,	133.3	106.4	115.0	121.3	131.9	124.5	121.4	121.0	102.5
d) Finished Steel	,,	110.8	96.5	102.6	105.8	115.3	110.8	105.0	103.6	85.3
III Capital Goods										
1) Machine Tools	000 Rs	—	622.9	626.9	755.2	654.8	611.2	620.0	416.9	367.3
2) Diesel Engines	Nos	—	914	1,031	961	949	864	852	721	310
3) Electric Motors	000 HP	30.6	30.4	28.2	26.4	28.1	27.1	21.0	15.6	13.5
4) Power Transformers	000 KVA	72.5	75.0	80.3	62.4	68.8	63.0	47.1	33.3	25.7
IV Transport Equipment										
1) Bicycles	000 Nos	56.5	58.6	56.4	51.7	46.9	43.1	40.9	31.0	22.0
2) Automobiles	Nos	2,957	2,791	2,491	2,206	2,618	2,625	1,924	1,205	1,160

Note : —=Not available

Source: Directorate of Industrial Statistics

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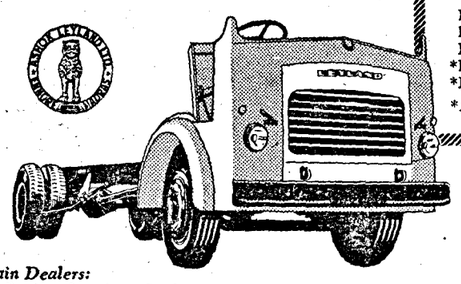
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Threats to Peace

ATTEMPTS to equate tragic happenings in Egypt and Hungary, or partisan propaganda efforts to emphasise one of those two distressing events so as to minimise the other, are not as relevant as the deeper significance of Egypt and Hungary. To stress that both are menacing manifestations of the "domination of naked force", is not necessarily to view these two tragedies from the same angle. When the immediate responses and reactions to these disturbing events recede into the background, the deeper issues involved will emerge more clearly. They are certainly far more significant. In the last fortnight, Pandit Nehru has had frequent occasions to analyse the distressing developments in Egypt and Hungary. His assessment may not be endorsed by all. Neither India's nor the four Colombo Powers' hostile reaction to aggression by Britain, France and Israel in Egypt has evoked any uncharitable comment. But New Delhi's response to the Hungarian tragedy has provoked strong condemnation by Socialists. Pandit Nehru's oblique hint to them not to fall unwilling victims to propaganda is not quite out of place. But more relevant is the suspicion that the Prime Minister does not seem to be fully aware, as his recent statements indicate, of the developing world situation since the Geneva "summit" Conference.

Any such suspicion may be without basis. For Pandit Nehru can claim to be the first world statesman to have warned the United Nations many years ago that Asia and Africa can no longer be ignored by the West, and that world problems cannot be solved in the context of Europe alone. He might not, then, have visualised the current phase of the international situation. But the unexpected, and somewhat distorted, consequences of the Geneva "summit" Conference deserve emphasis. From the moment the Big Four reached an understanding not to wage on atomic war, Europe faded into the background. NATO and the Warsaw Pact lost their basic significance. America ceased to have any real interest in the German issue. Russia's intelligent anticipation that, after the "summit" Conference, time would be on her side in regard to the German problem was not wrong. This does not mean that NATO and the Warsaw Pact do not exist, or that the German problem is no longer alive, or that both sides will not exploit "cold war" devices when occasions arise.

But, since the "summit" Conference, the world emphasis has shifted to Asia and Africa. Simultaneously, and along with this shifting world emphasis on Asia and Africa, the realisation has grown that Russia and America are the two Big Powers which are competing with each other for world domination. Britain and France cannot escape the realities of the situation. But both seem unreconciled to the changing balance of world power. In Europe, the emergence of America and Russia as competing world Powers does not directly or materially affect the interests or prestige of Britain and France. Not so in Asia or Africa. This is the basic historical interpretation of revived bellicosity of Britain and France in Asia and Africa. This explains the Anglo-French aggression in Egypt as a smoke-screen for regaining control of the Suez Canal. This fits in with M Mollet's harsh, militant policy to Algeria. And the joint Anglo-French aggression in Egypt would seem

to be a combined demonstration to both America and Russia that the former will not accept the superior status of either of the latter.

It would be hasty to accept the cynical assumption that, since the "summit" Conference, both America and Russia have reached a tacit understanding to exploit Asia and Africa jointly at the expense of Britain and France. Perhaps, both Egypt and Hungary are, though in a different sense, symbolic of Europe's instinctive resistance to fade out of the world focus. But neither Egypt nor Hungary is likely to reverse, though both or either may delay, the process of disentanglement from Europe by both America and Russia. So far as America is concerned, the process has already begun. In regard to Russia, the process, already in evidence, may be reversed either by any hasty action by Russia herself, or by a revived expansionist policy by a re-armed, united Germany, either singly or in combination with Britain and France. As both America and Russia retire gradually from Europe, their policies to Asia and Africa assume greater significance to the latter as well as to the wider world.

More than once, Russia has sought to wean America away from the latter's Western alliance, though ostensibly for attaining or maintaining peace. Many times before the Geneva "summit" agreement, Russia had approached America for direct, bilateral talks on world peace. On the Egyptian issue, Russia issued an appeal to America for joint "police" action to stop the aggression. America rejected this appeal, even as she, on second thoughts, abandoned the reported move to order the US Sixth Fleet in the Mediterranean to intercept British and French warships on their way to Egypt. It could be argued that America, though violently opposed to Anglo-French military action against Egypt, was neutral in regard to Israel, Britain and France, and threatened to intervene only if Russia sent her forces or "volunteers" to Egypt. But Washington will retort that America's support to the United Nations debarred America from any unilateral or bilateral counter-action in Egypt.

This raises the main issue that Pandit Nehru will have to discuss with President Eisenhower during the Prime Minister's forthcoming visit to America. Weak nations of Asia and Africa are alarmed at the revived manifestation of force by strong Powers. Afro-Asian nations want peace so that they can prosper. America must convince Britain and France that Western domination of Asia and Africa must cease. It will not be denied that, since the "summit" Conference, Russia has gained friends in Asia and Africa. This should cause no anxiety to America or Britain or France, as long as relations between Russia and Afro-Asian nations remain on an economic basis. Here, the principle of competitive, but peaceful, co-existence can prevent any disturbance of peace in these regions. But possibilities of persistent Anglo-French attempts to perpetuate or to regain political or economic domination of Asia and Africa, and of similar Russian efforts cannot be ruled out of consideration. This is where India can hope to function as a bridge between Russia and the West, and particularly America. No doubt, Pandit Nehru will try to persuade President Eisenhower to change America's policy to China. Admission of Red China to the United Nations is an essential preliminary step to solving the problems in far east Asia. One of the main purposes of Pandit Nehru's visit to America will have been achieved if he can help in bringing about greater understanding and amicable relations between Russia and America. In the main, Pandit Nehru's aim should be to cooperate with America to achieve the common objective of strengthening the United Nations so that threats to world peace and acts of aggression can be prevented. America's recent moral support to the United Nations encourages the hope that Pandit Nehru's mission to America will be fruitful.

Assam Oil Negotiations

OIL prices, as indeed everything else connected with the subject of oil, are shrouded in the popular mind with a great deal of mystery. Whether this mystery can be dispelled by a careful study of facts or not —it is high time that we got into grips with the economics of oil pricing, even though it be as abstruse as it has been made out to be. The Government of India has not yet done that, though the Minister in charge of Natural Resources who is also responsible for oil explorations has had a shot at it and subsequently even Pandit Nehru has, on more than one occasion, thought aloud on the subject.

The principle of basing oil prices on 'Gulf rates' has puzzled many others besides Pandit Nehru. The subject is complicated and much discussed. The Report on Price of Oil in Western Europe prepared by the Secretariat, Economic Commission for Europe, and released last year gave rise to furious controversy the result of which, it was confidently anticipated would be the substitution of Gulf rates for some other formula. It is quite some time that Western Europe and we here stopped getting our oil and oil products from the Atlantic sea board of the United States. How is it that this link has persisted so long?

Problems generally do not wait to present themselves in proper sequence or in a logical order. In the case of oil, it has been no different. Accident of circumstances called upon the Government to tackle the question of refining first. This it did when it entered into an agreement with the oil companies for starting the three refineries. It was accepted then without question, it appears in retrospect, that products of the refineries would continue to be sold, as before, on the basis of world prices. Again, seized with the urgency of the problem of exploring our natural resources, which must after all be the foundation of economic development, the Government had to formulate a policy for oil explorations, both through the oil companies and on its own. Exploration, however, is different from exploitation and until oil is found by actual drilling and reserves are proved to be adequate to justify production on a commercial scale, the need for formulating a policy for oil production and deciding the question of fixing a proper price for oil did not arise. The question of a fair price for crude oil, however, has arisen after extended explorations in the new Assam oil fields yielded such promising results.

The pricing of refined products has complexities of its own because there is a great deal of product differentiation in the refining industry. But it is not a matter of great urgency, as in any case it will not come up for serious consideration until the duty (and price?) protection granted to the oil refinery companies for a period of 10 years come up for revision.

The text of the agreement with the refinery companies was not published. The duty protection which has been mentioned implies, however, that internal prices of refined products would be based on imported costs plus duty, and not the actual cost of refining in India. One of the refining companies, Burmah Shell, has already found, presumably from its experience of the cost of refining in India, that it does not need such protection and has voluntarily foregone it from the first of October. While gratefully accepting this gesture of goodwill, the Government of India expressed the hope—it did so in a press note—that other refinery companies would follow suit. So far, however, the others have not responded. The pricing of the refined products, it may be assumed, will continue to follow international prices even if all oil companies forego the duty protection as Burmah Shell has done. These prices result in such apparent anomalies that motor spirit can sell cheaper in Britain and Western Europe than in India, though the raw material from which it is refined has to be transported over longer distances to Europe, which so puzzled the Prime Minister.

The reason why costing of refined products may not be so important as that of fixing a fair price for crude is two-fold. First, given the price of crude and the pattern of production of the different refined products, the determination of margins should not be so difficult, particularly since the Government would be the major shareholder in the refinery to be set up for processing Assam oil. Secondly, as already mentioned, the price to be charged by the refinery companies according to their existing agreements would not come up for examination for some time.

The immediate problem, therefore, is that of determining a fair price for the crude oil to be produced from the new oil fields of Assam. There is a curious coincidence, observed over the years, between the price of crude oil quoted in the Middle East, which has been the primary source of supply both for Western Europe and India in recent years, and the price at which crude oil is marketed in the Gulf ports on the Atlantic Sea Board. This is the truth behind the so called 'Gulf rates'. This correspondence cannot be explained in terms of free competition, nor in terms of costs which are believed to be so much lower in the Middle East than in the United States. True, comparison of costs is difficult, being subject to various qualifications but the belief is supported by published data on oil royalties paid by American companies in the Middle East from which profits per unit of crude can be deduced fairly accurately. A similar correspondence can also be detected, despite some 'shading of prices', in the prices of refined products in Middle East, Gulf ports, and Western Europe.

The Government of India cannot be expected to pay for oil produced in Assam what it costs the marginal well to produce oil in Texas. The Minister for Natural Resources was not probably fully briefed when he put it as a matter of digging only 2000 ft in Middle East against the cost of extracting oil from wells in the States which go down 10,000 ft or more. The average depth of the oil wells in the new oil fields in Assam will be nearer to those in U S that the Minister had in mind rather than in the Middle East. So if he is prepared to accept depth of wells from which oil is extracted as the primary determinant of cost, he should not baulk at Gulf rates!

Where something is produced under widely varying natural conditions, costs are bound to vary widely too, and in the case of oil, where continuous explorations and prospecting are essential in order to ensure future supplies, the cost of such development has largely to be found from the price charged for oil. This is the case of the oil companies who do not accept that the price of oil is fixed according to any convention. They claim, on the contrary, that it is left to the market forces of free competition and that in any case, the earnings of the oil companies are not excessive judged by comparable returns in other industries. When profits are considered in terms of capital actually employed and note is taken of the fact that a large part of such profits have to be ploughed back into exploration, prospecting and development.

It is really not necessary for the Government of India to enter into these complexities of international pricing, though price dispute for crude, among other things, appears nevertheless to have proved a stumbling block in the negotiations. So far the Government has insisted on majority shareholding only in the refinery company that is to be set up for processing oil. The problems of oil exploitation and development are so closely inter-related, however, that it is difficult to see how a satisfactory working arrangement can be possible, if Government retains control only over refining, which is the end product, but does not have similar control over transport of crude oil through pipelines, for which a separate company has been proposed, or over the drilling company which is to produce the crude. Purely technical considerations, if nothing else, would seem to rule out such a three-fold, water tight, compartmental division of control and responsibilities. An independent company operating a pipeline for the transport of crude would naturally demand the right to export the surplus which may not be required by the refining company. Its interest would be to see that a maximum quantity is recovered quicker and profits can be maximised. A manner of operation for such a company is conceivable in which the oil fields would be depleted within a short time in an effort to reap the best advantage from transporting it. Similar arguments would apply to the company which is to produce the crude. After all oil reserves are national assets that have to be exploited with an eye to optimal advantage, rather than profits.

It is to be hoped that the newly formed Commission for Oil and Natural Gas will enlighten the public before long on the progress of negotiations which appears to have been in abeyance for quite some time. Nothing definite has been known about these developments after Maulana Azad's statement early this year that the Government, in pursuance of its Industrial Policy Statement, will retain majority shareholdings in the proposed refinery company which is to process Assam oil. Surely drilling of oil or its transport are no less important?

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Weekly Notes

No Urgency!

THERE was surprising moderation in the demand for curtailment of imports or promotion of exports in the speech of the Commerce Minister at the last meeting of the Import and Export Advisory Councils. This was deliberate, for as soon as the difficulty of the foreign exchange situation was mentioned, the President of the Federated Chambers of Commerce and Industry came out with a list of suggested cuts—fish and canned foods figured prominently in the list, to which pat came the reply from the official side that there was no need to worry.

The Government appears to be at some pains to dispel the impression that there is serious shortage of foreign exchange. This is, of course, for the benefit of trade, lest it runs away with the idea that imports may be difficult to obtain, hold up stocks, raise prices and rush to utilise import licences which have already been issued. But can trade be persuaded so easily? After all the weekly returns of the Reserve Bank are still being published and the decline, week by week, of foreign exchange holdings is no secret.

Granted the wisdom of not creating a scare, the unhurried pace with which the Minister plodded through his account of the export situation and export promotion activities hardly suggested any sense of urgency or serious necessity of increasing foreign exchange earnings. There was the usual routine recital of the new Export Promotion Councils that had been set up, appeal to exporters to pool their experience and study foreign markets, repetition of the arrangements that had been made for grant of 'draw back' of duty and the same naive wonderment why these were not being taken advantage of! The Minister did not even say what he thought of the very sensible suggestion which spokesmen of the engineering industry had put forward for grant of draw back on an ad hoc basis.

The only new idea came from Shri Morarji Desai. He called upon importers to exercise voluntary restraint, rather than force the Government to say 'no'. The only development of interest mentioned in Shri Karmarkar's speech was the triangular deal for supply of cloth to Burma from American surplus cotton and the possibility of a similar deal with Indonesia. But this was hardly news. This is the major achievement of cloth export promotion. Despite the kudos to the Cotton Textile Export Promotion Committee, there was little to indicate how the target set for cloth exports was ever going to be reached!

Feasibility of Sugar Exports

THE sugar season which ended on October 31 has been a record one in many ways. It saw an all time high sugar production of 18,60,545 tons, compared to 15,90,000 tons in the previous year and 10,01,000 tons in 1953-54. The new sugar year begins with a comfortable stock of 5,42,400 tons compared to 4,32,000 tons in the previous year and a little above 1,00,000 tons in the year before that. These are the figures of 'indigenous sugar'. To get the net position, some minor adjustments may have to be made on account of the imports which may have come during the year in fulfilment of earlier commitments.

Making due allowance for all that, but for rising consumption trends the statistical position suggests that a case could be made out for encouraging some exports this year, if conditions of production and prices remain favourable. As the Government of India has staked its claim for token exports before the International Sugar Council, and sought to raise the permissible limit of such exports subsequently, there is already some speculation about the possibility of exporting sugar.

This is not to suggest that present market prices are anywhere near the export level or that production expected this year is so heavy that internal prices may come down on their own accord to the level at which exports may be profitable. The rising trend of consumption evident in recent years and the general trend of agricultural prices would seem to rule out such a possibility altogether. But price differences are not such that exports cannot be promoted as a matter of deliberate policy, if some adjustments are allowed in duties and other impositions which sugar has to bear.

The crisis in the Suez has improved the chances of export to Persian Gulf ports, provided the Government is prepared to allow some adjustments in duty cess. Some notional figures may be considered. The landed cost of sugar at the Persian Gulf ports approximates £52 per ton or Rs. 675. If from the present domestic price of Rs. 800 per ton, the following deductions are allowed:

	Rs	As
Excise	112	8
Cess	50	0
Commission to co-operatives	25	0

the net export prices work out to something like Rs. 612-8. To this has to be added freight and insurance at Rs 50 per ton. The c i f price for Persian Gulf then works out at Rs 612-8, which may be compared with the price current there of Rs. 675.

For most agricultural produce, particularly for food articles, export surpluses just do not happen. They have to be created at the cost of some restriction of consumption. This is, as explained by Shri Karmarkar at the last meeting of the Export Advisory Council, a matter of tightening the belt. Though the Minister was referring to groundnut oil, the argument applies equally to all food articles. In the case of sugar, so far there has not been any conscious attempt to stabilise or maintain consumption at any particular level, the energies of the Government having been taken up wholly by attempts to hold down sugar prices. Crystal sugar has certainly become a conventional necessity but considering the possibility of substitution by gur, production appears to have reached a level where exports in moderation should not impinge too much on domestic consumption. A beginning could certainly be made with token exports.

The danger is of initiating a speculative rise and of inviting traders to help themselves. It happened once in the past when sugar interests complained of excess production and sought an export outlet for what later turned out to be an imaginary surplus. It may happen again. The possibility cannot be denied. But both Government and trade must have learned something from past experience and to that extent, the risk can be guarded against. The situation to-day is sufficiently under control to justify the experiment.

E I Jute & Hessian Exchange

OVER three-fifths of the 51-page cyclostyled report of the Forward Markets Commission is devoted to the issue of selecting a reputable Association to which Government could accord recognition, and permit transactions in forward contracts in raw jute and jute goods. After considering five associations which had applied for such recognition, the choice of the Commission has fallen on the East India Jute and Hessian Exchange—as was of course widely known for a considerable time. In its present form the Exchange was registered in 1945 under the Indian Companies Act, 1913, after amalgamation of two associations, viz., the East India Jute Association—established in 1927 for forward trading in raw jute, and the Calcutta Hessian Exchange, established in 1919 for forward trading in jute goods. Apart from its age, the Exchange has a sound financial position, a long tradition and experience in futures trading, and a large membership, covering many of the members of other associations. Its bye-laws and articles of association have the general approval of most, though to safeguard all interests these will require considerable changes.

The Exchange has submitted to the Commission a scheme of reconstitution, worked out in conjunction with the Indian Jute Mills Association. According to the scheme worked out by the Ad Hoc Sub-Committee, the members of the Exchange—persons, firms and companies having a place of business in Calcutta—would be classified into five panels viz (1) manufacturers', (2) jute goods shippers', (3) jute goods dealers', (4) raw jute dealers' and (5) brokers'. Only members enrolled in the last would have entry into the ring of the Exchange.

The Ad Hoc Sub-Committee's scheme for futures contracts excludes the existing system of trading in jute goods on the basis of the IJMA forward contracts and the transferable Pucca Delivery Orders (PDOs) issued by mills. While the hedge contract provides for a basis and specifies the varieties tenderable against it, the IJMA forward contracts are for almost all types manufactured by mills and thus have a narrower market than the contracts which are more suitable for hedging and speculation; secondly, hedge contracts have defined maturity periods unlike the IJMA forward contracts which provide for delivery many months ahead; thirdly, while in the futures market the parties pay or receive periodically through the clearing house the differences between the market and contract rates, this is absent in the IJMA contracts.

Will Jute Growers Benefit?

THE Commission, however, feels that the Ad Hoc Sub-Committee's scheme would require to be modified to cover the IJMA contracts and PDOs to continue to be operative under the regulation of the Exchange. For this it has recommended that the Exchange should conduct trading in transferable specific delivery contracts in jute goods in addition to hedge contracts, so that the existing pattern of trade is not dislocated. But these contracts would be entered into only with, or by, or through a member of the Exchange, on a form prescribed by it, which would be based on the existing IJMA form, with such changes as are necessary, including a more precise definition of the rights and obligations of the buyer and seller. The Commission has laid down that members entering into such contracts should report them to the Exchange periodically in a specified form, and the clearing house would be used by both parties to meet obligations, transmit shipping instructions, etc. It has also listed the principal modifications necessary in the conditions governing the issue of PDOs including two vital matters—no mill may buy back its own PDO, and PDOs should be issued only against actual stocks.

The stage seems to be well-set now for a "well-regulated" market—that very over-worked phrase in Calcutta market circles—to begin operations. Although the report of the Commission does not say so, one hopes that the almost endless meetings to evolve an acceptable set of rules for trading, form of contract and PDO etc are soon to end. Otherwise there will be delays.

A futures market is necessary to provide adequate hedging facility to the buyers and sellers, as well as a reasonable play of speculative forces. But most such markets become the preserve of speculators who seek to manipulate them in a manner which may do much harm to the primary producers—in this case the producers of raw jute. The forward market in jute, it had frequently been complained in the past, had been run in the interest of the baler, shipper or the mill; it had not helped the growers. It does not appear very clear from the Commission's report, if jute growers are going to fare any better. It is no doubt premature to make any forecasts, but as long as their interests are only remotely represented in the Exchange, they may go by default. Of course, even the assurance of a fair price at terminal markets is no guarantee that the benefits would be passed on to growers. For that, the solution lies in organising co-operative marketing. That such an experiment in the early 'twenties failed is no reason that it would fail again. But only by building up a strong body of primary sellers could Government hope to end the old complaint that the mills exploit the farmer.

Focus on Cyprus

UPTIL now, three countries and governments were directly interested in Cyprus. Since the Anglo-French aggression in Egypt, another country has now become interested in the Cyprus problem. Not only these four countries, but the world has now become concerned about the Cyprus issue. Cyprus was the base from which the Anglo-French air forces committed acts of aggression in Egypt. Recently, the Egyptian representative in the United Nations had occasion to remind the world that Cyprus had, therefore, assumed "increasing international importance". This view will be widely endorsed. Indeed, the steering Committee of the United Nations has now decided to place the Cyprus issue on the agenda of the General Assembly. Britain has not opposed this move. But, on previous occasions, she has maintained that the United Nations have no right to interfere in the "internal" affairs of Cyprus. If this is the argument by which the United Nations are to be debarred from interference in Cyprus or Algeria, there can, surely, be no case for the U N intervention in Hungary.

Cyprus has been a source of irritation between Britain and her old ally and friend, Greece. Cyprus has also strained the relations between Britain and her new friend and ally, Turkey. Cyprus will now be a constant threat to Egypt as long as the Anglo-French air bases are maintained in the former country. Cypriots are fighting for inde-

pendence. Britain is suppressing the nationalist movement in Cyprus on the pretext that it is a terrorist movement. Conflicting claims of Britain, Greece and Turkey are not as important or vital as the Cypriot demand for freedom. Fortification of the British base at Cyprus introduces fresh urgency to a just solution of the Cyprus problem. A constitution will be framed soon by Britain, but it is not likely to be accepted by the people of Cyprus. There may still be time for Britain to come to an arrangement with the Cypriot leaders. In the absence of any such gesture, the movement for enosis is likely to gather momentum.

Letters to the Editor

Hungary

YOUR editorial on Hungary in the last issue of "Economic Weekly" was surprising and disappointing. Surprising because you have adopted two different standards in commenting on the Egyptian and Hungarian crises in the same issue. Disappointing because though a staunch supporter of Pancha Shila you have sought to justify Russian intervention in the internal affairs of Hungary. I submit that Russian action in Hungary is a flagrant violation of the tenets of Pancha Shila and is all the more deplorable because it is by a power who has avowedly supported them.

If you do not approve of Eden's action in Egypt on the ground that Suez is Britain's life line, how can you justify Russian intervention in Hungary on the ground that a non-communist Government there would be a 'real risk' to Russian Security? If overthrow of Nagy and installation of a puppet Kadar regime can make Russian action legitimate, surely Eden has been a big fool to stop short of overthrowing Nasser in Egypt! There cannot be one interpretation of Pancha Shila for 'imperialist', 'capitalist' West and another for 'communist' East.

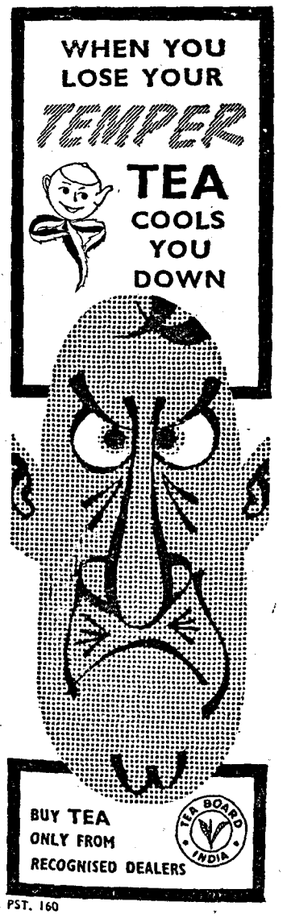
A C Chhatrapati

Hindustan Vanaspati
Manufacturers' Association,
Bombay.
November 15, 1956.

[Shri Chhatrapati is surprised that the "Economic Weekly" has adopted two different standards in commenting on the Egyptian and Hungarian crises in the same issue. Twelve days after this editorial was written, Pandit Nehru reiterated in the Lok Sabha that the two cases were not parallel, in fact were different.

Shri Chhatrapati is disappointed that the "Economic Weekly" has sought to justify Russian intervention in the internal affairs of Hungary. This is a wrong interpretation of the editorial under reference. The editorial was written before the detailed developments, as a sequel to the re-introduction of Russian armed forces in Hungary, were available. Even so, Shri Chhatrapati's attention may be drawn to the very first sentence and the last paragraph of the editorial under reference.—Ed.]

YOU will forgive a regular reader if he expresses his opinion that your politics is weak and unconvincing even in its partisanship. The editorial in your issue of November 17 makes out a poor case for the Soviet Union's role in the present world crises. You obviously approve of the Colombo powers and the AICC not directly accusing Russia of aggression. You then refer to your "realistic appraisal" of Hungarian developments in the previous week's issue. How realistic is that appraisal? Your choice of words and phrases is revealing. You speak of Moscow being "clumsy in its dealings with Budapest" and of its "wrong tactics". You side with the Soviet Union in its actions, even though you "deplore" them, because of the "grave risks involved in the policy of withdrawal from Eastern Europe". You are convinced that "these risks are not only grave but real". You are afraid that "reactionary" elements might again obtain control of East European countries and that "these pose grave problems of security for Communist Russia."



This concern for the security of Communist Russia is really touching. To ensure absolute security Russia should extend her control still further to the Atlantic ocean. Even then her empire would be threatened from North Africa. Therefore in the interests of security it had better be annexed. How far will you go in supporting the Soviet Union? You say that "only biassed observers will deny that these were the reactionary elements which were emerging in Hungary". Are not all elements revolting against tyranny "reactionary"? Have you so completely accepted communist standards that you deny the possibility of a revolt by the Hungarians against the intolerable restrictions on every aspect of life which it is in the nature of communism to impose?

You do not stop short of apologising for Soviet tyranny. You actually advise it on tactics. On your interpretation, you say, "it was a major tactical error for Moscow not to use the maximum force first when Budapest sought the help of the Russian troops stationed in Hungary under the Warsaw Pact." What is your definition of "maximum force"?

I do not expect you to take this attack lying down, but I am even willing to be hurt when you hit back if you take the trouble to make out a stronger documented case for your views. I shall at least know on what evidence you are basing your views.

Nissim Ezekiel

67, Breach Candy,
Bombay—26.
November 19, 1956

[Mr Ezekiel accuses the "Economic Weekly" of partisanship. He is entitled to his views, but he has not substantiated the accusation.

Neither in the editorial in the issue of November 17 nor in that of the previous week does the "Economic Weekly" offer any apology for Soviet tyranny. Developments in Hungary and in Egypt are interpreted differently. But this difference does not mean or involve endorsement of all Russian actions in Hungary.

Not only is the Russian use of force in Hungary deplored, Hungary is cited as evidence that Russia is reluctant to lose her temporal authority over Eastern Europe. Mr Walter Lippmann's comments on the Hungarian issue are quoted approvingly. Insistence by the four Colombo Power Premiers on "the inalienable right of every country to shape for itself its own destiny" is endorsed firmly.

In these two editorials, the "Economic Weekly" is not as much concerned about the security of Communist Russia as about the effects of global, particularly European, strategy. With NATO and the alliance between Western Germany and Western Europe, the Russian withdrawal from Eastern Europe must necessarily pose problems for her security. To ignore this is to disclose lamentable unfamiliarity with the "cold war" political and strategic situation in Europe.

It will be news to many that "all elements" revolting against tyranny are "reactionary". That may be Mr Ezekiel's view. But the "Economic Weekly" has repeatedly stressed Hungary's right to sovereignty and to an equal status with Russia.

Mr Ezekiel informs us that he is a regular reader of the "Economic Weekly". We presume he is being polite to us. But we may be excused in hoping that he will, in future, read the "Economic Weekly" more carefully.—Ed]

Consumption Multiplier Again

SINCE Prof Das Gupta wrote his article (Economic Weekly August, 25) on the book written by Prof Vakil and Dr Brahmananda, I had necessarily to refer to that book in my comments made with a view to clarify certain analytical issues involved in his article (issue of September, 1). However, in his rejoinder, Prof Das Gupta attributes motives to me for giving my comments (issue of October 27). Is Prof Das Gupta a better psychiatrist than an economist?

I used the word 'probably' advisedly. Even for pulling together two non-additive things, sometimes 'plus' is used as a sort of a short-hand, though strictly, from a purist point of view, it would be wrong to do so.

Yes, what I meant was that the value of the consumption goods multiplier would be unity. I am glad that he has pointed out this 'unpardonable' lapse.

When a man like Prof Das Gupta says that he is honest, one cannot but believe him. However, one cannot accuse a person of dishonesty simply because he did not boast about his honesty. Does Prof Das Gupta really believe that two persons cannot discover the same thing independently of each other? The concept of consumption goods multiplier is another way of expressing Nurske's savings potential and I said so in my comments. Of course, I also said that Prof Vakil and Dr Brahmananda went a step further than Nurske in discarding Nurkse's assumption of the equality between the wage and the consumption units. I find that in analysing problems of **capital formation**, the concept of consumption goods multiplier is very helpful in finding out the effects of whatever 'savings potential' is available in the economy. Is not starting from the investment end more logical? Any way, in such matters, the approach one adopts depends to a large extent on one's taste and I have therefore no quarrel with Prof Das Gupta if he prefers Nurske's approach to that of the consumption goods multiplier. But, why this self-righteousness?

B C Desai

Bombay,
November 17, 1956.

From the London End

De-Stalinisation of East Europe

IT is certain that the Hungarian uprising will be quelled. It is equally certain that the Hungarian Communists will continue to remain the dominant force in that country's Government. What is not so certain is whether the cohesive factors making for a highly monolithic Soviet bloc in Europe will continue in operation. This uncertainty clearly suggests a possible shift in the European political balance. In retrospect, the Russian intervention in Hungary appears to have been more concerned with meeting this eventuality than (what was first thought to be the aim) of securing continued internal power for the Hungarian Communists.

The course of events in Hungary has been the principal focus of European political attention over the past weeks. This "diversion" may very well have proved to be welcome in British and French official circles and this explains the private encouragement that has been given to public demonstrations, to attacks on Communists and Communist Party offices and meetings. In Paris and in London, public attention is being riveted on Hungary and on the various aid schemes and funds that have been set up to assist Hungarian refugees. All this public activity is being mobilised on the single charge that the Soviet armed intervention in Hungary was immoral and designed to suppress the local upsurge to ensure the continued hegemony of the Communists in that country. The course of the uprisings and the extent of the Hungarian peoples' loss of confidence in the government has been variously described in the British press. By and large, the descriptions have been highly inconsistent—some have declared (as did the **Daily Express**) that the piloting of the uprising was fully in the hands of emigres who had now returned to Hungary while others (like the **Manchester Guardian** and the **Daily Herald**) state that the Russian claim of "counter-revolutionaries are aiming to restore fascism in Hungary" is nothing more than a piece of "lying deceit."

The crucial fact of the Hungarian situation is that the Hungarian working people, the intellectuals and

the peasantry, have lost every vestige of confidence in the Communist leadership as was provided by the Rakosi-Gero faction. The Communist coup in 1948 was part of the Stalin drive to establish the Soviet Union's preponderant position in Eastern Europe. For a short time, the Hungarian Communists pursued the previous policy of land reform, nationalisation of heavy industry and of improving the country's living standards. This policy was quickly subverted by the expulsion of Yugoslavia from the Cominform and by the need to "find evidence of Titoist influence" in all the East European countries and the pursuit of a wholly unpopular civil policy. The Communists in Hungary who espoused or believed in independence were liquidated. The careerists, who applauded the new policy, were able to secure for themselves highly paid positions in the State hierarchy and so a regime of terror was installed. In the economic field an armaments programme coupled with costly investment expenditure in heavy industry was put into operation with little regard as to whether such a policy will lead to a deterioration in living standards. The contract between the State and the people began to disappear. What has since happened in Hungary was thus inevitable.

The "de-Stalinization of the Soviet regime" which was to follow the 20th Congress of the CPSU and the efforts at reconciling Yugoslavia, let loose the hitherto latent opposition of the East European peoples against their respective Communist hierarchies. That Poland was able to effect a change with little violence was all the more remarkable, considering her past. Those Communists in Eastern Europe who believed that the Marxist creed was un-meaning unless it guaranteed freedom, liberty, self-determination and independence, i e such of them as had not been liquidated in the Stalin era, now came into element. It was possible for Poland to bring about a largely peaceful change only because Gomulka was still alive and was prepared to lead the change-over. In Hungary every one in the Communist Party—even those who were released from prison after the thaw—had a tainted past. This was not the only cause of the violent forms which the Hungarian change-over took. Such Communists as Gero had not understood the fundamental opposition in the country—their first reaction to popular demonstrations was to take the Stalin line of armed intervention. This, as President Tito now says, was the "fatal error" of the Hungarian Government.

In your correspondent's view, this appears to be the background to the present Hungarian situation. The utter failure of the regime to command any support from the population let loose the popular agitators and subsequently the violence and bloodshed. The resort to arms in the earlier stages contributed to a hardening of popular feeling and it is certain that it was at this subsequent stage that the drift of emigres and other elements into Hungary from abroad provided the organisational basis for an insurrection. It is certain that had not the Soviet intervention taken place, all Hungary would now be aflame—aflame on a scale as would make that country lay prostrate and helpless for many years.

The Soviet intervention may, however, stem from another possible cause. The Western press has referred to what is alleged to have been the contents of the Russian letter of explanation to the Indian Prime Minister. It refers to Marshall Bulganin's view that the Anglo-French action against Egypt had brought nearer the prospects of a world war and that the Soviet Union's security (in this situation) required a policy in Eastern Europe which would necessarily call for "vigilance" and the strengthening of the European status quo. There can now be little doubt that this consideration weighed heavily in Russia's calculations before the intervention in Hungary was decided upon.

The movements in Poland and Hungary have taken on an essentially nationalist character. The Communist argument that Socialism ultimately submerges all nationalistic notions may very well be true. In the concrete circumstances in which the East European countries have found themselves it was, however, inevitable that nationalism should prove of more profound significance than even the many reforms which the Communist leaderships were prepared to or did introduce. The whole history of Eastern Europe is a history of external domination. Up to 1914, the Austro-Hungarian Empire was in control. Between the wars, shifting power relations between Germany and Italy had placed most of the East European countries under fascist or quasi-fascist regimes owing allegiance to one or other of the central and south European powers. In the post-war years, the Soviet Union rose to a position of dominance in the area. And so, the urge for national independence as well as the cry for land and bread was ever strong and remains today stronger than ever before. The satisfaction of Poland's demands for sovereignty and equality must, in turn, lead to a Soviet acceptance of similar treatment for the other hitherto East European satellite governments. The policy of de-Stalinization, if carried to its conclusion, with the sincerity which, we are made to understand M Kruschev and M Bulganin espouse, then the change-over in Eastern Europe will be a peaceful one. The revelation by President Tito that there are still a number of Stalinists in the Kremlin does not suggest that the loosening-up process will be quick or, for that matter, peaceful. It is, however, clear that the dimensions of the Hungarian uprising cannot but expedite similar movements throughout Eastern Europe, and no matter what the Kremlin may wish to think, the drive for independence and self-determination will continue unabated until it stretches from Poland to Albania.

The culmination of East European nationalism to the point at which the Nationalists can be satisfied must portend certain changes in the distribution of power in Europe. There can be no doubt that the Warsaw Pact has been immeasurably weakened—certainly more than the NATO alliance has been weakened by the precipitate Anglo-French action against Egypt. There may very well arise in Europe a whole series of states believing more fully and more fundamentally in the need for peace—in a policy of neutralism coupled with friendship with all adjoining states. Some may argue that this trend can introduce a power vacuum and thus of instability leading to a possible revival of German imperialism in Europe. Such was certainly the trend in the interwar years when the 1919 Peace settlement created so many of the East European states. The present situation is, however, different. What happens in Europe is no longer determined solely by European factors. The emergence of the United States and by contrast the Soviet Union, and equally significant of the prestige of Asia, is tending to submerge European factors as determinants of contemporary international political developments.

Our Delhi Letter

Delving into Oil Economics

INDIA is likely to take the initiative and inject an economic fact of crucial importance into international politics. Hitherto it has kept out of the dangerous sphere of oil diplomacy. West Asia has more than three-fourths of the world's oil reserves and yet it produces less than a third of the oil output in the Americas. The cost of bringing the black gold to surface in the Persian Gulf area is a tenth of the comparable cost in the United States. Still much more money is being spent on oil exploration in the United States than on the exploitation of the known petroleum deposits of West Asia. The "fantastic" fact is that the cost of petroleum products the world over are based on the cost of oil production in the Gulf of Mexico rather than in the Persian Gulf.

All this is well known to experts and others. But the consumer in the less-developed countries has not been aware so far of the iniquitous stranglehold of big producers. Merely because the nations of West Asia gave away oil exploration rights to Anglo-American interests, steps have been deliberately taken to retard oil production in those regions.

India is vitally interested in fostering oil development in the East so that it may become a more important source of oil than the West as it potentially is. This is not only a political necessity, though the assertion of freedom by the nations of West Asia is intimately tied up with their oil economy. India has also to decide its own oil exploration policy, and the Government would like to ensure that the comparative paucity of means and technical know-how should not impel her to pave the way for the establishment of another oil imperialism in this country.

India as one of the small producers of oil is intimately concerned with the intricacies of oil economics. Its output, at present, is 4 lakh tons a year. India imports about 3.2 million tons of crude oil, in addition, from the Arabian countries, at a cost of Rs. 30 crores. This expenditure can be reduced considerably and directly if the import prices are related to the production costs in the areas from which oil comes. The "artificial" inflation of oil prices not only enables the producing companies to cover their costs of exploration and exploitation in America but also to swell their margin of profits. Nearly 87 percent of the oil consumed in Europe, excluding Russia, Rumania, Hungary and Yugoslavia, is supplied from West Asia by four companies with almost equal British and American ownership.

World production of crude oil outside the Soviet countries is reported to be 415 million metric tons in the first six months of this year. This is 10 percent more than the oil output in the previous half-year. The estimated annual production may be thus 830 million metric tons in 1956 compared to 770 million metric tons in 1955. Production of U S S R and the countries under its influence in 1955 is estimated at 75 million tons. These countries are however progressing rapidly towards the attainment of their target of 140 million tons by 1960.

In the next five years, Rumania proposes to treble it oil production from the present annual level of 10 million tons while Russia's oil output is expected to be doubled during this period. Hungary, if political conditions in that country stablise soon, will increase its oil production from 1.5 million to 2 million tons.

The Chinese produce about 1 million tons of oil in their country but they hope to double this figure next year with the completion of the railway line linking the old established Yumen oilfields with Eastern China.

These trends indicate that America's share of world oil production has declined from 51 percent in 1953 to 45 percent in 1956. The trend is likely to continue. After all more oil is found at depths 2½ to 3 times nearer the earth's surface in the Arab-Ural area than in the Americas.

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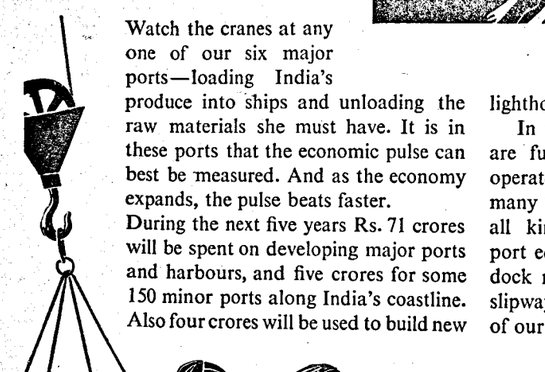
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AND PART OF IT

The Commonsense of Opportunity Cost

Dhiresh Bhattacharyya

THE discussion between Messrs Sen and Srinivasan in the columns of the Economic Weekly (September 29 & October 13) provides an occasion for some re-thinking on the doctrine of opportunity cost. Two definitions of opportunity cost have emerged from that discussion. The first refers to the marginal product of a factor in an alternative occupation; by almost unanimous consent this is taken to be nil or negligible for newly employed industrial workers in overpopulated agricultural countries. The second definition is concerned with the compensation which must be received by a factor if it is to continue to offer its service to a firm; it is the minimum supply price that must be offered to a factory to keep it in its existing occupation. The former has figured prominently in discussions of the social costs of wiping out so-called disguised unemployment in underdeveloped countries, while the latter seems more relevant for the practical question as to whether new firms will at all grow up to take care of the unemployed workers of the country.

In a fully employed economy, where all incomes are based on considerations of productivity the two definitions tend to coincide. Any lack of coincidence has to be explained, in such situations, either by reference to economic friction or in terms of the special attachment which particular occupations may have for specific groups of factors. The minimum supply price of factor X to occupation 1 may be higher than what it might earn by alternative use in occupation 2. In such a case, the doctrine of opportunity cost, taken literally, fails to satisfy. The cost of the factor X to occupation 1 is something more than what it might earn or produce in an alternative use, for example, in occupation 2. The doctrine is salvaged by broadening the definition of cost so as to include the "net advantages" of different kinds of occupations. The cost of a factor to an industry is the value of what it might produce elsewhere minus (or plus) the net advantages (to disadvanges) of this particular occupation as compared with its rivals.

In a society where incomes are not based on a strict valuation of the marginal product, or where doles constitute a source of livelihood for some people, the relation between the two definitions is virtually snapped. The minimum supply price of labour to a new firm may be equal to the full industrial wage. This is higher than what labour is currently 'earning' in agriculture (his barest subsistence needs). That in turn is higher than what he contributes to production in his existing occupation. The difference between the labour cost to industry and the current earnings of labour in the rural areas has to be explained, I presume, by reference to the same non-economic factors as were referred to in the previous paragraph. (There may be other explanations in terms of institutional obstacles to the mobility of labour, the existence of heterogeneous groups among rural workers, etc). On the other hand, the difference between labour earnings in agriculture and the marginal product of the labourer has to be explained in terms of the institutional peculiarities of pre-capitalist agriculture.

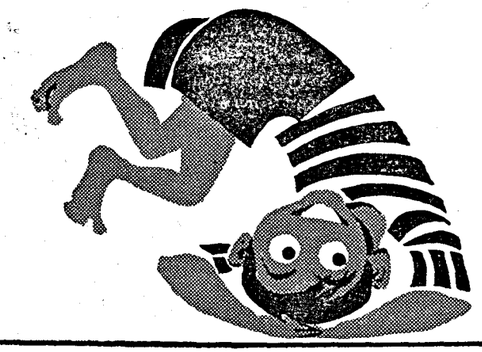
How does the doctrine of opportunity cost emerge out of this ordeal? The cost of labour to an industry is now equal to the value of its alternative product (nil or negligible by all admission) supplemented up to the cost of subsistence (according to rural standards) plus the differential advantage of rural living as it appears to the labourers themselves. The relation between the two definitions with which we started is no longer as self-evident as it was in our example of a fully employed capitalist society. But given the institutional structure of rural society and the peoples' attitude to industrial work, the two definitions are not entirely unrelated. Once again the doctrine has to be salvaged, if at all, by broadening the definition so as to include in the displaced alternative the cost of the industrial workers.

One naturally loses faith in a doctrine which changes its character so frequently. Doubts have been expressed regarding the applicability and relevance of the doctrine in the theory of economic growth. If one sticks to the first definition of opportunity cost as the value of the alternative product, tha cost is nil, and the case for using up as much of the labour as possible in highly labour-intensive occupations seems to be irresistible. But the cost of labour, or to put it more laboriously, the cost of providing employment to the unemployed is equal to the full industrial wage which, as we have seen, is equal to the cost of subsistence plus the differential considered necessary by the labourers. Shall we adopt the second definition and say that the cost of employing labour is nothing but the opportunity cost as so defined? The former seems to be barren of all practical significance, while the latter looks suspiciously like circular reasoning.

To get out of this dilemma one can do no better than go back to first principles. The doctrine of opportunity cost, in the hands of its originators, was a device for showing forth the relation between private and social costs. Where a factor is capable of being used in two ways, its social cost in the first use is measured by the value of its alternative product in the second. In this case the supply price of the factor to the first industry reflects the value of the 'displaced alternative'. In terms of our two definitions, we can say that the second definition is a construct based on the first which represents the essence of the social cost of producing the particular product. Where no such alternative use is possible, the social cost is no longer the cost of a displaced alternative; the supply price of the factor ceases to deserve the name 'opportunity cost', since no other opportunity of production exists. What does the supply price stand for? Does it reflect any social cost? I believe it does.

The minimum supply price of the disguised unemployed comprises, as we have seen, the cost of rural subsistence and a differential. The former is a fixed social obligation and is discharged by the family, the State, or some other agency. The latter is embedded in the existing system of valuation of the community. An employer who provides useful employment to the unemployed takes over the former obligation and has to pay an additional penalty for investing in an industrial rather than an agricultural process. His private cost is a reflection of two separate social costs—the cost of maintaining the unemployed and the cost of introducing an industrial process in a predominantly rural society. Neither of these is an opportunity cost, in

the correct sense of the term. Both of these are, however, real social costs involved in an industrial investment process. The ancients would have called them the costs of accumulation, of building up the wages fund, and such costs would, in a Smithian economy, be accompanied by an additional item, viz. a rise in 'profit'. A rise in profit, if effective, would have transferred to the hands of the would-be employer a sufficient command over wage-goods to enable him to give useful employment to labour. In so far as the previous consumption of the disguised unemployed can be thus channelled into the wage fund, the cost of providing employment is not wholly a net cost. But a certain additional social cost must almost always be involved in creating fresh employment for the disguised unemployed. Even in the limiting case where labourers agree to work in industry for the rural subsistence and the whole of the previous consumption can be recovered, additional social cost is involved in organising the fiscal and other necessary arrangements (e g transport). Against this additional cost we have to set the additional product from the new employment.



TURNING A NEW ROLL

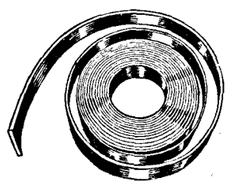
We have turned a new roll; and it has cost us three and a half crores of rupees.

To what purpose, pray ?
At the end of the rolling, we get coils of flat, steel strip—skelp, as the steel man calls it. The skelp is passed on to the Indian Tube Company, which welds it into tubes.

So what ?
Merely that steel tubes pipe up water from deep inside the earth to parched fields, helping to grow a rich harvest. In the cities, countless homes receive a protected supply of water through these pipes.

Soon, a new plant will turn out the kind of steel tubes that go into the making of bicycles. Remember also that the locomotive speeding along the track is kept going by steel tubes which hold the steam.

Tata Steel's new Skelp Mill, the first of its kind in India, has a capacity of 200,000 tons. When there is enough steel, this mill will roll all the skelp and strip the country needs.



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Subcontracting in Engineering Industries

George Rosen

This is an interim report on a study of 'subcontracting' among 15-20 Bombay firms carried on in July-August of this year. The full report will be written in the United States, but it was felt both by the author and editor that this interim report migh be of value in India's planning now.

IT was considered desirable to study the engineering industry as part of the M I T examination of industrial growth in India. However the character of the industry made it unfeasible to use capital: output ratios as a method of examining that growth. The very great complexity of the industry in terms of products produced, the great ranges of size in the industry, the relative newness of many sectors, and the absence of satisfactory statistical data since many of the firms are not in the public limited corporate sector, all make the computation of capital: output ratios both of great difficulty and of very questionable meaning.

Instead of this computation it was felt that a qualitative, non-statistical study of smaller firms in the industry, directed at determining the present extent, methods and future possibilities of sub-contracting in India would be of value for several reasons. This would give some understanding of the place of small industry in the Indian economy, and its potentialities for growth; and would also explore the important problem of the relationship between larger enterprises and smaller ones. Sub-contracting for the purposes of this paper may be defined as the practice of one firm contracting with a second firm, for the second firm to manufacture some part of either a larger product, or a larger order, being produced by the first firm. This is practiced very widely in Japan and the United States, and has the effect of both encouraging a wider dispersion of industry and permitting greater specialization.

In India this has apparently not advanced widely. Apart from certain areas in North India, and Bombay and Calcutta, there are not many "small industrial" areas: at the same time many of the larger firms, either as a result of experience or convenience, prefer to concentrate as much of the manufacture of a product as possible under their own direct control. In Bombay city with many small industrial establishments it seemed that a study of the degree of subcontracting, the difficulties faced by the smaller firms doing the subcontracting, the problems faced by the larger firms giving the orders, and the question this raised for the extension of subcontracting would be worth studying. These results, related to the results of other studies of small industry made by, among others, James T Mc Crory, P N Dhar, and the Development Commissioner, Small Scale Industries of the Ministry of Commerce and Industry, Government of India, would contribute to a better understanding of the present position and the future of small scale industry in India.*

Field and Method of Study

The author was able to get introduction to a group of about 15 small and medium size firms in Bombay city, that were doing work on a contract basis for one of the larger firms. He was also able to visit several of the larger firms which subcontract work to the smaller firms. (There is some overlapping here. Many of the medium size firms especially were both performing work on subcontract for other firms or the Government, at the same time that they were themselves letting out work on subcontract to other firms for their own use). The firms visited, and business men interviewed, were largely either in the electrical machinery field, or the metal stampings field. The author spent on the average at least two hours at each of the plants visited. The questionnaire (see Appendix below) shows the major points of interest and questions asked.

As can be seen the author sought to gain information concerning the physical characteristics of the plant, the capacity for expansion, and the problems arising both in the operation of the business and in relation to plans for expansion. These questions led to other questions and to voluntary offers of information in areas not covered by the questionnaire, including questions of finance and volume of business done. In the latter area the author was extremely careful to dispel any suspicion that he might be connected with Government (a general initial suspicion). The information gained in the financial field is very general; since the firms did not publish financial accounts. (In no case were the smaller companies public limited companies). Where financial information was made available there was no way of checking on its accuracy, and it is probably of dubious accuracy at best.

Small Sample

What follows is a very brief summary of the characteristics of the firms visited, and certain tentative conclusions. It should be stressed that this summary and the conclusions based thereon, is derived from a very small sample in the Bombay region. Characteristics in other areas may be significantly different, and the conclusions would also be different. It should also be stated that the firms interviewed are successful firms, in many cases over 10 years old, and with a record of proved stability. As such they cannot be considered typical of the many small firms that start, fail, and restart, and that are perhaps more typical of small scale industry than these.

Character of Firms

Of the 15 small or medium firms visited, the employment per firm ranged from a minimum of 10 to a maximum of 700. The model employment however was in the 50-100 worker class, with a few firms with less than 50 and a few with more than 100.

All of the firms produced a substantial part of their output to specific orders, i e. on contract to other manufacturing firms, or to middlemen, or to the government. All carried on a substantial amount of subcontracting, either as producers of parts of larger equipment units, or as repair work. Several of the larger firms in the group also produce items such as fans, stainless steel ware etc on a production line basis, but even for these firms work on

* Mc Crory, J T "Factors affecting Growth in Small Industry"; Development Commissioner, Small Scale Industry—Small Scale Industry Analysis and Planning Reports, esp 2 and 3 on Sewing Machines and Parts; and Bicycles and Parts (for Northern India); P N Dhar "Some Aspects of Technical Progress in Small Scale Industries", Indian Economic Review, Vol III, No 1 (Feb 1956).

contract represents the larger proportion of the output.

The amount of machinery varies from one or two small lathes and drilling machines, to numerous such machines, as well as cutting, turning, and welding machines. However in all cases much of the machinery is either second-hand or frequently produced within the shop by its own workers to its own specifications for its own particular purposes. The machinery would, I believe, in many cases probably be considered past its useful life in the United States. The number of workers in each shop appears great, with much of the filing, finishing and joining of parts done by hand to the required tolerances. Compared again to United States machine shops, facilities are often primitive—dirt floors, belt driven machinery, excess crowding to utilize all the space in a small corrugated tin shed. Very few have their own casting facilities since the cost of firing a cupola for a small volume of castings would be prohibitive, so that most of these in turn subcontract their casting requirement to a foundry.

In spite of this limitation in machinery and space the quality of the output is frequently high. For work in which tolerance requirements are not unduly high, where a relatively small output is required on an individual basis, the shops are able to turn out a quality of output comparable to that in the West.

The workers are in many cases uneducated, recently moved from the village. Nevertheless many of these workers, trained on the job with an older skilled mechanic, are able to construct pieces of equipment and elaborate machinery either on the basis of a sample model of a part or a machine, or on the basis of designs and patterns given to them. Apparently there is no feeling that the lack of skilled labour would prevent the firms from taking on additional work.

Finance and Organization

The firms themselves in some cases go back to the first World War, though many were started following the Second war. In all cases they were started by a single man, usually with a very few workers and one or two machines. The owner or founder himself was usually a skilled mechanic, frequently uneducated in the regular school system, but well-trained in a larger machine shop and with a knack for handling machinery. At some point his reputation as a skilled worker became such that he received after work-hour orders to build one or two small machines, or to repair a motor or switchboard. As these setting up his own shop and he would face the question of whether the possibility of making more money was greater on his regular job, or by setting up his own shop-and he would make the latter decision. Initially the financing would come either, in a few cases, from his own savings but more likely from the family, or others in the same community who would become silent partners. Then would come a long period of austerity, plowing back of profits and savings, and, since these are successful firms, a period of some growth or expansion. This latter period would usually be a war period. In no case was the early financing from banks or the government. There is a general fear of bank financing or outside assistance -a fear that this would eventually mean either loss of control if a crisis arose, or that it would involve burdensome fixed charges. More recently there is a fear that it would mean undergoing long and tedious investigation and burdensome red tape. (There is general knowledge of various government programmes to aid small industry, but the fear of the government apparently outweighs the advantages of its aid. Only one of the firms interviewed has applied to the Bombay State government for aid in expansion).

Not Public Limited Cos

None of the firms are public limited companies; a few are private limited companies and the remainder are sole proprietorship or partnerships. The red-tape involved in the company act legislation apparently discourages any extension of public limited organization, and even the firms interested in raising capital are unwilling to become public companies to do so. Sole proprietorships are preferred because several firms have had unfortunate experiences with either partners claimed to be of doubtful integrity, or upon the death of the original partners.

At present almost all the firms are operating at or close to capacity. Several are reorganizing their space to squeeze in additional machinery; others, the larger ones, are considering an extra shift. Almost all are at least considering moving to larger quarters. Nearly all use rented space and have expanded in the pact by renting another nearby shed. Now, with the great limitations of space in the crowded areas of the city where they are located—Kumbharwada, Fort, Ballard Estate, Byculla, Parel, Girgaum—they are considering moving to the proposed industrial area on the outskirts of Bombay where they might be able to build a plant and combine enlarged operations under one roof, rather than in a series of makeshift sheds.

Shortage of Material and Equipment

What are the technical problems faced by these firms? A general problem is the availability of the raw materials where steel or cast-iron is the basic material. Because of the shortage of steel almost all firms are forced to resort to the black market to get steel beyond a limited official quota based usually on their past requirements. However, while they can get steel on the black market, this is at the cost of both a price higher than the official price (this higher cost may not be allowed in computing taxes since there are frequently no records), and at wider quality variations, which may adversely affect the quality of the manufactured product. The same may hold for the pig-iron used for castings, and the quality variations of these are a frequent complaint.

Other problems, though less serious for existing operation, are delays in getting machinery for expansion. Apparently there are lags of as much as a year in the delivery of smaller machines and precision tools from domestic sources. Getting permission to import such machines requires passing through the elaborate procedure of Import Control, which is often beyond the capacity of the small man as well as long delay between order and delivery.

For those firms producing for more than a local market railroad transportation, with the present shortage of wagons, also causes delay, with consequent tying up of working capital in stocks of raw materials and inventory of finished product.

Limiting Factors

Apart from certain of these shortages, government legislation apparently operates as a limiting factor to these firms, and acts to discourage expansion. Firms are known to have remained at below 20 employees to avoid entering under the requirements of the Factories Act; and to below 50 men to avoid the requirements of the Bombay Provident Fund legislation. The limitations on discharge of permanent workers has also acted to either encourage use of temporary workers or to discourage a rapid expansion that might only prove temporary—and it may discourage two-shift operation for many of these firms.

Unlike the firms studied by Mc Crory, a lack of working capital is not a major limiting factor on growth for most of the firms. (There is one major exception). These are firms which have achieved relative stability having survived through busy periods and periods of slack, and by now, they have established contacts and methods of payment which assure them of their short term capital needs, and enable them to tide over periods of either undue delays in sale, or slow sale. As such they may not be typical of most of the smaller firms.

Methods of Payment

Methods of payment for the job vary. In only a few cases, and these primarily where the order requires an unduly long production period or is unusually large, is there advance payment—i.e. payment at the start of production and some proportionate payment during the period of production. (One exception is a relatively large firm in terms of employees and fixed capital which suffers from a serious shortage of working capital and which asks for, and gets a large advance payment). For most firms there is simply payment after delivery and acceptance of the product by the buyer. The time of payment also varies for new customers, it frequently accompanies delivery and is immediate. For older customers, or those with an excellent reputation, payment may be made from several weeks to one or two months after delivery and after it proceeds through the customer's normal accounting procedures.

The government is to some degree an exception. The complaint is made that payment by government firms is often delayed for as much as six months, especially if there is any question of variation of the product supplied from government standards. As a result several of the smaller firms refuse to take government orders directly, since the possibility of delayed payment is serious. (They may handle government orders indirectly, either through a middleman or on a sub-subcontract with a larger firm. In such a case they get payment quickly from the middlemen).

The government policy of requiring deposits from firms before letting contracts to them has also created criticism, not so much of the requirement but of its implementation. Apparently there is little consistency between government departments with respect to size of deposit, nor is there a centralized deposit requirement—if a firm wishes to bid on orders for several departments it may have to provide separate deposits. For a small firm this may mean that a large proportion of its liquid capital is tied up in deposits, and this discourages its willingness to accept government orders.

Customer-Producer Relationship

The relationship between the customer firm and the firm producing on a contract basis varies. In some cases it is direct, based on the buying firm's knowledge of the smaller firm—frequently through contacts made when the owner of the smaller firm worked for the larger firm. Bids are asked for a job, and are let directly. In other cases it is indirect with intermediaries. The intermediaries may be another manufacturing firm which has accepted an order but finds for some reason that its capacity is limited, and it therefore sub-contracts part of the order. In today's boom market with numerous rush orders this happens quite frequently, and the original firm will give part of the order, or part of another order to free capacity, to a smaller firm—frequently operated by a relative or a close friend.

The other type of middlemen are regular traders who do not have technical capacity, but who act as go-between between large firms and small firms—and who may supply capital to the smaller firms. There is some feeling among the smaller firms that these middlemen are making a profit out of them purely as traders, and that it would be desirable that they be eliminated. Certain of the larger, well established quality-conscious companies often prefer to deal with the small producer directly since they have a more direct check upon the quality of output.

The company placing the order only rarely supplies its sub-contractor with raw materials. This is ordinarily only done in the case of such items as special steels which the customer requires for the output. In all cases the customer will supply designs and specifications of the product to be manufactured. He also provides some inspection in the shop. Usually when an order is first given inspection is quite regular, but then if the item produced is a standard item it may be stopped. If it is a special item with unusual characteristics, inspection may be continuous; and if there are difficulties in production the purchaser may provide technical advice, or make changes to enable the difficulties to be overcome. In all cases there is inspection before acceptance by both the producing firm in its shop, and by the purchasing firm. Payment depends upon acceptance, and producing firms will usually make changes without charge if there are rejections due to failure to come up to specifications.

Experience of Larger Firms

How has sub-contracting worked for the larger firms which have practiced it? Opinion varies—several firms are apparently satisfied with the results and are planning to expand the area of sub-contracting. Other firms are very dissatisfied with sub-contracting and have stated that they will not be satisfied until they can concentrate all production under their own roof. These attitudes are based on varying experiences and after calculation of the costs of sub-contracting. For the consuming firms the costs of sub-contracting are not only the direct costs of production but costs of transportation, any cost modification of the product delivered by the sub-contractor, costs of inspection, and any costs arising from delays in delivery either because of poor planing by the sub-contractor, or because of factors out of his control such as absenteeism or strikes.

Several of the larger firms in the Bombay area have found that up till now the costs of sub-contracting in practice exceed the costs that would be incurred if they produced the items themselves. The types of items produced in these latter cases are usually items requiring a high degree of precision and a large volume of output. In several cases the final product supplied has come up neither to specification nor to samples, as sub-contractors skimp on quality either to meet costs, or



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to increase speed of delivery. Where the item is part of a larger final product whose output is on a time schedule, rejection is difficult. The purchasing firm then has to make its own repairs and modifications to achieve the desired quality, and the final cost to the buyer becomes unduly high.

A frequent complaint also heard is that the price offered is too high. This may reflect the smaller firm's inability to handle a large order, and in some cases inadequate knowledge of its own costs, because of primitive accounting methods.

The firms that are satisfied with sub-contracting are those requiring work of relatively lower precision—such as tanks for transformers—or where they have had a long relationship with a few reliable sub-contracting firms that know their customers' requirements and are willing to make adjustments for them.

The Small Scale Industries Service institute is attempting to provide central workshops with new machinery where small firms can bring large volume orders, or where work of great precision is required. It is also making machinery available under very favourable terms of payment, which will enable small firms to modernize plant and turn out higher quality work. These are necessary steps if sub-contracting is to expand.

Conclusions

It should again be repeated and stressed, first, that these conclusions are based on a small number of firms—15 to 20—surveyed in Bombay city and suburbs; and second, that these are interim conclusions subject to later revisions. What holds true for these firms may not be true of others either in Bombay or elsewhere.

1. A major conclusion is that entrepreneurial and technical ability exists, not only in the larger organized sector of Indian business, but in the small firms and shops of Bombay. This conclusion agrees with that reached in the other studies. It might be added that these business men were not refugees, as found in McCrorey's Study, but were people who had lived and worked in or near Bombay all their lives, and included representatives from many of the communities in Bombay.

2. The Five Year Plans, by their great encouragement to the engineering industries, have also provided a major stimulus to sub-contracting. Existing firms, able to take advantage of that stimulus, have expanded some by making additions to space and machinery, and by the production of additional lines. At the same tme the larger firms which can give orders on a sub-contract basis to the smaller ones have also been expanding and are looking for smaller firms to give additional orders to, if the smaller firms can deliver. (In some cases these firms would formerly sub-contract with other large firms which had excess capacity—but as these latter firms today approach major lines they can no longer take capacity operation in their own sub-contract orders, and new sub-contractors must be found). There are thus large potentialities for further sub-contracting on the demand side, and these may be expected to increase if the opportunities are taken advantage of.

3. While the broad government expansionary policy is of definite aid to the small firms, and this has been reenforced by the small industries programme which is going into operation, other specific polices apparently run counter to these expansionary influences. First is the general distrust of government and suspicion of government activities, whether warranted or not. This arises primarily because most of the people have met the government previously in the role of a tax collector, or as a policeman. Apart from this past history certain specific departmental policies, with respect both to payment on contracts and deposits required, act to inhibit small industry's interests in government contracts. Some reduction in the red tape involved in dealing with small business—especially with respect to imports, raw material and transportation—would also be of value in making it easier for the smaller firms to expand. Finally some question may be raised as to whether the size limits of the applicability of welfare and control legislation may not be too low in their application to small and medium size industry.

4. Private banking facilities for small and medium size firms are either almost non-existent or unused. A system of making medium term credit for fixed plant available from private banking sources within a relatively short period of time after application would be worth exploring. Expansion of the rediscount facilities of the Reserve Bank against such paper might have encouraging consequences.

5. It is important that a wider extension of sub-contracting take place simultaneously with the expansion of large scale industry, or it may be too late. If large scale firms find themselves forced to enter the production of the numerous small items which they would prefer to sub-contract but are unable to at present, it may be too late to encourage sub-contracting to smaller firms at a later stage. Once a firm has made the investment in plant and machinery to produce its own requirements of an item, it will be unlikely to sub-contract; in fact it may itself enter into production of hose items for other customers to operate at full capacity. This will both make for increased centralization of industry at the same time and it will probably reduce the employment effects of industrialization since the larger firms are likely to use more capital intensive methods than the smaller firms.

6. The smaller firms which have succeeded with sub-contracting have been able to turn out goods which meet the quality standards of their customers at a reasonable price and in sufficient quantity. For smaller firms to succeed it is most important for them to stress both high quality of output, and close control of costs. Customers by providing inspection, can assist in quality control; the government small industry progamme will encourage improved quality also; possibly either by publications or brief inexpensive courses in accounting more widespread use of accurate costing methods would be encouraged among smaller firms. This finally requires a desire as well as ability on the part of the small firm and middlemen to deliver goods of the highest quality at reasonable prices over a continued period of time.

APPENDIX

Questionnaire used in the enquiry

1. What machines do you have and how many of each type?
2. What type of engineering work does your firm do?

   Does it produce finished products or is your work largely repair?
3. How many workers do you have? How many are skilled mechanics and metal workers?
4. How many hours per day and week are you working? How many shifts?

Do you have machines or skilled workers who are not working now? Could you handle more work with your present machines and workers?

What other types of work could you do other than you are doing now?

If you needed them to expand could you get more machines and workers? Would you have the capital to expand production? How soon could you expand output if orders came?

7. Where do you get your orders from now? How are they handled? Do your customers supply you with raw materials and specifications? Do they inspect your work as it proceeds? What proportion of rejects do you have? Could you reduce this—how and by how much?

8. How long does it take between order and production? If not on order, how long does it take between production and sale? Do you get advances from your buyers—or how else do you get your working capital?

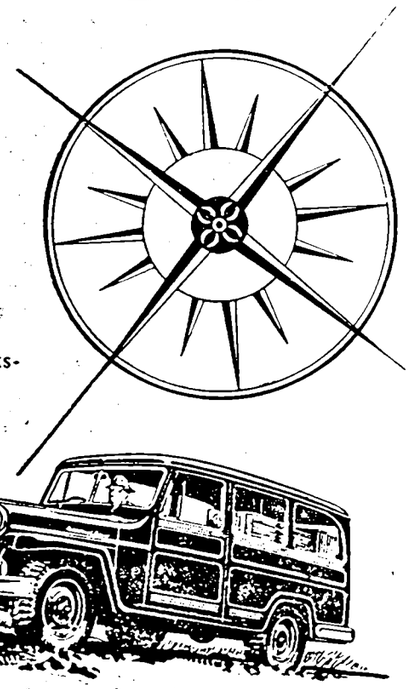
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Changing Character of Bank Advances

Special Measures Needed

Sukumar Chakrabarty

AMONG the points brought out in recent discussions on monetary stringency, the one which deserves special attention on its own merits is that of changing character of bank advances. It must have been raised by the bankers in their discussions with the Finance Minister, for among the proposals put forward, extension of the period of loans under the Bill Market Scheme from 3 to 5 months appears to have figured prominently.

That the character of bank advances has been changing and that bank advances are becoming less liquid than before, has been the general experience of all practical bankers. As a result, flexibility of operations in the matter of adjusting bank assets to changing monetary conditions has also been impaired to some extent. This is not something which happened only in the last few months. The change, moreover, cannot be gauged from the analysis of bank advances published by the Reserve Bank periodically, though in the recent literature on the subject, a slight increase in the proportion of advances to industry has been noted. In the last report on the Trend and Progress of Banking for 1955 the position has been summed up as follows:

> "Taking the five-year period from December 1950 to December 1955, the proportion of industrial to total advances showed a rise of 2.3 per cent to 34.3 per cent whereas the proportion of commercial advances declined from 51.8 per cent to 50.1 per cent".

The recorded increase in the proportion of advances to industry of a mere 2 to 3 per cent in five years is not, of course, much of a change, nor do the published figures convey an idea of the underlying processes which they are supposed to reflect.

That there has been a material change, nevertheless, in the character of bank advances is suggested, among other things, by the remarkable increase in recent years in the imports of capital goods in which bank finance has an important part to play, in one way or another. It is commonly complained—and this is borne out also by such data as are currently available—that the inflow of foreign capital and of the volume of fresh foreign investment in the country has not been substantial. Therefore, the responsibility of financing imports of such a large volume of capital goods has fallen heavily on Indian industry which has necessarily to depend very largely on the banking system for providing necessary finance, in the absence of an active new issues market or easy access to the capital market. It would be worth investigating to what extent imports of capital goods have been and are being financed by bank advances. If such an investigation were carried out, there is reason to believe that not only the share of the banks would be found to be large, but it would also be found that this share was increasing.

Such advances, needless to say, are by their very nature of longer duration than commercial advances. The increasing predominance of capital goods among our imports not only increases the volume of advances and lengthens the period of such advances, it has other repercussions on the banking system which are perhaps even more important but are much more difficult to trace.

When a manufacturing concern borrows from banks to finance the import of some capital goods, such borrowings will figure in the returns of banks as industrial advances. But when importing houses finance imports of heavy machineries with bank advances, such advances are treated as commercial advances, though they may not be liquidated as quickly as those against import of consumer goods. The manufacturing concerns, on the other hand, may pay the importer for the machinery they import, over a period of time, covering the erection of the plant. This results in a gradual decline of commercial advances, and increase in industrial advances. Thus the advances made to importing houses, though classified as commercial advances, are actually of industrial nature, judged by their purpose as well as by their duration.

A study of seasonal variation in bank advances over the last five years reveals that the slight decline in the last slack season was not a mere aberration but in conformity with a definite trend. The table below, showing the seasonal decline as percentage of bank advances (including bills purchased and discounted) at the peak of the busy season, establishes that the seasonal character of bank advances is wearing off. Industrial expansion under the First Five Year Plan, which developed momentum in 1953, has been quite rapid since then. In the absence of capital market activities, as pointed out before, the burden of financing this expansion has devoloved largely on banks and hence the shrinkage in the customary seasonal decline.

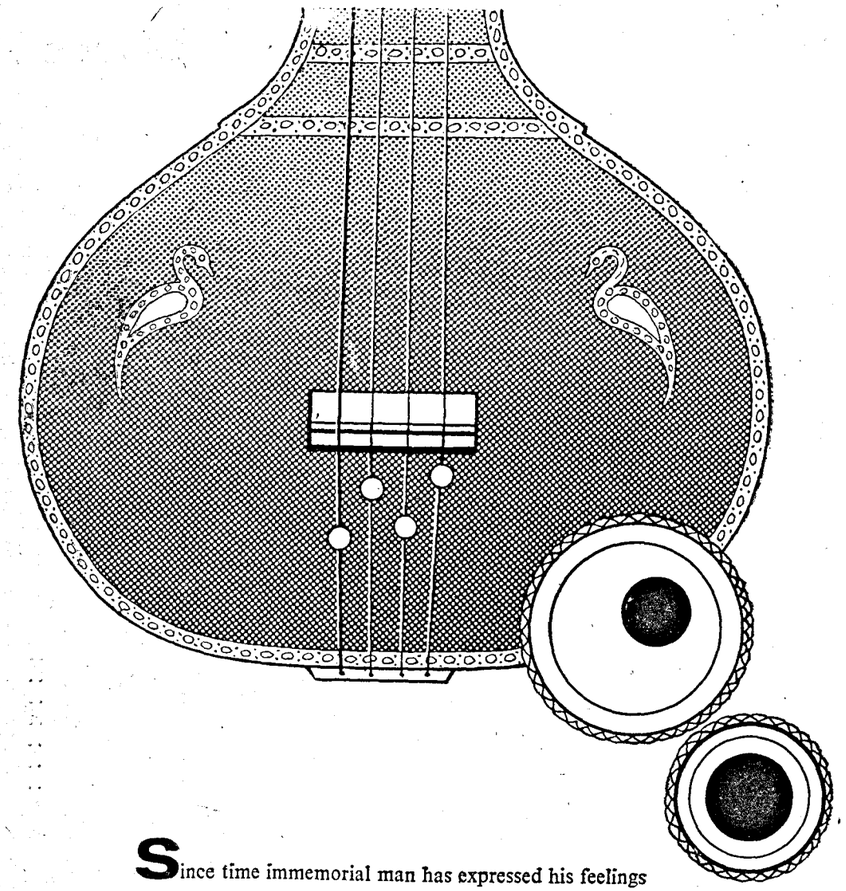
Seasonal decline in bank advances as % of peak of the busy season

1950	..	16
1951	..	17
1952	..	17
1953	..	15
1954	..	10
1955	..	.05
1956	..	.01

Bank advances to importers of iron and steel, on Government account are similar in nature to industrial advances as their liquidation takes a much longer time than that of ordinary commercial advances. At the present rate of steel import, it is estimated that on an average bank advances to the tune of Rs 50 to 60 crores have been outstanding at a time during the past months on account of this item alone. Delay in Government's procedure of payment has caused additional strain on banks' resources.

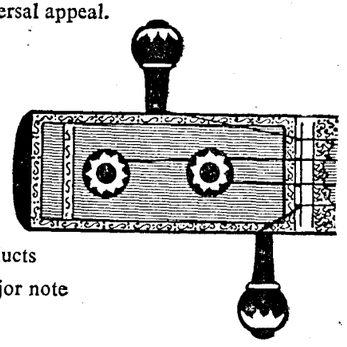
So long the character of advances are based on the character of borrowers, the analysis of advances carried out by the Reserve Bank periodically will not reveal the actual transformation that has taken place in the bank advances and the present absence of seasonal decline will be treated as an aberration.

Larger advances to industry is undoubtedly a welcome feature of recent banking practice. The old practice of restricting bank advances to commercial purposes only have been a major handicap to the proper execution of the Second Plan



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in the private sector. But the problem of finding resources for meeting the developing demand for such advances remains to be solved.

Whether the Reserve Bank increases the duration of usance promissory notes under Bill Market Scheme from 3 to 5 months or not is immaterial for this particular problem. So long as the limits fixed for banks under the Scheme remain the same, lengthening of the usance of bills will not add to the resources of the banks though it will certainly simplify the procedure and reduce the clerical work involved. The Bill Market Scheme has been a great stabilising factor and has enabled banks to withstand the strain caused by the rise in Bank Rate in England. On the other hand, it has failed in its original purpose of creating a proper bill market and the manner in which the Scheme has been operated has reduced the prospect of a bill market ever coming up. This has been done by introducing the element of 'advance' in Reserve Bank lending, with bills as collateral, and withholding the element of 'discount', which is the very essence of a bill market. This has no doubt been very helpful to the banks on account of the flexible character of 'advance' as against the more rigid character of 'discount'. If now the usance of bills is increased when the general tendency is reduction of usance abroad, even the semblance of a bill market in the scheme will disappear altogether.

The suggestion, however, merits support in an amended form. If bills of longer usance are discounted or advanced against by a specialised institution (and not by the Reserve Bank as under the present scheme) it will increase the resources of the banks and make their industrial advances more liquid. Industrial Finance Corporation has yet to play its full part in the industrial development of the country. The preamble to the Act said that the Corporation would particularly help the medium scale industrial firms which have no access to the capital market. The lack of such access has been the main cause of pressure on bank advances. True, the I F C is expected to provide only fixed capital, but there is nothing to prevent it from extending shorter term loans, i e shorter by its own standard but inconveniently long, according to commercial banks. Since the consortium recommended by the Shroff Committee did not come off, it may be suggested that the extra burden on banks due to increasing demand for longer term industrial advances should be reduced by transferring such advances to the IFC. The suggestion which has already been made that the IFC's resources should be increased by handing over to it the counter-part funds of the recent Indo-American Wheat Agreement on the same line on which such transfer was effected in the case of ICFC, should be strongly endorsed.

This fund may form the nucleus of a scheme for promoting the development of a market for industrial bills to supplement the Reserve Bank's Bill Market Scheme. The justification for this necessary reorientation of the suggestion put forward by the bankers lies in this that the distinction between commercial and industrial advances must be maintained in the interest of the development of commercial banking on sound lines. In the absence of specialised institutions in adequate number and strength to cater for long term financial requirement of industry, banks can only distribute such assistance with resources other than those on which they rely for their normal commercial banking needs. Combination of diverse types of financial assistance under one 'scheme' may lead to lopsided development.



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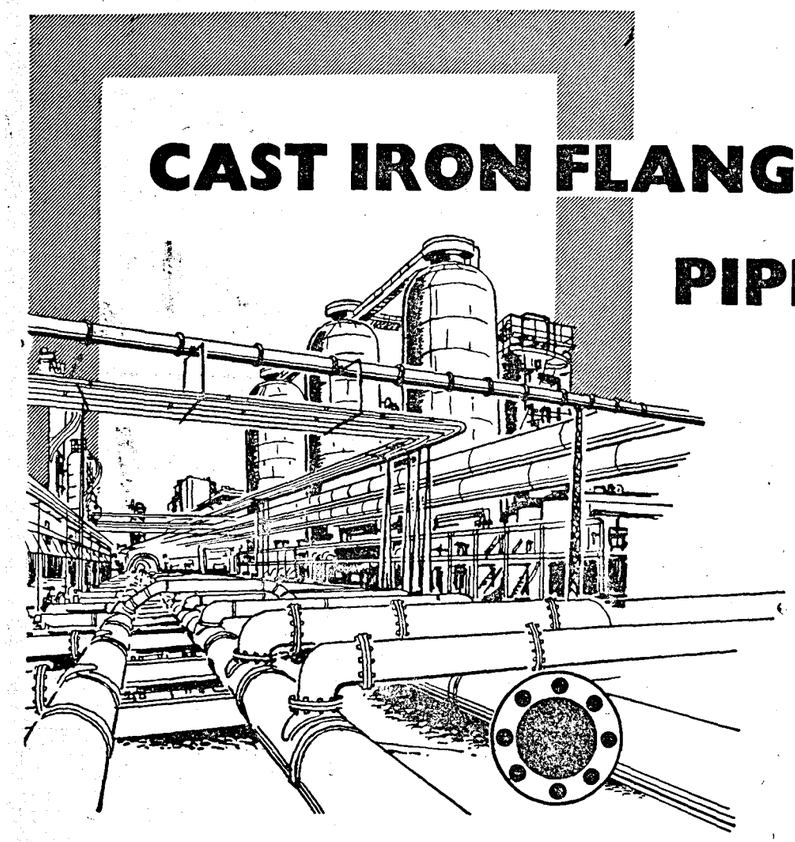
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Around Calcutta Markets

Dull but Steady

Wednesday, Evening

STOCK markets remain inactive. In the last few days, the downward trend has been halted. At lower levels, there was some evidence of revived buying support. But the market situation at the time of this writing indicates that investors are not confident about the outlook. A slightly easier trend in clearing shares may be due to the settlement. In to-day's kerb dealings, Indian Iron tended to steady-up. But recent price fluctuations strongly indicate that neither speculators nor investors are eager to add to their commitments.

Jute shares continue to belie hopes of optimists. Despite the continued firm trend in weekly auction prices, Tea shares remain quitely steady. There are, however, indications that investors are rather inclined to lend support to both Tea and Jute shares at all set-backs. Paper shares seem to have gone out of favour. But Coal shares are attracting the attention of investors at the current low levels. There is occasional support for Miscellaneous and Engineering shares. But it is not consistent.

Tight Money

Recent inactivity in equities is not mainly due to apprehensions about the dividend outlook or about the future of industry. Stagnant conditions in stock markets is a basic reflection of dearer money. About six months ago, the Reserve Bank introduced the policy of qualitative control over credits. In the changed circumstances of to-day, some aspects of this policy have been reoriented. For instance, restrictions on bank advances against rice and paddy have been withdrawn. But the other aspects of the policy of selective credit control remain in operation.

At about the time that restrictions were enforced on bank credits for paddy and rice, the Reserve Bank let it be known that it frowned on speculative advances by Banks. Immediately afterwards, the Reserve Bank called for detailed information about bank lendings. These directives by the Reserve Bank have had some of their desired effects. For some months now, not only speculators, but investors have been complaining that banks are reluctant to lend against the collateral of stocks and shares.

Higher Costs

Speculators have occasionally to take resort to banks to tide over certain temporary difficulties. Such accommodation is now not so easily available, and can be had only at higher rates of interest. Even genuine investors find it difficult to lend support to sound shares, as bank advances for such purposes are now more difficult to obtain. Lyons Range is primarily a cash market. It is, therefore, not difficult to appreciate that the stricter attitude of banks is hampering even genuine investment activity.

Last week, the Reserve Bank raised its rate of advances to banks under the Bill Market Scheme. This will not necessarily lead to a further stringency in the money market. But this move by the Reserve Bank must have a hardening effect on market rates of interest. Many banks have already raised both their borrowing and lending rates. Higher rates for bank advance will raise industrial costs. Dislocation of traffic through the Suez Canal will raise import costs, and will delay imports of plant and machinery. As industrial expansion becomes costlier and is delayed, industry and, hence, equities are likely to suffer.

Coal Shares

Lack of investment support has to be analysed in the light of the hardening tendency in money rates. On top of this, some of the sound new issues are competing with the existing equities to attract the attention of investors. This explains the lack of sustained buying support for equities. Even so, in the last few days, some investment support has been in evidence for sound scrips in more than one group of equities. If this trend persists, the stock market may continue to be steady.

Among clearing shares, Burrakur Coal have been consistently firm in the last few weeks. Improvement in this scrip is mainly due to the recent activities of the Company concerned in acquiring interest in allied companies and industries. But, in the last few days, there has been a welcome revival of buying support for small-priced coal shares. This revival of interest is not wholly due to dividend considerations. There are revived hopes in the future of the coal industry during the Second Plan period.

Since the start of the Suez Canal crisis, there have been hopes of a revival of interest in Jute shares. These hopes have not materialised. But both Jute goods and raw jute have firmed-up considerably since the start of the war in Egypt. Improvement in jute goods is not without basis. For one thing, statistics indicate a considerable inrease in burlap consumption in America.

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There were, recently, reports of New Delhi orders for heavy goods. These figures and reports have encouraged considerable speculative activity.

But there is another reason why jute goods are moving up. There are boom-like conditions in raw jute markets in Pakistan. This is one of the main reasons for the spurt in raw jute in Calcutta markets. Firmness in raw jute has necessarily been reflected in higher prices for jute goods. But investors are, naturally, reluctant to lend support to Jute shares because of fears that the spinner's margin will continue to remain unfavourable. These fears are not entirely baseless. But comparative statistics indicate a relative spurt in jute goods. Current comparative price fluctuations in raw jute and jute goods should encourage moderate optimism about the immediate outlook for Jute shares.

Around Bombay Markets

Not Out of the Woods Yet

Thursday, Morning

IN distinct contrast to the bearish trend witnessed during the previous week, the stock market has steadied up, although there has been no particular factor which may be said to have imparted strength to the market. So long as apprehensions about heavier taxation and larger demands from labour all round continue to plague the investment climate, the market cannot be said to be completely out of the woods.

Meanwhile, a notable development was the release of a substantial number of shares of Voltas Ltd issued as right shares at a premium of Rs 11 per share of Rs 100 each. These were immediately taken up and are now being quoted at a premium of Rs 4 to Rs 5. The progress of the Company during 1955-56 has been quite impressive with sales at Rs 15 crores recording a rise of 60 per cent. As this should naturally be reflected in higher profits, there is a general belief that the Company would be able to raise its dividend from the 5½ per cent of the previous year.

In the steel section, speculative support helped to harden the price trend. Towards the close of the week, Tata Steel Ordinary were ruling steady at around Rs 193-8 while Indian quoted Rs 34-8.

Textiles, however, continue to be in the doldrums. It is true that reports from the piecegoods market have been encouraging for the first time since Diwali. The uncertainty in regard to Government's textile policy, however, still continues. Despite talks of boosting up exports and limiting imports of certain items at the Export and Import Advisory Council Meetings last week-end, neither the new Commerce and Consumer Industries Minister nor the Minister for Commerce tried to meet the demand of the industry in regard to official ceiling on production. While there have been repeated assurances from the ministers concerned that the textile industry would be freed of this limitation, to this day there has been no categorical announcement from the Government that mills could have their own production schedules dictated by the supply and demand position. This has caused some disappointment although Shri Morarji Desai's realistic approach to some of the problems of export and import was noted with satisfaction.

In the miscellaneous section, a slight decline has been registered by National Carbons although they are still potentially good investment. The final dividend of Indian Aluminium is expected to be 5 per cent making the total 10 per cent. Plantations which played such an important part during the previous week gradually moved up in sympathy with the generally firming tendency. Panic has been allayed to some extent also by the Supreme Court's stay order of the Tribunal's Award.

The Dunlop Rubber Company, it is reported, will shortly issue Rs 1 crore preference capital and Rs 1 crore ordinary capital to meet the expenditure of expansion plans. It is expected that preference capital will be issued to the public and ordinary capital will be issued to existing shareholders in the proportion of one for every one share held at a premium of Rs 10. The Company will be able to keep the ratio at 1:1, as the parent Company in London has agreed to forego its rights in order to offer a larger participation to Indian shareholders.

Cotton

Capital Export to Burma?

COTTON features presente,d on balante, a slightly improved appearance at the close of the week compared to the previous week but the appearance may prove deceptive because export quota, by which traders set such great store, have not yet been announced, though Shri Morarji Desai told the Export Advisory Council earlier in the week that a decision would be taken "in a day or two". The latest from Delhi, at this writing is that the quota may not be announced in the near future, as cotton prices are regarded as too high.

If this turns out to be Delhi's considered opinion, the market will have to do some re-thinking. Knowledgeable quarters have so long felt that a mere quota would not suffice to bring about recovery; it has to be reasonably big, if cotton features are to resume their upward trend.

The Government of Burma, it is believed, is likely to approach the Government of India for Indian capital and personnel to set up textile mills in Burma, to help Burma to become self-sufficient in cloth and yarn. Burma annually imports cotton piecegoods valued at Rs 20 crores.

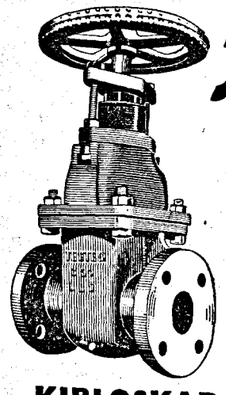
The Prime Minister of Burma, who was in the city for the Asian Socialist Conference, is believed to have approached some textile interests to get their reaction to his Government's offer. The Burmese Government, it is further reported, will not only welcome both Indian capital, part or full, and Indian technical personnel; it is prepared to extend all facilities to Indian industrialists, including protection against nationalisation. The offer of fresh fields of development should be particularly opportune at this moment, when textile interests are not being allowed to expand at home.

Oilseeds

Modest Setback

THE bull phase in oilseeds continues, despite a modest setback towards the close of the week. The main feature of trading during the week has been the sharp rise in the price of castor in which business to the tune of 2000 tons of oil have been reported on U K account at higher rates. As the week progressed, however, there were weak advics from Rajkot which induced some bull liquidation bringing in its wake a sympathetic decline in groundnut and linseeds. The observations of Shri Morarji Desai and Shri Karmarkar at the Export Advisory Council in respect of export of groundnut oil have damped enthusiasm as no quota can be expected for some time to come.

Referring to exports of oils and oil cakes, Shri Karmarkar said at the Export Advisory Council Meeting that these two constituted a very hopeful source for increasing foreign exchange earnings. And yet, the Government was chary of releasing a sizeable export quota for them. Government admits that the demand for these products in the world markets is on the increase. As there has been a parallel increase in home demand, "we have been unable to spare as big a proportion of our production as the world is in a position to absorb". To overcome the difficulties, the only solution is "to step up the production of oilseeds in the long run, and to tighten the belt in the short run". So,perhaps, exports in the future are not entirely ruled out. The market will be left guessing how much we can tighten the belt, and whether we can do it at all or not.



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CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1443.66	1452.96	1429.54	1334.68
2. Rupee Coin	121.33	119.94	120.08	108.88
3. Deposits				
a) Central Government's	51.42	63.00	52.91	53.07
b) Banks'	53.21	52.47	50.34	57.55
c) Other Governments'	12.18	20.06	5.82	13.72
d) Others'	12.97	13.21	13.04	15.61
4. Foreign Securities	462.21	462.21	531.83	647.07
5. Balances held abroad	91.46	98.17	69.59	70.86
6. Rupee Securities	760.50	760.50	690.88	548.61
7. Investments	59.22	74.28	54.87	49.97
8. Loans and advances to Governments	1.46	0.84	4.04	3.11
Scheduled Banks				
1. Demand liabilities (net)	628.21	625.87	621.91	591.90
2. Time Liabilities	454.63	456.34	453.91	424.25
3. Cash on hand	38.81	34.09	36.40	32.87
4. Borrowings from Reserve Bank	64.26	68.84	68.00	12.34
of which against Usance Bills	42.41	43.43	42.87	8.53
5. Advances and Bills discounted	711.93	716.26	710.42	555.52
of which State Bank's	128.11	130.72	130.18	96.31
6. Invst. in Govt. Sec.	365.93	367.33	373.10	393.79
of which State Bank's	106.95	107.10	107.82	117.89
Cheque Clearance	149.91	141.43	117.78	107.62

†For Reserve Bank and Cheque Clearance week ended 16-11-56. ‡Scheduled Banks week ended 9-11-56.

Bombay Money Rates	16-11-56	9-11-56	19-10-56	18-11-55.
Inter-Bank Call Rate	3½	3½	3½	2⅞
3 months deposits	3⅝	3½	3½	3
6 months deposits	3⅝	3½	3½	3

Bombay Bullion — In Rupees and Annas

	22-11-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	105-9½	105-4	103-10½	96-5
Forward	105-13½	105-2½	103-6½	96-11
Silver (per 100 tolas)				
Spot	174-13	173-5	173-1	171-6
Forward	175-9	174-0	173-0	172-0

COTTON STATISTICS

MILL CONSUMPTION

(in '000 bales of 400 lbs each)

Description:	Sept	Aug	July	June	May	Sept '55 Aug, 56
Indian	377.9	369.6	384.7	351.1	349.4	4365.5
Foreign	53.7	49.3	56.0	52.2	55.2	603.3
of which American*	2.32	2.10	1.79	1.77	1.94	32.5
Egyptian	12.74	12.44	16.05	15.14	17.42	186.8
E. African	27.31	24.20	24.02	20.67	18.17	251.9
Sudan†	10.47	9.48	11.56	9.86	10.58	122.9
Pakistan	..	..	..	...	..	..
TOTAL	431.7	418.9	440.7	403.3	404.6	4968.8
Consumption in corresponding periods a year ago:						
Indian	382.97	362.46	376.10	345.1	335.8	4138.4
Foreign	45.17	41.98	49.50	47.70	48.10	630.4
TOTAL	428.14	04.44	425.60	392.8	383.9	4768.8

* Includes United States, Mexican and Peruvian cotton.

† Includes both Sudan Egyptian and Sudan American

MILL STOCKS OF COTTON

(in '000 bales of 400 lbs each)

	Sept	Aug	July	June	May
Indian:					
1956	1253.3	1408.2	1556.5	1705.6	1687.2
1955	1278.1	1443.4	1551.9	1637.4	1587.4
Foreign:					
1956	182.4	205.4	228.0	223.3	219.3
1955	172.3	179.2	180.7	161.1	145.9

Source : East India Cotton Association

COTTON IMPORTS

(in '000 bales of 392 lbs each)

Source	Aug	July	June	May	April	Sept '55 to Aug, '56
USA	2	..	1	1	2	9
East Africa*	13	35	38	42	29	228
Egypt & Sudan	5	12	22	22	12	345
Other countries	1	3	8	1	1	27
TOTAL	21	50	69	66	44	609
Total imports in corresponding months of 1955	53	79	78	53	57	628
1954	38	78	69	114	96	693

*Includes Kenya, Tanganyika and Uganda.

Source : Indian Trade Journal

COTTON EXPORTS

(in bales of 392 lbs each)

Destination	from Sept 1st to Nov 15 1956	1955	1954
United Kingdom	2,436	17,318	1,994
Continent	632	32,699	7,975
Hongkong	1,337	13,428	..
China	2,937	29,938	475
Japan	13,589	59,559	19,628
USA	75	608	2,708
Other countries	339	3,698	350
TOTAL	21,335	157,248	31,130

† Excluding Zoda and yellow pickings etc.

Source : East India Cotton Association.

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group	Week Ending 10-11-56	Week Ago	Month Ago	Year Ago
I **Food Articles:**	411.1	394.3	393.7	330.1
Cereals	527	514	511	396
Pulses	411	396	381	324
Others	264	246	249	240
II **Industrial Raw Materials:**	504.0	502.1	503.2	414.3
Fibres	481	481	478	414
Oilseeds	563	555	563	401
Minerals	526	532	535	482
Others	421	420	422	452
III **Semi Manufactures:**	415.9	411.3	404.2	337.4
Leather	439	431	393	379
Mineral Oils	210	210	210	202
Vegetable Oils	608	594	572	387
Cotton Yarn	503	497	491	409
Metals	327	326	327	277
Oilcakes	481	473	468	371
Others	361	361	363	330
IV **Manufactures:**	389.3	388.5	387.4	372.9
Textiles	422	421	419	405
Jute	443	434	—	418
Cotton	426	426	426	399
Rayon & Silk	421	421	421	479
Woollen	266	266	266	278
Metal Products	390	390	390	371
Others	296	296	295	285
V **Miscellaneous:**	588.8	590.5	585.5	541.3
All Commodities:	426.4	419.7	417.9	365.1

COAL PRODUCTION AND DISTRIBUTION

(Monthly Averages for Calendar Months)

('000 tons)

		Raisings	Despatches	Stock at Pit-heads*
1948		2,485	2,155	2,262
1949		2,621	2,339	1,427
1950		2,666	2,401	2,008
1951		2,859	2,426	2,646
1952		3,019	2,566	3,020
1953		2,987	2,588	3,411
1954		3,064	2,662	3,501
1955		3,184	2,742	3,609
1955:				
	Jan.	3,153	2,672	3,482
	Feb.	3,249	2,502	3,879
	March	3,304	2,764	3,961
	April	3,233	2,694	4,066
	May	3,175	2,744	4,097
	June	3,075	2,658	4,129
	July	2,956	2,756	3,902
	Aug.	3,119	2,880	3,697
	Sept.	3,378	2,802	3,786
	Oct.	3,086	2,883	3,516
	Nov.	3,097	2,770	3,449
	Dec.	3,388	2,782	3,609
1956:				
	Jan.	3,196	2,789	3,586
	Feb.	3,358	2,691	3,813
	March	3,362	2,835	3,911
	April	3,223	2,865	3,813
	May	3,316	2,871	3,855
	June	3,194	2,877	—
	July	3,165	3,017	3,372
	Aug.	3,311	3,176	3,023
	Sept.	3,123	2,820	2,881

*At or about the end of each period.

Source: Ministry of Production.

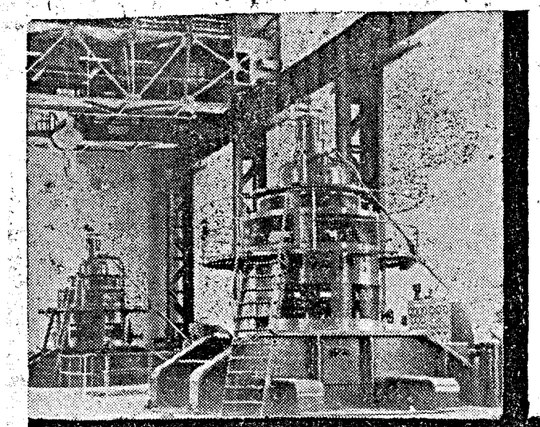
INDUSTRIAL PRODUCTION

	Units	1956 Aug	July	June	May	April	Mar	Monthly Average 1955	1954	1953
I Consumer Goods										
1) Cotton Textiles	Crore yds	43.80	47.80	45.14	45.27	42.08	41.88	42.45	41.65	40.65
2) Woollen and Worsted Fabrics	lakh yds	—	14.36	14.52	11.53	10.83	12.53	11.63	11.46	—
3) Matches	000 cases	—	—	53.9	49.6	46.0	46.2	51.3	44.1	51.5
4) Sewing Machines	Nos	10,024	10,313	10,162	11,606	10,825	10,755	8,456	6,683	5,202
5) Vegetable Oil Products	tons	—	18,403	20,771	21,325	23,306	24,828	21,732	19,229	15,971
II Raw Materials or Intermediate Goods										
1) Cement	000 tons	397.6	402.7	422.5	419.3	395.0	430.5	373.9	366.5	315.0
2) Chemicals:										
a) Sulphuric Acid	,,	—	13.0	14.0	14.4	11.9	14.7	13.9	12.6	9.1
b) Caustic Soda	,,	—	—	3.2	3.0	3.0	2.9	2.9	2.4	1.9
c) Soda Ash	,,	6 3	4.5	5.9	6.3	6.5	7.5	6.4	4.0	4.7
3) Coal	lakh tons	33.70	31.65	31.94	33.16	32.23	33.62	31.84	30.64	29.87
4) Cotton Yarn	crore lbs	14.0	14.50	13.70	13.54	13.10	13.26	13.59	13.01	12.55
5) Jute Manufactures	000 tons	90.0	94.1	98.9	101.7	93.9	99.3	85.6	77.3	72.4
6) Non-ferrous Metals:										
a) Copper (Virgin)	tons	675.0	640.0	594.0	645.0	662.0	710.0	606.8	596.8	410.0
b) Aluminium	,,	413.5	660.8	627.6	646.8	481.2	397.4	602.1	407.2	313.2
c) Lead (Virgin)	,,	143.1	260.0	207.3	179.1	233.3	169.0	186.2	149.0	141.2
d) Antimony	,,	49.2	60.0	55.0	55.0	75.0	56.0	42.0	44.9	10.9
7) Paints and Varnishes	000 tons	—	—	3.33	3.13	3.39	3.90	3.25	3.06	2.67
8) Paper & Paper Boards	,,	16.2	16.7	15.7	16.5	15.5	16.2	15.4	12.9	11.7
9) Iron and Steel:										
a) Pig Iron	,,	—	149.6	133.6	142.3	146.6	158.3	146.4	149.4	137.9
b) Steel ingots & castings	,,	142.0	145.5	133.3	137.7	141.5	154.0	142.0	140.4	125.6
c) Semi-finished Steel	,,	—	133.3	106.4	115.0	121.3	131.9	121.4	121.0	102.5
d) Finished Steel	,,	111.0	110.8	96.5	102.6	105.8	115.3	105.0	103.6	85.3
III Capital Goods										
1) Machine Tools	000 Rs	—	—	622.9	626.9	755.2	654.8	620.0	416.9	367.3
2) Diesel Engines	Nos	4,008	—	914	1,031	961	949	852	721	310
3) Electric Motors	000 HP	28.3	30.6	30.4	28.2	26.4	28.1	21.0	15.6	13.5
4) Power Transformers	000 KVA	—	72.5	75.0	80.3	62.4	68.8	47.1	33.3	25.7
IV Transport Equipment										
1) Bicycles	000 Nos	57.1	56.5	58.6	56.4	51.7	46.9	40.9	31.0	22.0
2) Automobiles	Nos	2,600	2,957	2,791	2,491	2,206	2,618	1,924	1,205	1,160

Note : —=Not available

Source: Directorate of Industrial Statistics D C I S Calcutta

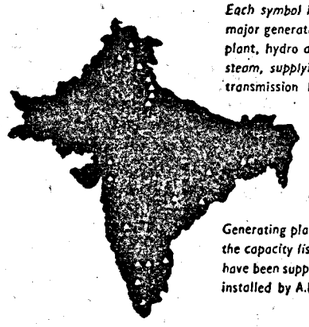
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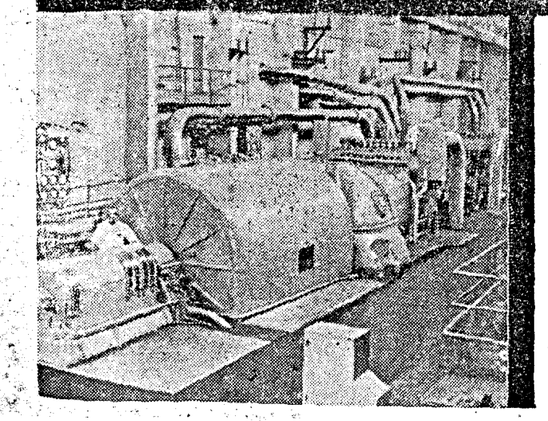
• Khaperkheda	30,000 KW
• Ramgundam	37,500 KW
• Ahmedabad	1,35,000 KW
• Surat	15,000 KW
• Visakhapatnam	6,750 KW
• Tatanagar	55,000 KW
• Kashmir	6,000 KW
• Jogindarnagar	48,000 KW
• Greater Calcutta	1,61,000 KW
• Madras (Basin Bridge) • Pykara, Mettur, • Papanasam and Moyar	2,15,450 KW
• Mysore (Jog)	48,000 KW
• Travancore	22,500 KW
• U. P. (Harduagang) • Bahadrabad, Bhola, • Sumera & Muhammadpur	40,600 KW
• Bhakra dam	500,000 KVA

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Bank Credit for Development

THE Finance Ministry has not yet indicated how it would like the banks to cope with the demand for credit during the current busy season. It is possible that when the congestion created by heavy steel imports is cleared and hold up on account of payments due from Government is straightend out, the situation could be met by the normal recourse to direct borrowing from the Reserve Bank under the Bill Market Scheme. As the requirements must have been sized up by now, it is also to be presumed that borrowing limits would be suitably raised in order to enable the necessary expansion. The dislocation to shipping caused by the blocking of the Suez Canal may itself bring some-relief, as imports will have necessarily to be phased over a longer period. From present indications it appears, however, that stringency will continue to be a normal feature of the money market henceforth and that assistance from the Reserve Bank through the Bill Market Scheme will just enable the market to cope with the situation as best as it can. This would be unfortunate, for the present situation has brought out some aspects of development which deserve to be treated more seriously in order that the expansion now contemplated may be successfully put through.

Experience has amply demonstrated that whatever view one may take about the wisdom of deficit financing or whatever limit for it may be considered safe, budget deficit is not by itself a price-stabilizer. This was shown clearly during the busy season last year when food prices went on falling to the point of creating considerable concern, despite the sizeable deficits incurred in the budget for two years in succession. The experience during the slack season which has just passed has brought out another aspect of deficit financing equally clearly viz that it does not automatically increase banking resources and that expansion of money supply is no solution, by itself, of the problem of adequate bank credits. The expansion of money supply has gone hand in hand with expansion of economic activity and development. If the latter called for currency and bank credit in the same unvarying proportion, no stringency would have overtaken the banking sector and yet acute credit stringency has been experienced, despite a steady upward trend in demand deposits which has been maintained, with minor interruptions, since early 1954. But though bank deposits have increased, they have not kept pace with the expanding demand for bank advances.

It was, therefore, particularly disconcerting to find while examining the special factors which have intensified the stringency in the past few months that the Reserve Bank had contracted currency quite considerably as a set off against loss of its foreign assets which have been exceptionally heavy in recent months. As in any case the decline in foreign assets had been 'planned', it was taken for granted that it should not have been allowed to affect money supply. Lest this should be considered suspect, as savouring of inflationist psychology of the market, it may be mentioned here that even the Bernstein Report said so.

The hypothesis put forward in these columns a fortnight ago that legitimate demand for credit should be met, if development is not to be retarded, has been challenged on the ground that it took no note of the inflationary pressures, suggested by the increase, year by year, of the volume of bank credit. The seriousness of the stringency in the short

term money market is not to be denied; it is serious, because it is accompanied by rising prices. In the circumstances, it has been argued, liberalising the Bill Market Scheme, for which the case has been made out, is open to the same objection that it will only feed inflation. The fact is that the demand for credit has assumed the present staggering magnitude only because the past expansion of credit and money supply had been so excessive. The argument can be easily expanded it was presented with full documentation by Professor S N Sen in a paper which appeared in the last Annual Number. Professor Sen's contention was that bank credit had been expanded year by year and that the presumption was strong that such excessive demand had been fostered by speculative holding of commodities and therefore, it should be sternly checked. That the character of bank advances has been changing and that relative'y small contraction in the slack season cou'd be ascribed to "the beginning of the growing diversification of the Indian economy", leading to general rise in credit demands (as generally argued in the Annual Report on the Trend and Progress in Banking in 1955), he had dismissed as altogether untenable. With th's view, however even the Reserve Bank will not presumably agree. The Bank has been keeping a c'ose check on advances, with an eye to restricting speculative holding of stocks. The directives issued by it and the frequent returns it calls for may be taken as a sufficient guarantee that a speculative build up, over the years, has not been primarily responsible for the present situation.

Another interpretation, a more sophisticated one, is that investment has already been pushed beyond the level that can be supported by the Indian economy, that the increase in savings on which the Planning Commission had banked has not been taking place and that the time has come for curtailing the Plan. This explanation has been translated in terms of monetary and banking deve'opments. That the increase in banking resources has not been keeping pace with the increase in currency circulation, it is contended according to this view, shows clearly that the class of people whose money incomes are rising is not the class which saves and that the section from which the Planning Commission expected planned savings to come, mainly profit earners, are not having a proportionate increase in incomes.

The distribution of increments to money supply between the banking and non-banking sector depends on a number of factors, of which the following would appear, on a priori grounds, to be the most important. (1) The level of activity and production in the non-banking sector i e largely in the field of agriculture, and the demand for agricultural produce and the level of agricultural prices. (2) The demand of the non-banking sector for products primarily financed through bank credit. Absorption and return of currency have been associated in the past with the movements of exports and imports. Currency used to flow out from the banking system in order to help move the crops, and used to flow back into the banking system in payment of imported consumer goods. This is unfortunately no longer a valid working hypothesis for studying money flows. Terms of trade between agriculture and industry and the magnitude of inter-change may have a valid claim to take its place, but it has to be studied, the concepts have to be refined and rough statistical measures found, before the hypothesis can be usefully applied for purposes of analysis.

All this takes us away from the patent fact that present resources of the money market are wholly inadequate for the tasks that have been imposed on it. This was fully recognised when provision of industrial finance was accepted as a State responsibility, but setting up of Industrial Finance Corporations has not fully met the credit needs of industry. In fact, to the extent these new institutions have been active, they have made fresh demands on the banks for medium term and other credit.

How are the banks to increase their resources by their own efforts? They should expand their activities and try to bring back into their coffers the currency that is flowing out. Mobilization of these potential savings, however, calls for an organisational effect which had been halted many years ago by the Reserve Bank when it stopped opening of fresh branches. Banks feel handicapped also by the bank award, which has raised costs so much that opening of new branches and tapping of areas not hitherto brought with'n their fold is seriously handicapped. Even if expansion in these directions takes place, it will be on'y a long term solution. But efforts should certainly be directed towards mobilising untapped resources. The present competition for deposits does little good to anybody except feeding a class of rentiers. Deposits in the aggregate have not proved to be interest-elastic. This indicates a stationery state of banking which is wholly inconsistent with the expansionist drive that is under way.

Report on China

ACCELERATED industrialisation envisaged by our development plans cannot coexist with an outmoded agricultural system. This emphasizes the need to concentrate the utmost energy on raising the productivity of the Indian peasant. This is all the more necessary if inflation is to be held at bay while investment is stepped up in industry. The problem, however, is not merely a short-time one. The structure of the countryside must be so altered that the foundations are laid for a progressive economy and an egalatarian social system. That is the long-term problem.

In the search for a solution, the eye naturally turns to China. India and China have many similarities, despite many points of dis-similarity. It was natural, therefore, for the Government of India to send a high-power expert Delegation to China to see if their methods and experiences could be of help to us. It was a mission of great importance, though it was completed in an eighteen-day tour, and limited in its scope, because of the decision to send a separate Delegation at about the same time to study the development and role of co-operatives in China. The decision appears some what strange when every one knew that after the initial step of distributing land to millions of landless peasants, almost the entire subsequent development has been in and through the co-operative system.

The redistribution of land had been effected in China by a surgical operation, but largely in an ad hoc manner. Simultaneously with the expropriation of the landlords, the land was parcelled out among millions of peasants, many of whom perhaps never had owned a square yard of Mother Earth. Their land-hunger had been appeased. But an

expanding economy demands full and unstinted use of all its resources —most of all of land, which yields food and many raw-materials of industry. Productivity could, of course, be increased by mechanisation. But that involves large capital investment. It means also that many farmers become almost immediately unemployed before other parts of the economy are ready to absorb them. So that was not the path to take. Cooperative farms offered an excellent alternative.

All the farmers did not join the co-operatives at once. But within a couple of years, all but a twentieth of them have come in the fold-whatever might have led them there. And, as stated above, in and through these units, the State has executed its agricultural policy, following this lead:

"Co-operative farming makes it possible to have a single management for the farm, to cultivate crops best suited to the various types of soil, to put more labour power into improving the land, to improve methods of cultivation by deep ploughing and careful weeding, better techniques of sowing and planting; to improve the organization of field work and increase yields per mou."

—Draft Programme for Agricultural Development.

But then there were two other forces too. One has already beenindicated—the clearing of the field, literally and figuratively, by abolishing all intermediary rentier interests, including trading interests. This, and the move towards economic equality, were supplemented by the second factor, viz., the very intimate connections between the ranks of the Government and the Communist Party. The Delegation has reported that, there is considerable and continuous interchange of experience, information, and personnel between the Party and the Government at all levels. For a proper appraisal of the Chinese efforts and successes, it is very necessary that the full significance of this vital State-Party link is appreciated. It will be doing the Delegation injustice to say that this has escaped its study of the Chinese scene. But one fails to find enough evidence in their report that the members have appreciated how far and how deeply this permeates the entire Chinese economy.

What is the criteria for assessing the work of the Delegation? Nowhere in the report has its basic approach been clearly defined. What was it after? The terms of reference do not indicate it. The report is heavily overlaid with details of the administrative structure and the set-up of the statistical service. And in line with these, an appreciable part of the Report deals with these issues. It is understandable that since the Delegation was formed of administrators, administrative matters would receive more than their due share. Except for a brief reference, the Report makes it clear that it is not entering into a discussion of the principles and methods of land reform. This was one serious omission. For the second—another Delegation to study cooperation in China—this delegation was not responsible, though one may still ask why it did not insist on a more rational arrangement. Together these two rob the attempt of considerable value.

In the Chinese experiment, price policy, technical assistance, the provision of consumers goods as well as producers goods like fertilizers—and in some cases the contracts for purchase of produce at predetermined prices—all these various means are used for making the Chinese farmer follow the planned pattern of development. Not only is the discussion of this scheme inadequate but, and it perhaps springs from this that the delegation do not seem to be quite impressed by the scheme as can be seen from the opening paragraph of the chapter on 'Measures for implementation—Agrarian Reorganization." In China the purchase and sale of foodgrains is a near-complete monopoly of the State. Despite a higher cost of living than in India, salaries are very much lower at the upper rungs of the administrative ladder, even after allowance is made for the free provision of medical facilities, education, subsidized housing etc. Chinese planning gives special and immediate attention to production; as far as amenities are concerned, these are often left to local efforts, if not relegated to the future. An extraordinarily large, efficient and inexpensive leadership has been built up over the year.

All these have developed a potential for production and fuller and more efficient use of the country's resources. At some places in its Report* the Delegation has interjected some significant sentences—"The system of Communism in China does not of course provide for freedoms such as those of information, expression and association in the manner familiar to us" and the last sentence of the Report—"we must emphasize, however, that any measures that we may adopt for economic development or technical progress should be fully in accord with our democratic traditions." But what are these traditions? How far have we already encroached on them and how much further can we go? China and Soviet Russia have done it in their own ways—ways which we may not like. Then there must be a different way and a better way to achieve the same goals? When administrators talk of 'democratic traditions' they often use the latter as a talisman to protect themselves from some evil, whether it be social change or unwise talk.

* Report of the Indian Delegation to China on Agricultural Planning and Techniques. Government of India, Ministry of Food and Agriculture, July-August, 1956. Pages 199. Price not mentioned.

Indian Agriculture in Brief

A useful and pocket-size book-let has been recently brought out by the Economic and Statistical Adviser, Ministry of Food and Agriculture, Government of India, with a view to meeting primarily the need of those who wish to have a snap shot picture of Indian Agricultural Economy as revealed by the current Agricultural Statistics, certain essential data in allied spheres; e.g., population, national income etc. needed for an understanding of the Agricultural Economy in its broader perspective have also been included in this booklet.

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Weekly Notes

Scandalous Neglect

WHAT ails the coffee trade and the coffee producer does not appear to have been the primary concern of the Plantation Commission in their study of coffee. True enough, they have looked into every aspect of the industry and recommended changes all along the line from growing of coffee to its curing and processing as well as marketing and propaganda for popularising this 'drink of democracy'. But judging from the press summary of the Report, the full text of which, as usual has to be awaited yet a while, what worried the Commission most was the complete neglect of replanting. Outside the circle of coffee planters and the trade, the problems of coffee are hardly ever understood. How could they be, when coffee drinking habit has developed so fast that plantations have never any problem of selling and controlled distribution through the Coffee Board guarantees them at least a fair return? The approach all these years has been distinctly Western and materialistic, of whetting the appetite and stimulating the desire for drinking more coffee. But the solution has been sought on traditional oriental lines of feeble effort towards increasing the cultivation of coffee, largely through expansion of acreage. In the process replanting has been neglected and neglected grievously.

The Commission found that in Mysore 66.90 per cent of the trees (planted before 1920) are due for replanting, in Madras 52.92 per cent and 35.14 per cent in Coorg. The press summary does not fully explain why the planters are so averse to replanting and why instead of keeping the acreage already under coffee in fair trim, effort has been concentrated all these years in expanding the acreage? It hardly makes sense, unless there are convincing reasons for pursuing what would appear to be predatory methods of cultivation, of exploiting existing plantations ruthlessly to the point of exhaustion. One reason could be that planters having invested their capital in an enterprise in which they see no prospects, want to recover their investment as quickly as they can and an active process of dis-investment has been going on in the form of paying out large dividends instead of putting back what would normally be adequate depreciation to cover the cost of replanting. True, coffee plantations may also have the usual problem faced by all old established industrial concerns these days, viz, inadequacy of past depreciation reserves for replacing at current very much enhanced cost. But this could be met, as it has been met in other industries. The problem, however, does not seem to have been presented in this light before.

The above, however, is an over simplified version. The facts are that only a part of the crop is grown on a plantation scale and proprietory estates as well as plantation companies are almost equally responsible for neglecting replanting. The worst recorded, however, is that of the sterling coffee plantations, 75 per cent of the acreage under their control being due for replanting as against 29 per cent and 30 per cent respectively in plantations under Indian proprietors and companies. Plantations under European control seem to be switching over from growing of coffee to curing and processing which being more capital intensive probably offer better returns.

Despite inducements, coffee production and cultivation have not been expanding fast enough. There was a time when India could emerge as a sizable exporter of coffee but barring an exceptional year or two, domestic production has left little surplus to be exported and the concern of the Coffee Board has been how to meet the internal demand without letting prices rise too high. Exports no longer command the same high premium, and long term prospects of substantial exports do not yet appear to be a factor of any importance in the framing of our coffee policy.

Disarmament Talks

WASHINGTON has not responded to Berne's call for another Summit Conference at Geneva. Nor is America likely to react favourably to Moscow's endorsement of the appeal from Berne. To Moscow's suggestion for a Summit Conference on disarmament, Washington can legitimately reply that this issue can be more usefully discussed under the auspices of the United Nations. Britain and France, with their preoccupation in Egypt, are in no mood to discuss wider issues at the moment. London and Paris will, therefore, welcome Washington's cold reception to gestures by Berne and Moscow.

Moscow's gestures for peace and disarmament have always been suspect in the West as mere propaganda moves. At the moment, Russia is doubly suspect. Her armed intervention in Hungary will be cited as evidence that Russia is not sincere in her proposal for disarmament talks to ensure world peace. Alternatively, the suspicious West will allege that Russia's renewed suggestion for disarmament talks stem from her realisation that she cannot, as Hungarian events prove, rely on force to maintain her control over Eastern Europe.

Moscow's offer has been questioned because of its timing. The Anglo-French aggression against Egypt and the Russian use of force in Hungary have revived the "atmosphere of war hysteria". One of the conditions of disarmament is an improvement in the international situation. Can disarmament talks succeed, it is arguable, under the prevailing tense circumstances? Such arguments do not seem convincing. It is far more arguable that the existing international tension lends urgency to disarmament talks. This is the main assumption behind Russia's renewed call for a Summit Conference on disarmament.

There is nothing new in Russia's offer of a non-aggression pact between NATO and Warsaw Treaty powers. But the Kremlin's qualified acceptance of President Eisenhower's "open skies" plan is both new and encouraging. Russia's proposal for aerial inspection up to 500 miles on either side of the "Iron Curtain" is not a minor concession. It will, admittedly, provide Russia the opportunity to acquire precise details about NATO forces and bases. But the proposal will also enable the West not only to inspect, but to have detailed information about the deployment of Russian forces in Eastern Europe and in the adjoining areas in Russia. This proposal would seem to confirm the impression that, despite the ugly Hungarian experience, Russia is prepared to quit Eastern Europe. It is possible that the Russian proposal is based on the assumption, discussed in an editorial in the previous week's issue of this journal, that America will go ahead with de-Trumanisation of Europe. There is something in the argument that de-militarisation of a 1,000-mile belt of territory will not ensure peace in Europe, or that partial disarmament in Europe will not alone assure world peace. But, then, phased or limited disarmament is surely better than no agreement on disarmament.

Railway Minister Bows Out

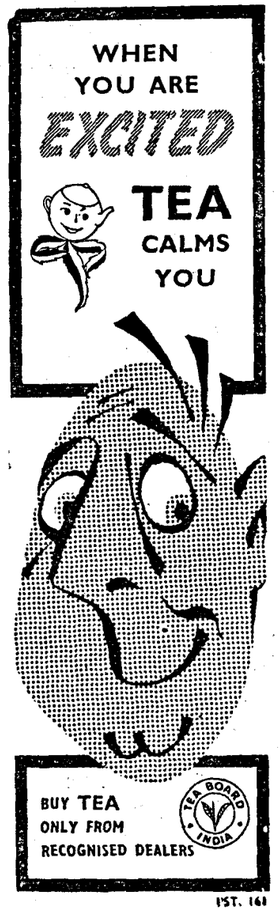
THAT published speeches and statements of our Ministers often betray a lamentable lack of any sense of collective responsibility has often been remarked by Consitutional Pandits as well as others. Differences among Cabinet Ministers are, of course, not uncommon and the right of these Ministers to convert others to their view point may also be conceded, but only so long as they present a united front in enunciating and defending Government policy. It is a difference of degree rather than of kind, Indian Ministers may plead in extenuation when they are criticised for ventilating their differences too much in public. Without going into the constitutional niceties, one could say that cabinet differences are certainly made much more public in India than in the U K. The Ministers in Britain can vary their lines only in unimportant matters, otherwise they keep quiet or resign.

For fixing individual responsibility on the Minister concerned, however, there has been no occasion in the past. Ministers have been criticised and Government policy in certain lines proved to be wrong—failures on the food front had been a pretty frequent occasion for censure, Indo-Pakistan relations and rehabilitation of refugees had been a source of much resentment and nation-wide as well as vocal criticism. Shri Lal Bahadur Shastri, however, sets the example for the first time of holding Ministers personally responsible for what happens in the sphere under their charge. The example he has set has been widely acclaimed, and the gesture has been deeply appreciated. In fact by voluntarily giving up, he has got back more than he ever had before. The finest tribute that the people and Parliament paid him was by clamouring to get him back to the post he had relinquished. In not yielding to this demand, Shri Shastri has been wise.

Gesture and Re-appraisal

THE precedent he sets up should be an extremely valuable one. Cynics may demur that it was a calculated risk that the ex-Railway Minister took and that by his clever move, he not only reinstated himself in public estimation but helped not inconsiderably in winnng popular support for his Party. And coming just before the elections, it has been a shrewd and well-calculated political step that will bring ample returns.

The railway disaster which brought out Shri Lal Bahadur Shastri in such shining light is a tragedy of quite unprecedented magnitude. The bridge over a swollen river which collapsed while the Tuticorin bound Madras express was not, unfortunately, an isolated disaster. A bridge had collapsed only a few months ago in Hyderabad and taken a heavy toll of life. There had been other accidents to show up the railway administration in a very unfavourable light. The railways have been incessantly criticised in the past for not doing enough to improve their operational efficiency; they had themselves by their own publicity, almost admitted as much since it is only after severe criticism both at home and by experts from abroad that they started highlighting their modest achievements in improving their operational efficiency. But the general standard of administration and level of efficiency is one thing and responsibility for accidents, hurled thoughtlessly in the highly charged atmosphere following a series of accidents, is quite another matter. At the moment the subject must be treated as sub-judice, pending the findings of the judicial enquiry which has been instituted. But when tempers have cooled and the atmosphere has cleared a little, if the railways were to retort that perhaps the public and the Government have not in the past taken them as seriously as they deserved when they complained of arrears of replacement and re-equipment, perhaps the boot may turn out to be on the other foot. When the judicial enquiry is over the sad experience of the recent past should lead to a sober reappraisal of the railways, both of resources and performance from the single point of safety, which must, in the last analysis take precedence both over economy and output.



Jute Labour Threatens Strike

ONE cannot but feel unhappy for West Bengal. Jute mills, which provide the largest single source of industrial employment in the State, have been progressively reducing their labour force in the last two decades. Employment in the mills has gone down by about a sixth, if not a little more, between 1938-39 and today, and it now stands at 2.3 to 2.4 lakhs. But one must remember that over this same period, the production of jute mills has gone down too—by over 11 per cent—from 1.22 mn tons in 1938-39 to 1.09 mn tons in 1955-56. On these very broad comparisons, the industry is today employing more men for every unit of output than before. And this, despite the modernization and rationalisation programmes of the mills.

There was an occasion to look into these figures because jute mill labour has threatened an industry-wide strike "if the IJMA refuses to abandon or modify its rationalisation policy". The mills are reported to be compelling weavers and spinners to operate two looms and two frames each, instead of the established system of one machine for one worker, which is said to

have been in force ever since the inception of the industry. It is claimed further that this doubling of the conventional work load would render surplus 50 per cent of the present strength of spinners and weavers, leading to large scale retrenchment. The workers demand that Government of India should appoint a high power tripartite Commission to enquire into the whole question of rationalisation, pending which the IJMA should suspend its schemes.

Unless IJMA Drops Rationalisation

THE jute industry is India's top dollar earner. The National Industrial Development Corporation has committed itself to finance the mills to instal up-to-date machinery so that the industry may be able to face competition from continental and other producers of jute goods in world markets. Government has also recently approved that three large engineering establishments in the country should take up manufacture of jute mill machinery in India viz Britannia Engineering, Lagan Jute Machinery Company and Texmaco. When these decisions were taken, it is to be presumed that the employment aspect of the question was not ignored. And in any case, the mills have to see, out of necessity and not of altruism, that retrenchment is reduced to a minimum. This is sometimes achieved by installing new spinning machinery only half of the capacity of the old machines and running them two shifts The IJMA Working Time Agreement does not ban two shift working of the spinning section, although the weaving section must not be operated more than the specified number of hours in a week It is not that mills cannot evade some of the responsibilities which the Industrial Disputes Act places on them when labour is retrenched. Their main means of reducing labour force, however, is natural wastage. Even to wastage, it is not always possible to give full play. The man machine ratio is not flexible in all operations.

Government, both of West Bengal and at Delhi will find themselves in an awkward position if the issue has to be faced squarely just before the elections. To what extent labour displaced from the mills can be diverted to the new steel works or various constructional activities must have been examined thread bare. The very acute unemployment situation in and around Calcutta that was revealed in the recent survey does not appear to have changed. If anything, employment has gone down in West Bengal. Curiously enough, some of the provisions of the Industrial Disputes Act make it very difficult for employers to take on extra hands even to meet a seasonal or temporary demand, since their subsequent retrenchment costs a lot of money. It is a general issue but New Delhi might consider to what extent that Act can suitably be amended, with full protection of the interests of labour.

Hindustan Lever

IN recent months, stock market inactivity has coincided with selective activity in the new issue market. Only recently, the new issue of Guest, Keen, Williams was oversubscribed. Market expectations are that the new issue of Hindustan Lever will also be heavily over-subscribed.

Messrs. Unilever Ltd, London, are offering 5,57,000 ordinary shares in Hindustan Lever. Shares are of the denomination of Rs. 10, and are being offered for sale to the public at a premium of Rs. 6½ each. As stressed by the Chairman, the offer represents a major landmark in the history of Unilever enterprises in India. It is a symbol of international co-operation in the economic growth of this country. Hindustan Lever's authorised capital is Rs. 5.57 crores, divided into 55,70,000 ordinary shares. Ten per cent of the capital is now being issued for sale. Of this issue, ten per cent will be reserved for the employees of Hindustan Lever.

In the offer for sale, it is explained that the consumption of products in the manufacture of which the Company is interested is likely to expand along with the improvement in the standard of living of the people. Hindustan Lever hope to be a beneficiary of the expected prosperity of the industries concerned. For the current year, the consolidated net profit of the Company and its subsidiaries is estimated by the directors at Rs. 96 lakhs. This is after deducting taxation, including that to be paid by the Company for capitalising a portion of its profits in October last.

An interim dividend of eight annas was paid. For the current year, the directors hope to declare a final dividend of six annas, to be paid before the end of May next. In future, the director's promise to be more liberal in dividend payments. For the coming year, they hope to pay Rs. 1-6 per share, free of tax, if the estimated profit for the current year is maintained and if there is no material change in the tax burden or in trading conditions.

* * * *

Errata

Sugar Exports

In the Weekly Note "Feasibility of Sugar Exports" which appeared in the last issue, the c i f price for Persian Gulf (last sentence, paragraph 4) should read Rs 662-8, instead of Rs 612-8 as wrongly printed.

Commonsense of Labour Cost

The first paragraph in Prof Sen's reply to 'Commonsense of Labour Cost' by M Srinivasan in the issue of November 10 refers to a quotation from Alice in Wonderland that originally occurred in Mr Srinivasan's Rejoinder which for reasons of space, was deleted at the time of printing.

The perplexity caused to some readers by the deletion is deeply regretted.—Ed.



He who is firmly seated in authority soon learns to think security."

J. R. Lowell.

★

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Letter to the Editor

Upsurge in Eastern Europe

EVENTS in Hungary have served only to dramatise the growing nationalist upsurge in Eastern Europe against Soviet imperialism.

This is not clearly realised in certain circles because of the lingering illusion that a "proletarian" State is incapable of imperialism. But ever since Lenin spoke of the "bourgeoisification" of the British proletariat, it has been clear to thinking people that it is "objectively" possible for the proletariat of one country to enrich itself at the expense of the proletariat of other countries.

Whether a "proletarian" State takes advantage of this possibility, turns this possibility into a reality, depends on "subjective" factors. A socialist State sufficiently inspired by the spirit of internationalism will disdain to stoop to imperialism. After the October Revolution, Lenin allowed a part of Poland to be lost to Russia, because to him the principle of national self-determination was a living principle, which he placed above Russian national interest. One of the crucial developments in the Stalinist era has been the nationalist degeneration of the Soviet State.

The point is easily illustrated. After World War II, Russia extracted huge reparations, dismantling whole industries in East Germany, and transferring machinery and plants to Soviet territory. Such acts amount to penalising a whole people, and not war-criminals; and Lenin would have hated to adopt such a course. But from a nationalist point of view, there is nothing against it.

It is not surprising that Russian nationalism has developed into imperialist domination over Eastern European countries, exhibiting such features as the imposition of adverse terms of trade on the "colonies", though the peculiar circumstances under which this development has taken place affect the form and language of this new imperialism.

It is equally understandable that this imperialism has produced its "anti-thesis",—an anti-Soviet nationalist movement.

To characterise the Hungarian revolt as either democratic or "fascist" is to obscure the central fact that it is essentially nationalist. Like all nationalist movements, it includes democratic as well as reactionary elements. But if in Hungary the Red Army is hated today, while it was greeted as an army of liberation in 1944, when it came in the wake of fleeing Nazi forces, this is because the movement which it is engaged in suppressing today is essentially popular rather than "fascist". Nothing has demonstrated the popular character of this movement more convincingly than the "passive resistance" of the last few weeks.

A nationalist movement tends to take a "fascist" character, particularly if it is cruelly suppressed. Had Moscow decided to discredit socialism in Eastern Europe, it could not have done it better than by imposing a "socialist" government against the will of the overwhelming majority of the people. As in Asia so also in Eastern Europe, the chances of healthy democratic development are enhanced by allowing people freely to shape their destiny.

Relations between Russia and Hungary would have improved as a result of a generous gesture of withdrawal. But once a country has established its domination over another country, it is always difficult, on "strategic" grounds, to withdraw. Such withdrawal leaves a "vacuum", and reluctance to part with power, exaggerates the possibilities, more or less real of dangerous ways in which such a vaccum may be filled up. There was a time when Britain argued against withdrawal from India on the ground that Russia might take over.

Thanks to the hydrogen bomb which both Russia and America possess in sufficient quantity to destroy the whole world if they so choose, a war between Great Powers is extremely unlikely to-day. Even if Russia loses Eastern Europe, there is little danger of an attack on the Soviet Union. The most disturbing problem today, as Egypt and Hungary so clearly illustrate, is that the near-impossibility of a global conflict may encourage a Great Power to use brutal violence against a smaller nation. Where such violence is committed, it is of the utmost importance that we do not speak haltingly or in terms that tend to extenuate aggression.

Amlan Datta

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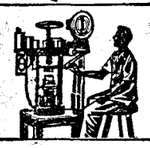
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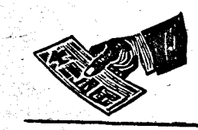
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From the United States

Analysis of Election Results

(From Our American Correspondent)

November, 15

THE most striking thing about the elections has been the lack of change in the composition of the federal government. An overwhelming Eisenhower victory was expected, but it was, if anything, a little more overwhelming than expected. The polls predicted that Eisenhower would receive fifty five or six per cent of the popular vote; in fact he received fifty-eight per cent. But despite such a huge majority (and unlike Franklin Roosevelt's victory in 1936, it cannot be said that the losers were terribly disappointed or upset), the Republican presidential candidate failed to carry a Republican majority into either house, and in fact the Democrats added one, and what will probably be four or five seats when the counting is over, to their majority in the House of Representatives.

The situation as it has developed is this: probably the most popular president since George Washington, but at that time the electorate saw fit to give his party only the barest of majorities in Congress. Two years later at the interim elections, the electorate took away this majority. A swing away from the majority party is common at these off-year elections, but it is most uncommon for such a swing to be confirmed at the following election without unseating the President as well. A measure of the unusualness of the election result is that one must go back to 1848 to find a year in which a president was elected from one party while the opposition party won control of both houses of Congress.

The Man for the Job

An explanation is obviously called for, and the explanation is equally obvious. Eisenhower has the confidence and the admiration of the American people. They believe him to be eminently suited to the job, and eminently trustworthy, and events under his administration have done nothing to destroy this faith. There has been peace during his administration, and until the last few days before the election a definite feeling that international tensions were lessening. On the domestic scene there has been prosperity and as stable a price level as is likely to be seen in this world. The events in Hungary and Suez did not lessen Eisenhower's appeal. If four years of peace was to his credit, so equally he was regarded as the man best fitted to deal with crises arising abroad. It must be understood that the errors of his Secretary of State, being errors of technique, are not really appreciated at home. Dulles' mis-steps have been monumental at times, amounting to total disregard of the rules of the diplomatic game, but if one sticks to acts and ignores words, the Aswan Dam Affair is about the only concrete act-of-commission blunder which can be laid at his door, and so it is not easily apparent to the electorate that perhaps much of the blame for the deterioration in Anglo-U.S.-European and U.S.-Arab-Asian relations belongs with the U.S.

The faith reposed in Eisenhower the man and Eisenhower the president does not extend to his party. The American electorate did not accept the view that Eisenhower needed a Republican Congress. Quite the contrary. They took the view that what he really needed was a Democratic Congress, and they gave him one. All across the country tickets were split as never before. Large numbers of Americans voted for Eisenhower, Democratic governors, Republican senators and Democratic representatives, or split their votes in other ways. In Michigan Eisenhower's presidential majority was matched on the Democratic side by William's majority in his candidacy for the governorship. If the results were disappointing to loyal members of one party or the other, there can be no doubt that the voters did have a clear idea of whom they wanted and gave a first class demonstration of the vigor of democracy. It now seems clear that other things being equal the American voter prefers the Democrats to the Republicans, but that in this case Eisenhower was not other things being equal.

The New Congress

In comparing the new Congress with the old one is struck with the similarity in political complexion between them. The House of Representatives remains virtually as it has been for the past two years, and there were no significant changes in the personnel.

In the senate the Democrats retain their 49 to 47 hold but eight senatorial seats changed hands. This is almost a quarter of the 35 seats up for election, but the net result was nil as four democrats took Republican seats and four Republicans took Democratic seats. A closer look at these changes may serve to illustrate, first, how senatorial races can be independent of presidential and party races, and second, how the political complexion of the Senate can change or remain the same within the same party totals, and despite marked changes in personnel.

Opposite Cases of Personal Standing

First, we have two, and opposite, cases of personal standing. In Ohio Frank Lausche (Dem.) unseated Senator Bender (Rep.). Lausche has been almost a perpetual Democratic governor in an almost perpetually Republican State. As a governor he has been extremely successful. As a Democrat he has been so independent as barely to qualify as a Democrat. He has even hinted that in the voting on the organization of the Senate (Committee chairmanships, etc.) he may not vote with the Democrats. Thus Lausche the man and the governor defeated Bender the Republican. In Idaho, another strongly Republican State, Senator Walker (Rep.) has made such a poor reputation for himself—extremely reactionary and generally useless to Idaho constituents—that Frank Church (Dem.) could beat him easily with disgruntled Republican votes. The Idaho results show that if a senator is poor enough, no party loyalty can save him.

Special mention should be made of the results in Kentucky where John Sherman Cooper, recalled from India for the purpose, won the senate seat vacated by the death of Senator (formerly Vice-President) Barkley. There should be no need to explain to Indians why Cooper, although a Republican, could win handsomely in a normally Democratic State.

The second point to be made is that the senate is now neither more

conservative nor more liberal than it was before the election although liberals have lost seats, for so have conservatives. On the extreme right Herman Welker of Idaho has been eleminated, but at the same time former Republican Senator Chapman Revercombe, once in and then out and a very, very conservative man indeed, has now been re-elected in West Virginia. Moving in from the extreme right wing of the Republicans we find Senator Bender, definitely of the "old guard" of the Republican party, defeated, but by a very conservative Democrat. The substitution of Democrat Lausche for Republican Bender is far from a radical change. East coast Republicans would regard Lausche as a conservative.

Moving to into the middle of the road we find Clarke (Dem.) replacing Duff (Rep.), but here Duff was of the liberal, Eisenhower wing of the Republican party, while Clarke does not appear to be on the left of the Democrats. Except on a few specifically "party" issues (where a vote does not definitely reflect internationalist or isolationist, strongly pro- or strongly anti-labour, views for instance) Clarke's voting record in the Congresses to come will probably not differ greatly from the record which Duff would have made had he been elected. In part if not in whole the Clarke victory reflects changes in internal Pennsylvania politics. By industrial and occupational standards one would expect Pennsylvania to be generally Democratic, but for years an extremely efficient—and in Philadelphia certainly corrupt—Republican political organization kept the State's administration in Republican hands. Clarke broke the power of this political "machine" to become Mayor of Philadelphia, and this year's shift to the Democratic camp (except for voting for Eisenhower) largely represents the final demise of long-standing Republican control and the election of an honest and worthy man whose work for good government within the State has earned him further recognition.

In analyzing two other Republican victories we must move to the left of centre in American politics. In New York, the Democrats put up Wagner to succeed retiring Senator Lehman. Wagner, who would have continued Lehman's leftish New Deal, Fair Deal record, was defeated by Ives. Until he became Attorney-General of New York in 1954, Ives was a Republican representative in the House, and while there, his voting record would have done credit to a Truman Democrat. New York Republicans are as a rule "liberal" —they were the nucleus of the liberal, Eisenhower wing of the Republican party —but many of them regard Ives as far too liberal if not downright leftist. Thus the change of party in New York will not significantly change voting patterns in the Senate.

Cooper's victory in Kentucky is even more upsetting to the common view outside America that Republicans are conservative and Democrats liberal or left. Cooper has served twice in the Senate, from 1947 to 1949, and from 1951 to 1953, each time filling out the last two years of some one elses unexpired term, as he is again to do from 1957 to 1959. His record in his previous terms indicates that he is as much to the left as Senator Barkley whom he succeeds, and very likely more so. Much less is known about Morton (Rep) who defeated Senator Clements (Dem) for the other, full six year term from Kentucky, but Morton is an Eisenhower Republican and hence it is expected that he will not increase right wing Republican strength. While Cooper won by a large vote, Morton barely made it, and his victory therefore seems attributable to the Eisenhower landslide in Kentucky rather than to his own vote-getting power.

The last change of party occurred in Colorado, traditionally Republican, where John Carroll, formerly a Democratic representative, now becomes Senator. As the Democrats also won the governorship in Colorado, this change is most probably the result of the increase in urban industrialization (large cities tend to be Democratic) and some shift in a farm vote irritated at lower farm prices. This election result will mean a slightly leftward shift, but if we sum up the leftward changes of Church, Clarke, Cooper, Carroll and Lausche against the rightward changes of Bevercombe, Morton, and Javits, the net movement has been very small indeed.

Other election results, while leaving the men unchanged, point to more permanent changes in the future. In the northwest, Democrats Magnuson of Washington (the State) and Morse of Oregon retained their senate seats in campaigns against former Republican governors Langlie and Mckay, and increased the Democratic margin over previous years. More was a Republican until 1952, became an independent in that year, and in 1955 became a Democrat, but throughout his career, he has been on the far left of the Senate. Washington and Oregon have been Republican States but of recent years have sent Democrats to the Senate by close votes when the issue was between a Democrat favouring Federal Government development of hydro-electric power. This year's results indicate that these two States will be sending more Democrats to Washington (D C) than they have in the past.

In Michigan, G Mennen Williams (Dem) has won his fifth two year term as governor, this year defeating the popular Mayor of Detroit by a larger margin than he has defeated lesser opponents in the past. In consequence it looks as if Williams may develop into the Democratic Presidential candidate in 1960. It should be noted that Williams is a centre to left-of-centre Democrat in a normally Republican State.

What then can we anticipate to be the probable effects of this election upon the course of American policy? First, with President, Senate, and House remaining as before, there is no reason to expect any large changes, certainly in basic attitudes. But two, joint results of the election may lead to an American foreign policy more sensitive and sympathetic to the problems of both our allies and the neutral nations. One result, the great vote of confidence in Eisenhower, was underlined by the other result, the vote of lack of confidence in traditional, isolationistically inclined Republicans. These two together should give Eisenhower more scope to follow out his evident desire to work more through the United Nations and to accomplish more by understanding negotiation and to reduce the number of occasions on which American policy is reduced to belligerent statements. As against this stand the fact that as a President approaches the end of his term in office (and Eisenhower cannot run again), his influence in Congress declines. Lastly, there remains the great question mark of what will happen if Eisenhower does not fill out his term and Vice-President Nixon succeeds to the Presidency.

Whatever may happen, this election has shown clearly that there is but a dim and dismal future for politicians who try to make a career out of bomb-waving and threats.

Official Papers

Training for Social Research

S D Punekar

IT may be necessary to define the limits of social sciences, before the necessity of research tools is considered. Most of the social sciences are young and their limits have yet to be demarcated. Considerable overlapping, though it leads to confusion, is inevitable. With the rapid advancement of knowledge during the last century, the boundaries of some of these sciences have been considerably pushed afar and certain branches thereof have evolved as independent sciences. This can be illustrated by the growth of economics as a separate discipline. Economics, known then as political economy, was till recently a subordinate part of a training in law on the Continent and a junior partner of mental and moral philosophy in the English-speaking countries.

Scope of Social Sciences

In spite of the changes that social and allied sciences are undergoing, we can still limit our scope to certain definite fields, which belong to the realm of social structure and institutions and also to processes or mechanisms of social action. The sciences of economics, sociology and politics (including international relations, which is often treated as a separate science) are without doubt members of the family of social sciences. Then there are a number of other sciences, some parts of which relate to the analysis of social systems. In this category we have a large body of the legal science (comparative law) and the social aspects of anthropology and psychology (social anthropology and social psychology), as well as what can be termed as human geography. Ethics and philosophy (even social philosophy) fall outside the group of social sciences. A third category, which does not form a part of social sciences, but whose knowledge is desirable to understand these sciences, consists of history, mathematics, criminology and demography. Lastly we have what we may call the "method sciences" such as logic, statistics and scientific method. These cannot be included among social sciences, but they provide valuable tools, without which these sciences cannot progress. This article* aims to study the tools provided by statistics and scientific method.

Training for Research in Other Countries

Research forms the main method in getting the doctorate (Ph. D. or its equivalent degree), though in a few cases it is a compulsory or voluntary requirement for getting an intermediate or post-graduate degree (MA or MCom). The usual practice for the doctorate is that the degree is awarded on a dissertation followed sometimes by an oral examination in which the candidate is called upon to defend his dissertation and to show knowledge of the general field of study within which it lies. In a few countries (e g USA), a qualifying post-graduate examination is compulsory, before the candidate is admitted for the doctorate degree. In such cases, the programme falls into two fairly distinct periods: The first period is devoted to advanced courses and other studies through which the candidate acquires knowledge of facts, familiarity with tools and methods of research, and with the general problems of his subject. The second period is utilised in application of his knowledge to the topic of investigation chosen by him for his dissertation. The programme for the Economics doctoral degree at the Columbia University may serve as an illustration. At the end of, or sometimes after, his required period of residence, and after his dissertation project is approved, but before work on it has begun, a student may take his final examinations in subjects. He must be examined in six subjects, of which three (economic theory, economic history and statistics) are compulsory. In two of these subjects, he may take "certification" examinations, in the sense of being examined privately, either orally or in writing, by the appropriate professors. After being "certified" in these two subjects, he is examined orally for two hours by a committee of at least four professors (an examiner in each subject) in the remaining four subjects, of which economic theory must be one. Members of other social science departments also attend these examinations, either as observers or as examiners. After passing these examinations, the student devotes himself as consistently as possible, and for whatever time is necessary, to preparing his dissertation. The doctoral course is thus a continuation of the earlier (MA) course involving intensive lecturing, seminar and tutorial work and academic discipline, the research project having a secondary place in the programme of studies. At the same time, the student is *well-equipped not only* with the background material of his research project but with the methodology of research.

Training in Methodology

In research studies, India has followed the British universities, and the University teachers, who are research guides, are expected to supervise the thesis work and guide the research student not only in the subject of research but in its methodology. Like the British universities, however, the student is too often left largely to his own devices, subject to such assistance as he could get from his officially appointed supervisors. As Dr. V K R V Rao graphically describes:

"The work is mainly that of the student, guidance is largely nominal, there is very little of seminar or lecturing or tutorial work, there is no academic discipline and the research student reigns or suffers in splendid isolation, only occasionally finding for himself a meaningful place in the corporate activity of the student body to which he is supposed to belong. (Round Table Conference p 93).

* For this article, I have freely drawn material from the following UNESCO publications:

(i) **Round Table Conference on the Teaching of the Social Sciences in South Asia (1954),**

(ii) **The University Teaching of Social Sciences: Economics (1954),**

(iii) **The Teaching of the Social Sciences in the United States (1954),** and

(iv) **The Teaching of the Social Sciences in India (1956).**

It is, therefore, no wonder that even after conducting research for years and taking his doctorate, the learned doctor remains ignorant of the elementary statistical methods for the collection, analysis and interpretation of social facts, of the formulation of research hypotheses, of the various methods of collecting analysing and tabulating data and of preparation of the research report. An elementary course in methods of social research and statistics would not only have given him some knowledge of methodology but it would have also made his research work easy and scientific. Even without these aids, a good many research students have no doubt completed their work and got their degrees; however, most of them have to pass through a labyrinth, have often to grope in the dark, stumble against obstacles, and only accidently find some light and somehow reach the destination.

Arguments Against

In spite of this urgent necessity of the research students for some knowledge of methodology, it is somewhat surprising that there should be objections against having an elementary course in methodology. It is argued for example that the research methods used in social sciences are exceptionally varied, ranging from the study of documents (historical or contemporary) through field studies and sample surveys to the use of higher mathematics and laboratory experiments; students are not expected to become proficient in all these; nor can the courses in research training conform to a single pattern. Another line of argument is that a specialized course is not necessary in cases of carefully supervised individual research during which the guide criticizes the techniques used as well as the materials utilised by the research students under his charge. A third objection is that quantitative techniques are not required in all disciplines and hence a basic course will not serve the purpose of all social sciences.

Normally, training in research is not objected to, if it is individually given. The utility of having a special course for all social science research students is considered by a few to be of not much useful purpose. However, with the development of research in social sciences and with the demarcation of boundaries of the science of methodology, the objections raised are dying out and the value of training in methods of social research is being increasingly realised.

A Proposed Scheme of Social Research Methodology

(i) **Nature and duration of the course**—The course should consist of about 15 lectures, each lecture being for about an hour. Lectures may be held twice a week in the evening, so that the course can be completed within two months, preferably in the months of June and July, at the beginning of the academic year.

(ii) **Admission of Students**—The completion of the course should be made compulsory, before a student is admitted for the doctorate degree in any of the social sciences. This condition may not be necessary in the earlier post-graduate research degrees (MA or MCom), though these students may also be allowed to attend the course. Normally, each class should not have more than 30 students and a small fee for the whole course may be charged from each student.

(iii) **Teachers**—University teachers and statisticians may be requested to give lectures, if necessary, on a small honorarium.

(iv) **Methods of Teaching**—Lectures will form the main method. They should be supplemented by seminars, library periods, group studies and field work. Actual participation in social suveys may prove useful.

(v) **Syllabus**—A detailed course will include a variety of subjects like the nature and significance of this particular "science", its relation to different social sciences, a study of the various social sciences and their underlying unity, pure and applied sciences, application of scientific method in the study of social phenomena, problems of observation and measurement, policy considerations, designs research, historical method and use of documents, case and life histories, exploratory and formulative studies, social surveys (descriptive and diagnostic studies), experimental tudies, questionnaires and interview schedules, interview methods, field operations, content analysis, panel technique, mailed questionnaires, ecological techniques and graphic presentation, sociometry, scaling and measurement techniques, constructive typology, research writing, use of the library ,editing, coding and evaluation of data and elementary statistics.

The science is fast growing and covers a wide field. It is not possible to cover all the above subjects within a short course of 15 lectures. The object of the course is limited, viz to acquaint the student with the techniques of social research and hence many details, some of which are of importance, are to be left out. The following course of lectures is suggested from this view point.

1. **The Sciences** (one lecture—introductory)—Physical and social sciences; the scientific method and reflective thinking.
2. **Aims, objects and principles of research** (one lecture)—A review of research in social sciences.
3. **Formulation of the research problem** (one lecture)—Selection of problem; purpose and scope; working hypothesis.
4. **Data Collection** (five lectures)—What to collect; where to collect and from whom to collect; role of the library; direct and indirect methods of data collection; observation; questionnaire and schedule; interview; other techniques.
5. **Basic elementary statistics** (three lectures)—Statistical units; sources of data; sampling; accuracy and approximation; averages, geometric mean, median, mode; correlation, scatter diagram; tabulation and graphic representation.
6. **Organisation of data** (two lectures)—Scrutiny, tabulation, analysis and interpretation.
7. **Presentation of results** (two lectures)—Research writing; bibliography.

(vi) **Books on the subject**—Literature in this field is fast growing and it is not possible within the short space of an article to give a list of books. The works of Chapin, Doby, Elmer, Festinger and Katz, Furfey, Goode and Hatt, Hyman, Jahoda Deutsch and Cook, Lerner and Laswell, Lindzey, Lazarsfeld and Rosenberg, Lundberg, Merton, Parten, Rose and Young may prove useful. One difficulty is that the illustrations given in these books are foreign and many of them unimportant from the Indian view-point. It is, therefore, desirable that a standard text book by an Indian author taking into consideration Indian conditions should be written.

Non-Monetised Economy and Development

Hannan Ezekiel

IN a recent paper published in The Economic Weekly (June 23, 1956) Sukhamoy Chakravarty has suggested that in making national income estimates for underdeveloped countries, the non-monetised sector in these countries should be entirely excluded if these estimates are to prove useful from the point of view of economic growth. This suggestion deserves careful consideration, particularly at the present time when all underdeveloped countries are making attempts to initiate a process of economic growth.

A preliminary question in this connection concerns the exact meaning to be attached to the term, non-monetised economy. Chakravarty has suggested a definition of this term from the point of view of economic growth. He says:

> "the crux of the monetary system lies in the fact that wages are paid out in terms of money. A non-monetary economy, on the other hand, is one where in the Marxian terminology, the question of the exchange of labour-power against money never arises."

This definition I find unsatisfactory for two reasons.

Wage Relationships

First, one of the earliest consequences of placing a non-monetised economy in relation to a money economy is the emergence of wage-relationships. This fact is of considerable significance since we are speaking of underdeveloped countries where presumably monetised and non-monetised sectors exist side by side. That the first fruit of the impact of monetised on non-monetised economies is the emergence of wage-relationships has been commented upon frequently in connection with African territories, where for instance the levy of taxes payable in money on members of African tribes stimulates a flow of labour to mines and urban industries.

In our own country, it is well-known that subsistence farmers sell a part of their output to enable themselves to buy a few necessaries and to carry out other minimum money payments. They also sell their labour, however, with the same purpose in mind. Even those who belong to the aboriginal tribes and could for all practical purposes be described as living in non-monetised economies, frequently enter into wage-relationships with the monetised sector beside which they carry on their existence. (cf **Indigenous Peoples**, I L O Geneva 1953) Instead of the definition advocated by Chakravarty having a restrictive effect on the size of the monetised economy as he evidently wants it to have, therefore, we find that it extends the content of the term to include vast sections of the community commonly held to be outside it.

Sale and Purchase of Labour

It is true that the wage relationships referred to above are entered into not within the sector concerned but rather between it and the more developed monetised sector outside. Perhaps, in formulating his definition, Chakravarty had in mind development of such relationships within the sector itself. This is, however, not evident from his paper. On the contrary, he says, "so long as money cannot purchase labour because labour power has not become a saleable commodity, the role of money is bound to be of a limited character" (emphasis mine). Wage relationships may not, however, develop within such an economy even though labour has become a saleable commodity as evidenced by its sale to the monetised sector outside. In other words, the practice of purchase of labour for money may not develop within such an economy though its sale does take place. The explanation for this, however, would be that, though the sale of labour for money is well understood by the members of that economy, they do not possess adequate money incomes or money capital for the purpose of purchasing it for productive purposes. This in turn is probably the result of the subsistence character of their principal productive activities and the relatively low wage payments that they receive when they sell their labour to the external monetised economies.

It is clear from this discussion that though labour power has become a saleable commodity, the development of wage labour relationships within the sector itself may be prevented by the existence of certain obstacles. One of the objectives of economic planning might in fact be to overcome these obstacles in order to initiate a process of economic development within that sector. In any case, however, such an economy clearly exhibits wage-labour relationships at any rate externally.

Sometimes, sales of labour for wages within the economy itself might also develop. This by itself would not, however, justify the inclusion of such economies within the monetary sector. Probably Chakravarty himself would agree that they should be excluded. But his definition leads to their inclusion as shown above. In this sense, therefore, it can be considered too wide.

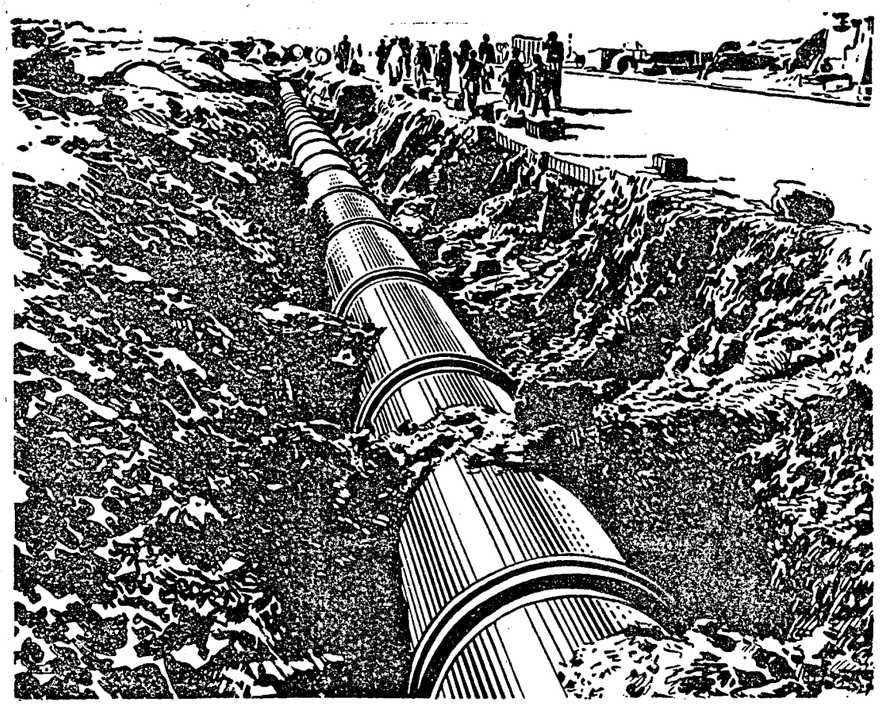
Too Narrow Definition

At the same time, however, Chakravarty's definition of a monetary economy is too narrow because it leads to the exclusion of obviously monetary sectors. Visualise a society in which division of labour has proceeded to the stage at which extensive exchange of commodities takes place through the medium of money, while wage relationships have not developed on a large scale as yet. Such an economy, would, by Chakravarty's definition, be a non-monetised economy. He specifically points out that the mere use of money for other purposes, i e purchase and sale of goods, does not make the economy a monetary one and that "money understood in the sense of a circulating medium only and having little or no connection with production relationships has been prevalent since very ancient days".

Following Chakravarty, therefore, these economies of ancient times, in which money functioned as a circulating medium, would have to be excluded from the purview of monetised economies. There is an interesting shift in the terms used by him in this connection which should be noted. Whereas he has been speaking so far of wage relationships, he now uses the term, production relationships. Are not the commercial relationships which are operated through money as a circulating medium, then to be treated as production relationships?

To clarify the picture, let us examine the case of an economy in which labour is employed for wages but only in commerce not in manufacture. Would Chakravarty con-

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sider such an economy to be monetised? Apparently not, for in a footnote Chakravarty identifies a non-monetised economy with one in which pre-capitalist relationships prevail. In other words Chakravarty really defines a monetised economy as an economy in which wage relationships exist in production, the latter being defined in a special, Marxian, sense, i e as an economy in which capitalist relations in Marxian terms, exist. It would have facilitated discussion if he had said so clearly. In any case, however, I cannot see the justification for giving one term a connotation already comprised by another, when the first has already a well-accepted and very useful connotation of its own.

The Importance of Concepts

Chakravarty is, of course, entitled to define his own terms in his own way and to argue further on that basis. This discussion of Chakravarty's definitions of monetised and non-monetised economies is, however, justified by the need to clarify the implications of these definitions and to show that there is a certain measure of confusion about his discussion of the term itself. Such a discussion is always useful because it is likely to help in bringing out the limitations of the conclusions reached by an author on the basis of defined concepts and expose any weaknesses that may exist in the process of reasoning by which those conclusions have been reached. It may help, therefore, in questioning the validity of the conclusions themselves.

That this general justification is directly relevant to the present discussion becomes apparent immediately, one examines an important characteristic ascribed to a non-monetised economy by Chakravarty. According to him, accumulation does not take place in a non-monetised economy. He argues:

> "Market as an economic institution has.... only a very limited scope. If market for commodities hardly exists, it would surely be out of the question to postulate a market for assets. Accumulation, under the circumstances is not possible for to store things having no universally recognised common denominator and having no opport- changing negotiable re be any) against a meaningful econo-

Two Fallacies

There are two fallacies in this process of reasoning. First, the author's own definition of a non-monetised economy does not preclude the existence of markets in that economy, both for consumption goods and assets. Chakravarty has himself conceded that a money economy in the sense of a market economy utilising money as a circulating medium has existed since ancient days. In such a market economy, negotiable assets understood in the sense of securities or documentary evidences of credit, may not indeed exist. But there is no fundamental reason why they should not do so. The economic history of Western European countries shows that societies in which capitalist wage relationships had not developed as yet, did have fairly well developed credit systems and probably even well organised markets for negotiable assets.

Yet, such societies would be non-monetised by Chakravarty's definition. Therefore, his argument that accumulation could not take place in a non-monetised economy because of the absence of markets for goods and assets is clearly incorrect in relation to his own definition of a non-monetised economy. Having defined a non-monetised economy in a special and limited sense at the commencement of his paper, Chakravarty seems to have conveniently forgotten it in the rest of his discussion, having returned to the normally understood meaning of the term as a non-market economy.

The second fallacy in the argument is the assertion that the non-existence of markets necessarily implies the absence of accumulation. The argument is fallacious in other words even if one tries to apply it to a non-monetised economy in the usual sense of the term. Why should the storing of things having no universally recognised common denominator be "not a meaningful economic activity"? If the act of storing goods helps the person storing them to improve his productive capacity or his ability to consume in the future, that should be sufficient reason for him to do so without someone describing it as not constituting meaningful economic activity. One may well ask "Meaningful to whom?"

An Economic Surplus

Enlarging on his theme, Chakravarty says that in such economies, "the surplus of production above consumption, if there be any, is a physical surplus and not an economic surplus." There is no justification for this statement at all. On the contrary, studies of various non-monetised economies made by economists and sociologists show that the distinction between consumption and investment is quite clear even in the minds of primitive peoples. It has been shown for instance that among the Bantu people in Africa the economic application of resources is very clearly understood. (cf Goodfellow, D M **Principles of Economic Sociology**) The character of a commodity, say, grain or cattle, differs according to the use to which it is put, being treated as either a consumption or a capital good. Even when a physical difference does not exist, therefore, a qualitative differentiation is made which proves that the surplus is not just a physical surplus. It is rather a surplus whose character is explicitly and clearly recognised by the people. In fact, it becomes a surplus only by virtue of the decision made by them to postpone consumption in exactly the same way as we understand it for a monetised economy.

Accumulation and Technical Change

That the analysis proceeds from an inadequate understanding of the character of the process of accumulation is suggested by a further statement in this connection contained in the paper. Chakravarty says, "a non-monetary economy .... implies little or no capacity for accumulation and consequently little or no possibility of changing the technique of production."

Does the causal relation established in this statement actually operate in that way? True, societies in which little accumulation takes place are usually societies in which there is little technical change. The inability to change the technique of production in such societies arises, however, not from an absence of accumulation but independently from a lack of knowledge. These societies have become stagnant so that categories of technical change do not exist for them. That is why though accumulation does take place in such societies, it does not assume that character which it does in an advanced society.

Impossibility of change in technique is not caused, therefore, by the inability to accumulate, as Chakra-

varty suggests. Rather, it is the inability to accumulate rapidly which is caused by the impossibility of changing the technique of production. Accumulation, then, does proceed in a society in which technical change does not take place. The fact that even such societies are able to sustain an increasing population at static levels of living at any rate upto a point or that even where levels of living fall they do so more slowly than would otherwise be the case provides independent logical support for this contention.

This is not to deny, however, that a measure of accumulation may be necessary for the implementation of technical changes once these have been devised in or become known to that society. Inadequate accumulation in a society may hamper the introduction of technical changes or may slow down the rate of technical change. While this is also true of a monetised or even a highly advanced economy, this fact explains particularly why a non-monetised economy existing side by side with a more developed monetised economy and having wage-labour relationships with it may fail to utilise the technical knowledge possessed by the latter.

Money—A Circulating Medium

Sukhamoy Chakravarty's definitions of monetised and non-monetised economies cannot, therefore, be accepted, nor can his statement of the characteristics of such a non-monetised economy. Clearly, a non-monetised economy is one in which a single circulating medium of exchange, which is used on a significantly large scale and provides a common measure of value does not exist. A non-monetised economy is thus, as indicated by the term itself, one in which money is not commonly used. It may be identified with a non-market economy, since it is difficult to visualise a market economy not based on money.

A non-monetised economy is not, however, merely a non-exchange economy, since exchange may take place in an economy through barter without making an economy monetised. Yet subsistence production is undoubtedly the most important characteristic of such an economy, since where exchange takes place only through barter its volume can hardly be large. This of course takes us to the concept of self-sufficiency, which is merely another way of expressing the idea implicit in the concept of subsistence production.

Surprisingly enough in the light of the discussion above, Chakravarty claims in a footnote that "the notion of self-sufficiency in the meaningful sense is subsumed in our definition of non-monetisation". One can hardly admit this when Chakravarty himself concedes that there can be economies which though using money as a circulating medium i e in commerce, would fall within the scope of non-monetised economies as defined by him. Such economies can hardly be described as self-sufficient economies since by definition they are based on well-developed exchange relationships taking place on a large scale through the medium of money.

Exclusion of Non-Monetised Sector

We may now turn to an examination of the main question which is whether the exclusion of the non-monetised sector is justified in calculating a growth-oriented national income total. Chakravarty's principal argument for excluding this sector is that it does not employ reproducible capital or augment the total stock of reproducible capital in the process of accumulation. It is his contention, in other words, that a growth-oriented income total must be an accumulation oriented one and that since the non-monetised sector is not accumulation-oriented, it should be excluded from that total.

Now, as has been shown above, this latter contention cannot be accepted. It is certainly not true for the non-monetised economy as it is defined by Chakravarty. Even for the non-monetised sector as it is generally understood and as I have defined it above, the weight of evidence is against the view advanced by him. The suggestion that the non-monetised sector should be excluded from the national income total must therefore, be rejected.

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Another argument in this connection is that if this sector is not excluded as suggested, "it makes models of economic growth based on postulated relationships between income, investment and savings extremely precarious." Since demand must also be accomodated and, therefore, attention cannot be concentrated purely on the investment-income relationships, savings must be explicitly introduced into the picture. Where there is a wide non-monetised sector, the savings-income ratio is unlikely to be stable since the process of economic development itself implies an increasing monetisation of the non-monetised sector. This is his argument.

Separation of Non-Monetised Sector

Let us assume for the sake of argument that the only way to ensure stability in the savings-income ratio is to have figures covering only the monetised sector for use in this ratio. Why not then split up both total savings and total income for the country into two components: monetised and non-monetised? That would permit at any rate the drawing up of a significant and useful savings-income ratio for the monetised sector for comparison with the investment-income ratio.

Chakravarty asks a somewhat similar question but rejects this way out of the difficulty on the ground that the non-monetised sector is not accumulation-oriented and need not, therefore, be considered. This is hardly relevant at this point. If one can show, as I have done, that accumulation does take place even in the non-monetised sector, then the problem of the stability of the savings-income ratio can be considered on its merits. In that case, the splitting up of national income totals into separate totals for monetised and non-monetised sectors offers a perfectly valid solution for this problem.

One may, of course, deny that a savings-income ratio which was restricted to the monetised sector alone, would by virtue of that fact become necessarily stable. Apart from other factors, the portion of the increase in the income of the monetary sector which results from a transformation of the non-monetised sector might not show the same characteristics as the rest of the monetised economy and this is bound to affect the ratio itself, and not merely its income component.

Again, the capital: output ratio which would also be an essential element of model building for economic development, would prove unpredictable if the non-monetised sector was entirely excluded. One should expect this to happen because growth in the income of a community might then result not merely from the investment on which attention had been concentrated, but also from a transformation of a non-monetised into a monetised economy. Thus the difficulties of model-building would not be necessarily reduced by restricting the scope of the national income total to monetised sectors only.

In any case, the fact that difficulties arise in building models of economic development because of the existence of a non-monetised sector is no justification for bringing about a drastic change in the concept of national income itself, particularly because national income totals serve so many different purposes.

Some Difficulties

Changing the national income concept as suggested by Chakravarty will give rise to a number of difficulties. Take the concept of per capita national income. If national income were denned so as to exclude the non-monetised sector, the resulting total divided by the entire population of the country would give a misleadingly low figure for per capita income. If the non-monetised sector were sufficiently large, it might very well happen that the per capita income figure might be so low as to be entirely meaningless.

The application of the new concept would tend to produce a distorted picture of consumption and of investment. Since the volume of subsistence output produced in the non-monetised sector would not be taken into consideration at all, the resulting figures of national income and its breakdowns would be less rather than more significant for the purposes of economic planning.

Again, since one of the consequences of economic development is the progressive transformation of non-monetised into monetised economies, Chakravarty's national income totals will exaggerate the rate of growth of national income. There is already a tendency towards such exaggeration arising from the fact that many productive activities not normally included in the national income get included when they are effected through the market. Thus the national total tends to rise when there has been no real increase in production. Kuznets has stressed this fact frequently. By redefining national income on the lines suggested by Chakravarty, therefore, one would only make the position in this respect worse than before.

It is no doubt desirable to know to what extent subsistence or non-monetised economies are being monetised in the process of economic development. It is not necessary for this purpose, however, to restrict the scope of national income to the monetised sector only. On the contrary, if this is done, it would probably be impossible to distinguish between the increase in income resulting from a genuine increase in production and the increase that occurred due to the transformation of the non-monetised economy. A measure of this transformation could be obtained more clearly if separate estimates for the two sectors as components of the national income total were obtained. Though some difficulties at the margin would still remain, one would be able to see what part of the increase in the income of the monetised sector had been produced at the expense of the non-monetised sector, because to that extent the national income total would not be affected.

The Objective

Finally, one may point out that though a progress of economic growth implies the accumulation of capital, this is not an end in itself. The objective of economic activity is the satisfaction of human wants. Capital goods are included in the national income for the period during which they have been produced on the grounds that since they increase the capacity to produce goods and services in the future, they constitute an addition to the present welfare of the country's residents. A growth-oriented national income need not, therefore, be an accumulation-oriented one at all. It is the economic activity of the country aiming at rapid growth, which must be accumulation-oriented, but the results achieved in that direction must still be measured in the normal way, giving due importance to all sectors and activities in the economy.

Prospectus

A copy of this Offer for Sale, having attached to it the documents required by Section 60 of the Companies Act, 1956, and specified below, has been delivered for registration to the Registrar of Companies, Bombay.

Consent of the Government of India has been obtained to this Offer by an Order, of which a complete copy is open to inspection at the Registered Office of the Company. It must be distinctly understood that in giving this consent the Government of India do not take responsibility for the financial soundness of any schemes or for the correctness of any of the statements made or opinions expressed with regard to them.

The Application List for the ordinary shares now offered for sale (including the shares preferentially offered to the employees of Hindustan Lever Limited as mentioned below) will open at 10-30 a.m. on the 3rd day of December, 1956, and will close at 3 p.m. on the 5th day of December, 1956, or later, at the discretion of the Offeror.

Hindustan Lever Limited

(FORMERLY LEVER BROTHERS (INDIA) PRIVATE LIMITED)

(Incorporated on 17th October, 1933, under The Indian Companies Act, 1913)

SHARE CAPITAL

Authorised :		Issued and fully Paid:
Rs. 5,57,00,000 in 55,70,000 Ordinary Shares of Rs. 10 each	..	Rs. 5,57,00,000

Unilever Limited, London (sometimes referred to in this Offer for Sale also as "the Offeror") is the beneficial owner of the whole of the issued capital of the Company which, with the exception of seven shares, is registered in their name.

LOAN CAPITAL

The Company has created no mortgage or debentures and has no other loan capital.

The Company has bank overdraft facilities secured by guarantee by Unilever Limited or by hypothecation of stock in trade, but on 31st October, 1956, no amount was outstanding. The Company has a current account with Unilever Limited and from time to time is indebted for goods and services supplied in the normal course of the Company's business. On 31st October, 1956, this account showed an amount due by the Company to Unilever Limited of Rs. 21,19,922.

OFFER FOR SALE OF

5,57,000 ORDINARY SHARES OF Rs. 10 each fully paid at Rs. 16-8-0 per share (including a premium of Rs. 6-8-0) payable in full on application.

Unilever Limited invite applications for the purchase from them of the above shares.

In addition to paying the purchase price to Unilever Limited the purchaser (or transferee) will have to bear the stamp duty on the transfer of the shares from Unilever Limited.

Applications must be made on the official form and in the case of applications from the public must be forwarded to the brokers to the Offer named below or to any of the branches of the National Bank of India Limited at the addresses stated on the application form.

It is intended to reserve a maximum of 55,700 (i.e 10%) of the above 5,57,000 shares for offer in the first instance to the employees of Hindustan Lever Limited at the above price of Rs. 16-8-0 per share (including a premium of Rs. 6-8-0) payable in full on application. Applications from employees for these shares must be made on BLUE application forms and must be for 25 or 50 shares only.

Applications for the shares offered for sale to the public must be made on WHITE application forms and must be for 50 shares or a multiple thereof.

Any of the shares reserved for the employees of Hindustan Lever Limited which are not purchased by them will be available to meet applications from the public.

The shares offered for sale will rank for any dividends which may hereafter be declared.

DIRECTORS

Andrew John Chandos Hoskyns-Abrahall, Gold Croft, Bhulabhai Desai Road, Bombay, Company Director (Chairman).

Stephen Henry Turner, Everest House, Carmichael Road, Bombay, Technical Director (Vice-Chairman).

Kalyan Sundar Basu, Revills, Cuffe Parade, Bombay, Personnel Director.

Kaniathra Thomas Chandy, 10-A, Mount Mary Road, Bandra, Bombay, Company Director (Secretary).

David Alexander Orr, Javeri Mansions, Little Gibbs Road, Bombay, Marketing Director (Soaps).

Prakash Lal Tandon, Dakshin Pali, D'Monte Park, Bandra, Bombay, Co-ordinating Director.

Reginald James Wheeler, Kamani House, Pedder Road, Bombay, Financial Director.

Maurice Zinkin, Revills, Cuffe Parade, Bombay, Marketing Director (Foods).

BANKERS

Bankers to the Company

State Bank of India—Apollo Street, Bombay.
National Bank of India Limited—Mahatma Gandhi Road, Bombay.

BANKERS TO THE OFFER

National Bank of India Limited—Mahatma Gandhi Road, Bombay.

SOLICITORS

To the Company and the Offer

Crawford Bayley & Company, State Bank Buildings, Bank Street, Bombay.

AUDITORS

A. F. Ferguson & Company, Chartered Accountants, Allahabad Bank Building, Apollo Street, Bombay.

BROKERS TO THE OFFER

Managing Brokers

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Premchand Roychand & Sons, 63, Apollo Street, Bombay 1.

Calcutta Brokers

Place, Siddons & Gough—6, Lyons Range, Calcutta.

Madras Brokers

Kothari & Sons—Oriental Buildings, Armenian Street, Madras.

REGISTERED OFFICE

Scindia House, Dougall Road, Ballard Estate, Bombay.

HISTORY

The Company was incorporated in India as a private company on 17th October, 1933, under The Indian Companies Act, 1913, with the name Lever Brothers (India) Limited. Shortly after incorporation the Company took over the Lever soap business established in India in the nineteenth century by Lever Brothers of Port Sunlight, Cheshire, since when the Company has carried on business continuously.

On 8th October, 1956, but with effect from the close of business on 31st December, 1955, by virtue of Orders of the Bombay High Court the Company was amalgamated under Sections 391 and 394 of the Companies Act, 1956, with the undernoted Companies whose assets thereby vested in the Company subject to their liabilities, duties and covenants:—

(1) THE HINDUSTAN VANASPATI MANUFACTURING COMPANY PRIVATE LIMITED (Sometimes referred to in this Offer for Sale also as "HVM")

(2) WILLIAM GOSSAGE & SONS (INDIA) PRIVATE LIMITED

(3) JOSEPH CROSFIELD & SONS (INDIA) PRIVATE LIMITED.

These companies (hereinafter collectively referred to as "the merged companies") have now ceased to exist. Previously they were closely associated with the Company all being wholly owned subsidiaries of Unilever Limited. Since the amalgamation the Company has been carrying on the combined business comprising the manufacture and sale of soaps, detergents, toilet preparations and glycerine, together with vanaspati, margarine, edible oils and oil cake, formerly products of HVM which since 1932 has been the largest producer of its kind in India.

Following the amalgamation, the Company was converted to a public company on 27th October, 1956 and changed its name to Hindustan Lever Limited on 1st November, 1956.

BUSINESS

The Company's main aim has always been to sell good quality products at fair prices. Its products now include SUNLIGHT and LIFEBUOY soaps, LUX toilet soap, LUX soap flakes, RINSO soap powder, VIM scouring powder, DALDA and LOTUS brands of vanaspati, BLUE BAND and other margarines, and MARVO cooking medium. The rights in India to all the trade marks applied to these products are the property of the Company. The Company has arrangements with companies of the Unilever Group outside India by which it manufactures and sells their products in India for its own account; these products include PEARS transparent soap and talcum powder, REXONA toilet soap, BREEZE toilet soap, ERASMIC shaving stick, and shaving cup soap, HIMALAYA BOUQUET toilet and talcum powder, PEPSODENT and GIBBS, S.R. toothpaste and GIBBS dentifrice, CALIFORNIAN POPPY hair oil and ERASMIC cocoanut hair oil. The Company also produces industrial and B.P. quality glycerine which it sells under its trade marks PYRAMID and WHEEL. The Company also sells the soapless detergent powder SURF; supplies of this product are at present imported from the United Kingdom, but local manufacture is planned.

The Company's products are distributed throughout India. The Company's sales offices in Bombay, Calcutta, Delhi and Madras and its depots at Gauhati, Cochin and Bangalore deal directly with over 13,000 wholesalers and stockists in over 3,000 towns. The Company's 375 salesmen are in touch with about 2,00,000 shops that deal in the Company's products.

As a member of the Unilever Group, the Company has access to Unilever's international knowledge and experience of the manufacture and marketing of detergents, edible fats and toilet preparations. To a great extent because of its membership of the Group, the Company has made a valuable contribution to the development of the soap and vanaspati industries in India and continues to do so.

The basic raw material of the Company's soap and vanaspati manufacturing businesses is vegetable oil. The quantities (to the nearest thousand tons) of such oil processed by the Company and by HVM whose business is now amalgamated with the Company, during each of the five years ended 31st December, 1955, are given below; a predominant part—about 88% in 1955—is purchased within India.

1951: 81,000 tons; 1952: 91,000 tons; 1953: 89,000 tons; 1954: 97,000 tons; 1955: 1,04,000 tons.

PERSONNEL

For many years the training of Indian employees for higher posts, whether technical or commercial, has been an important part of the Company's policy and selected personnel are sent overseas for special courses of instruction and for observation of advanced practices. More than 85% of the managerial staff are Indians.

In recent years during which relations between employees and workers in all industries have been subjected to many strains and stresses the Company has been loyally served by its workers and has on its part endeavoured to think and act progressively in all matters pertaining to wages, conditions of work, retirement provisions and welfare. The wages and salaries paid by the Company have been acknowledged on several occasions by Labour Tribunals as the highest in the Industry.

The number of people employed by the Company exceeds 6,000.

SUBSIDIARIES

The Company has four wholly owned subsidiaries. They are:—

United Traders Private Limited and Van den Berghs (India) Private Limited, neither of which are trading at present, and

Levers Associated Trust Private Limited and Levindra Trust Private Limited, both of which are trust companies managing the Provident Fund of the Company's employees.

FACTORIES

Situation and Address	Approximate Area Acres	Nature of Tenure	Main Products
Haji Bunder, Sewri, Bombay.	24.0	Leasehold To 1983 with option for renewal to 2032	Soap, toilet preparations, glycerine, vanaspati, margarine and oil cake.
Garden Reach, Calcutta.	3.4 9.0	Leasehold To 2008 Freehold	Soap, toilet preparations and glycerine
Athpur, Shamnagar, W. Bengal.	15.2	Freehold	Vanaspati
Grand Trunk Road, Ghaziabad, U.P.	19.7	Freehold	Vanaspati
Edamalaipatti, Pudur, Tiruchirapalli, S. India.	39.5	Freehold	Vanaspati

The Factories are well situated for the purposes of securing regular supplies of raw materials and ensuring efficient distribution of manufactured products to all parts of the country. They are equipped with modern plant and machinery, adequately provided with railway sidings, water and power and are maintained in good working condition.

Negotiations have been completed for acquiring a lease from the Government of Bombay of a site of about 0.9 of an acre in the area known as Back Bay Reclamation on which the Company proposes to erect a Head Office building to house members of its staff at present dispersed over five buildings in Bombay City.

AUDITORS' REPORT

The following is a copy of the Report received from the Company's Auditors, Messrs. A. F. Ferguson & Company:—

Bombay, 12th November 1956.

The Directors,
Unilever Limited,
Blackfriars,
London, E.C. 4, England.

Gentlemen,

We have examined the audited accounts for the five years to 31st December, 1955, of Hindustan Lever Limited (formerly Lever Brothers (India) Private Limited) and those of its subsidiary companies at that date, all of which were wholly owned, namely:—

United Traders Private Limited

Levers Associated Trust Private Limited

Levindra Trust Private Limited

and those of the following companies (hereinafter collectively referred to as "the merged companies"), whose assets and liabilities were on 8th October 1956 transferred to Hindustan Lever Limited, namely:—

The Hindustan Vanaspati Manufacturing Company Private Limited (hereinafter referred to as "HVM")

Joseph Crossfield & Sons (India) Private Limited

William Gossage & Sons (India) Private Limited.

We have also examined the audited accounts of Van den Berghs (India) Private Limited which was a wholly owned subsidiary of HVM but which, on 8th October, 1956, on the abovementioned transfer of assets and liabilities, became a wholly owned subsidiary of Hindustan Lever Limited.

We have also examined the audited accounts of the following companies (hereinafter referred to as "the liquidated companies"), for the four years to 31st December 1954 and the period to 27th July 1955, namely:—

The North West Soap Company Private Limited

The Premier Soap Company of India Private Limited

which, as wholly owned subsidiaries of Hindustan Lever Limited, went into voluntary liquidation on 28th July 1955, and held their final meetings in the liquidations on 23rd October 1956.

Throughout the years under review we have acted as auditors of all the above companies.

No audited accounts of any of the above companies have been made up since 31st December 1955.

1. PROFITS

We report that the combined profits of Hindustan Lever Limited, its subsidiary companies as at 31st December 1955 and the liquidated companies, and the profits of each of the merged companies, (in the case of HVM, combined with those of its former subsidiary company) all arrived at on the basis set out below, were as follows:—

Year ended 31st December	Hindustan Lever Limited and its subsidiary companies	HVM and its subsidiary company	Joseph Crosfield & Sons (India) Private Limited	William Gossage & Sons (India) Private Ltd.	AGGREGATE		
	Profits before taxation				Profit before taxation	Taxation as defined in (ii) below	Profit after taxation
Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1951	1,28,85,262	11,67,798	35,228	37,766	1,41,26,054	61,33,005	79,90,049
1952	1,80,39,423	4,52,080	36,087	39,961	1,85,67,551	80,65,280	1,05,02,271
1953	1,64,71,799	82,80,750	35,753	39,170	2,48,27,472	1,07,84,433	1,40,43,039
1954	1,71,65,259	53,31,230 Loss	35,758	38,052	1,19,07,839	51,72,468	67,35,371
1955	1,90,86,815	57,34,820	36,569	39509	2,48,97,713	1,08,14,944	1,40,82,769

(i) The profits shown in columns 2 to 6 inclusive have been arrived at after charging all expenses of working and management, interest, and depreciation and after making such adjustments as are in our opinion necessary. Depreciation has been charged throughout the five years on a consistent basis and, in aggregate, exceeds the total income-tax allowances exclusive of initial allowances and development rebates.

(ii) The taxation shown in column 7 has been calculated on the profits shown in column 6 at the rate of 6.95 as. in the rupee. This is the combined rate of income-tax and super-tax applicable to the profits of the companies for each of the years under review before taking into account the effect of dividend distributions out of such profits. In respect of 1955, the Finance Act, 1956, imposed on companies taxation additional to the basic rate of 6.95 as. to the extent that dividends declared during 1955 exceeded 6% of issued capital. On the basis of the Finance Act, 1956, and the present issued capital, the additional taxation payable by Hindustan Lever Limited in future years will be as follows:—

On the first Rs. 33,42,000 of dividends—Nil

On the next Rs. 22,28,000 of dividends—2 as. in the rupee

On the balance of dividends over Rs. 55,70,000 —3 as. in the rupee.

The aggregate actual taxation paid or calculated as payable by Hindustan Lever Limited, its subsidiaries and the merged companies is as follows:—

Year ended 31st December	Rs.
1951	60,74,497
1952	75,94,460
1953	90,12,026
1954	80,44,480
1955	1,38,42,031

2. DIVIDENDS

The following rates of dividend were paid in respect of the five years to 31st December 1955 by Hindustan Lever Limited and the merged companies:—

The capital of each company consisted wholly of fully paid ordinary shares of Rs. 10 each								
Year ended 31st December	Hindustan Lever Limited		HVM		Joseph Crosfield & Sons (India) Private Limited		William Gossage & Sons (India) Private Limited	
	Paid up Cap. Rs. Lakhs	Rate %	Paid up Cap. Rs. Lakhs	Rate %	Paid up Cap. Rs. Lakhs	Rate %	Paid up Cap. Rs. Lakhs	Rate %
1951	138	Nil	133	Nil	0.8	Nil	3.2	Nil
1952	200	Nil	133	Nil	0.8	Nil	3.2	Nil
1953	200	25	133	Nil	0.8	200	3.2	50
1954	200	55	133	30.075	0.8	Nil	3.2	Nil
1955	200	37.5	133	50	0.8	56.25	3.2	18.75

3. NET ASSETS

The net assets, based on the audited balance sheets as at 31st December, 1955, of Hindustan Lever Limited, its subsidiary companies at that date, each of the merged companies, and Van den Berghs (India) Private Limited at that date a subsidiary company of HVM, after making such adjustments as we consider necessary, were as follows:—

	Hindustan Lever Limited	The subsidiary companies of Hindustan Lever Limited	HVM	Van den Berghs (India) Private Limited, a subsidiary company of HVM	Joseph Crosfield & Sons (India) Private Limited	William Gossage & Sons (India) Private Limited	AGGREGATE	
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Trade Marks & Goodwill	3,00,316			1,900	71,048	2,50,000		6,23,264
Fixed Assets								
At original cost plus increase on revaluation as at 1st January 1950 less Depreciation to 31st December 1955	2,76,17,667		72,89,600					3,49,07,267
Current Assets								
Stock and Stores	2,25,85,023	27,46,880	1,20,28,888				3,73,60,791	
Debtors & advances	65,77,204	10,03,853	58,22,745				1,34,03,802	
Cash and bank balances	58,11,379		2,23,536				60,34,915	
	3,49,73,606	37,50,733	1,80,75,169				5,67,99,508	
Current Liabilities								
Creditors	(74,30,359)	(5,20,974)	(71,72,627)	(285)	(125)	(775)	(1,51,25,145)	
Taxation	(46,18,985)		(26,16,036)	(351)	(7,792)	(8,994)	(72,52,158)	
Bank overdrafts	(863)	(2,52,453)	(9,78,841)				(12,32,157)	
	(1,20,50,207)	(7,73,427)	(1,07,67,504)	(636)	(7,917)	(9,769)	(2,36,09,460)	
Net Current Assets	2,29,23,399	29,77,306	73,07,665	(636)	(7,917)	(9,769)		3,31,90,048
Subsidiary and Associated Companies								
Investments in subsidiary companies are represented by the net assets of—	Col. 2		Col. 4					
Intercompany indebtedness: Parent/subsidiaries	(5,89,297)	5,89,297	(591)	591				
Hindustan Lever Ltd/the merged companies	(99,49,826)		98,53,188		16,869	79,769		
Unilever Limited	91,15,396		*(48,18,432)					
	(14,23,727)	5,89,297	50,34,165	591	16,869	79,769		42,96,961
Total Net Assets Rs.	4,94,17,655	35,66,603	1,96,31,430	1,855	80,000	3,20,000		7,30,17,543

Figures in brackets represent liabilities.
*This represents a net dividend declared on 22nd February 1956 in respect of 1955.

We are, gentlemen,

Yours faithfully,

A. F. FERGUSON & CO.
Chartered Accountants

PROSPECTS

The consumption of products of the types manufactured by the Company is likely to increase as the standard of living is raised. The Company expects to win a fair share of any increased prosperity that may accrue to the industries concerned.

Assuming a continuance of present rates of taxation the Directors estimate that the consolidated net profit of the Company and its subsidiaries for the year ending 31st December 1956 (after taking into account taxation of Rs. 108 lakhs of which Rs. 19½ lakhs is in respect of the capitalisation of Rs. 157 lakhs of profits on 11th October 1956) will not be less than Rs. 90,00,000. On the 1st November 1956 the Company paid an interim dividend of 8 annas per share absorbing Rs. 27,85,000.

If the estimated net profit is realised and there is no substantial change in trading conditions the Directors would expect to recommend that a final dividend for the year 1956 of 6 annas per share, free of income tax, be paid before the end of May 1957.

For the future it is the intention of the Directors (in the absence of unforeseen circumstances) to recommend the distribution of a large part of the Company's profits by way of dividend. For example, if the estimated level of profit for 1956 is maintained and there is no substantial change in rates of taxation or trading conditions, the Directors would expect to recommend for the year ending 31st December 1957 a total dividend of not less than Rs. 1-6-0 per share free of income tax. On the sale of the shares now offered the Company will become a Company to which Section 23A of The Income Tax Act, 1922 applies.

As will be seen from the Auditors' Report one of the merged companies (HVM), the business of which is now carried on by the Company and is primarily concerned with the manufacture and sale of vanaspati, incurred a loss in 1954. In that year the price of Indian groundnut oil fell heavily. The profits of this particular business—as indeed of the Vanaspati Industry as a whole—are governed to a great extent by price fluctuations in the Indian groundnut oil market. These fluctuations in recent years have been very wide.

STATUTORY AND OTHER INFORMATION

The Offeror was the promoter of the Company but no sum was paid to the Offeror for its services as promoter.

During the two years preceding the date hereof the Company issued 20,00,000 Ordinary Shares of Rs. 10 each credited as fully paid to Unilever Limited in consideration of the vesting in the Company of the assets of the merged companies and it also issued during this period 15,70,000 Ordinary Shares of Rs 10 each credited as fully paid to Unilever Limited by capitalising Rs. 1,57,00,000 of profits standing to the credit of general reserve.

No amount has been paid to the Company by way of premium on any shares within the two years preceding the date hereof.

Apart from the dividends referred to in the report of the auditors, the shares above referred to, the sum of Rs. 5,22,590 being remuneration paid to the directors and secretary of the Company and the sum of Rs. 2,84,43,747 being payments made to or to be made to Unilever Limited for goods and services in the ordinary course of the Company's business, no amount or benefit has been paid or given within the two years preceding the date hereof to the promoter or any officer of the Company. It is not intended that the Company should pay or give to the promoter any amount or benefit other than such amounts as may become payable to the promoter in the ordinary course of the Company's business. It is not intended to pay or give any amount or benefit to any officer of the Company other than normal remuneration.

Except as beneficial owner of the whole of the Company's issued share capital and as a creditor of the Company from time to time in the normal course of the Company's business, the Offeror has no interest in the profits or property of the Company. The other members of the Company have no beneficial interest in the profits or property of the Company.

Since incorporation the Company has capitalised profits standing to the credit of general reserve (including the Rs. 1,57,00,000 referred to above) as follows: 20th March 1937 Rupees Six Lakhs; 29th December 1937 Rupees Eleven Lakhs; 22nd July 1939 Rupees Three Lakhs; 20th August 1940 Rupees Two Lakhs; 17th November 1942 Rupees One Lakh; 6th September 1943 Rs. Six Lakhs; 19th February 1945 Rupees Thirteen Lakhs; 7th September 1945 Rupees Twelve Lakhs; 24th December 1946 Rupees Six Lakhs; 31st December 1951 Rupees Fifty Lakhs; 22nd August 1952 Rupees Sixty-two Lakhs; 11th October 1956 Rupees One Hundred and Fifty Seven Lakhs. The Company applied the amounts capitalised in paying up in full ordinary shares of the Company of Rs. 10 each of a nominal amount equal to the profits capitalised. All the shares were allotted to the Offeror or its nominees, or subsidiaries of the Offeror incorporated in the United Kingdom or their nominees.

The Company has not issued any redeemable preference shares and does not at the present time intend to do so.

The premium receivable on the shares now offered for sale will be retained by the Offeror. No part of the proceeds of this Offer for Sale is receivable by the Company. The Offeror will pay all the expenses in connection with this Offer for Sale except the stamp duty on the transfers from the Offeror to the persons in whose names the shares are registered which will be payable by those persons. The Offeror will also pay brokerage as indicated below. The total expenses, including brokerage, payable by the Offeror are estimated to be Rs. 350,000.

No commission (except brokerage as hereinafter mentioned) was paid during the two years preceding the date hereof or is payable to any person in consideration of his subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for shares in the Company.

All the directors are whole-time directors and are not required to hold any qualification shares.

No director had any interest in the promotion of the Company and neither the promoter nor any director has any interest in any property acquired by the Company within the two years preceding the date hereof or proposed to be acquired by it other than the promoter's interest as a member of the Company and beneficial owner of the whole of its share capital.

No sums have been paid or agreed to be paid to any director in cash or shares or otherwise by any person to induce him to become or to qualify him as a director or otherwise or for any other purpose whatsoever for services rendered by him in connection with the promotion of or formation of the Company.

Mr. A. J. C. Hoskyns-Abrahall is the beneficial owner of £200 Unilever Limited 8% Cumulative 'A' Preference Stock.

The Articles of Association of the Company contain provisions to the following effect:—

(a) The profits of the Company which shall from time to time be determined to be divided shall be divisible among the members in proportion to the capital paid up on the shares held by them respectively.

(b) Unless otherwise determined by a general meeting the number of directors shall not be less than three and not more than eleven.

(c) The directors including the Managing Director, if any, shall be paid out of the funds of the Company by way of remuneration for their services such sums as the Company in general meeting may from time to time determine, and such remuneration shall be divided among them in such proportions and manner as the Directors may determine, and, in default of such determination within the year, by the Chairman. If any Director shall be called upon to perform extra services or make special exertions or efforts the Board may arrange with such Director for such special remuneration for such extra services or special exertions or efforts either by a fixed sum or otherwise as may be determined by the Board and such remuneration may be either in addition to or in substitution for his normal remuneration. A Director who is not a resident of Bombay City may be paid such sum as the Board may consider fair compensation for travelling, boarding, lodging and other expenses incurred in attending meetings of the Board in that City. If any Director is called upon to go or reside out of Bombay City on the Company's business, he shall be entitled to be repaid any travelling or other expenses incurred by him in connection with the business of the Company.

(d) Save as required by the Companies Act, 1956, no restrictions are imposed by the Articles of Association on the Directors' powers of management and the control of the Company's affairs is vested by the Articles of Association in the Directors.

(e) Subject to the provisions of the Companies Act, 1956, the Board may appoint from time to time any one of its numbers as Managing Director of the Company for a fixed term not exceeding five years at a time upon such conditions as it thinks fit and may vest in such Managing Director such of its powers as it thinks fit and such powers may be made exercisable for such period or periods, and upon such conditions and subject to such restrictions as it may determine. The remuneration of the Managing Director shall be determined in the same manner as that of a Director.
The Board has not appointed a Managing Director and it is not its present intention to do so.

(f) The Directors may from time to time at their discretion raise or borrow or secure the payment of any sum or sums of money for the purposes of the Company. Provided, however, where the moneys to be borrowed together with the moneys already borrowed (apart from temporary loans obtained from the Company's Bankers in the ordinary course of business) exceed the aggregate of the paid up capital of the Company and its free reserves (not being reserves set apart for any specific purpose) the Board shall not borrow such moneys without the consent of the Company in General Meeting. The provisions of the Articles of Association relating to borrowing are qualified by the relevant provisions of the Companies Act, 1956.

(g) Every Officer or agent of the Company shall be indemnified out of the assets of the Company against any liability incurred by him in defending any proceedings, whether civil or criminal, in which judgment is given in his favour or in which he is acquitted or in connection with any application under Section 633 of the Companies Act, 1956, in which relief is granted to him by the Court.

(h) Save as hereinafter mentioned in regard to joint holders, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a representative, shall have one vote. Upon a poll every member who (being an individual) is present in person or by proxy or (being a corporation) is present by a representative or proxy shall be entitled to one vote for each share held by him. No person may vote in person or by proxy if there remains unpaid any call or other sum due on any of his shares.

(i) If there be joint registered holders of any shares, any one of such persons may vote at any meeting either personally or by proxy in respect of such shares, as if he were solely entitled thereto, provided that, if more than one of such joint-holders be present at any meeting either personally or by proxy, that one of the said persons so present whose name stands higher on the Register of Members shall alone be entitled to vote in respect of such shares, but the other or others of the joint-holders shall be entitled to be present at the meeting. Several executors or administrators of a deceased Member in whose name shares stand shall for the purpose of the Articles be deemed joint-holders thereof.

(j) The Articles of Association contain no restriction on the transfer of fully paid up shares. The Directors may decline to register a transfer of any partly paid shares to a person of whom they do not approve and may also decline to register a transfer of partly paid shares on which the Company has a lien.

(k) The special rights attaching to any class of shares may be varied, modified, commuted, affected, abrogated or dealt with by any agreement between the Company and any person purporting to contract on behalf of that class provided that such an agreement is ratified in writing by the holders of at least three-fourths in nominal value of the issued shares of that class or is confirmed by a resolution passed at a separate General Meeting of the holders of shares of the class and supported by the votes of the holders of at least three-fourths of the shares of that class.

MAIN OBJECTS

The main objects of the Company include the manufacture and sale of soap, soap powders, detergents, toilet requisites, vanaspati, margarine, edible oils, cattle food and foods of all kinds.

All the objects of the Company are in law main objects and therefore a copy of the objects clause of the Company's Memorandum of Association is annexed hereto and forms part of this Offer for Sale.

CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, which are or may be material have been entered into by the Company during the two years preceding the date hereof:

No.	Date	Particulars
1	2nd May 1955	Assignment of the Trade Mark, "Breeze" registered in India under No. 128300 to Erasmic Company Limited of Unilever House, London.
2	1st February 1956	Assignment of the Trade Mark "Bris" registered in India under No. 163139 to Erasmic Company Limited of Unilever House, London.
3	12th November 1955 to 18th September 1956	Correspondence between the Company and the Government of Bombay by which the latter has accorded sanction to the grant of a lease of a site at Backbay Reclamation, Bombay of approximately 4258 sq. yards for a period of 99 years at a ground rent of Rs. 12 As. 8 per sq. yd. on condition that the Company erects thereon an Office Building of not less than Rs. 12 lakhs in value within the first four years of the said lease.
4	27 September 1956	Agreement between the Company and its workmen employed in its factories at Sewri, Bombay, represented by Lever Brothers Employees' Union, Bombay, fixing generally the terms and conditions of employment for the years 1955 to 1960 both inclusive, and, in particular, fixing pay-scales, dearness allowance, grading of hourly-rated jobs, provident fund, gratuity and incentive payment and bonus.
5	10th October 1956	Resolution passed by the Company in general meeting on 10th October, 1956, voting as the annual remuneration of all the Directors collectively a sum not exceeding Rs. 8 lakhs to be apportioned among them as they may determine.

UNDERWRITING

This Offer is not being underwritten.

APPLICATIONS FROM THE PUBLIC, which must be for 50 shares, or a multiple thereof, must be made on the official WHITE application form and will be declined if not so made. WHITE application forms, together with a remittance for the full amount payable on application, should be sent to any of the branches of the National Bank of India Limited, or to the Brokers to the Offer, at the addresses as given on the application form. A separate remittance must accompany each form.

APPLICATIONS FROM THE STAFF OF HINDUSTAN LEVER LIMITED for the shares reserved in the first instance for them, and which must be for either 25 or 50 shares, must be made on the official BLUE application form and will be declined if not so made. These forms are obtainable only from the offices of Hindustan Lever Limited mentioned in the last paragraph of this Offer for Sale. BLUE application forms, together with a remittance for the full amount payable on application, should be sent to the Secretary of Hindustan Lever Limited at Scindia House, Dougall Road, Ballard Estate, Bombay. A separate remittance must accompany each form.

All remittances should be made by cheque or draft drawn on a bank in any one of the following towns, Bombay, Calcutta, Madras, Bangalore, Amritsar, Cawnpore, Delhi, New Delhi, Tuticorin, Cochin. Application forms sent with cheques or drafts drawn on banks in towns other than those stated above may be refused.

Cheques or drafts should be made payable to "National Bank of India Limited A/c Unilever" and should, for the applicant's protection, be crossed "A/c Payee only".

The Offeror reserves the full and uncontrolled right of accepting or rejecting any application in whole or in part. Where an application is rejected or not accepted in full, the whole or the balance of the applicant's remittance will be returned, in which event bank commission, if any, will be payable by the applicant.

Acceptance will be notified by the despatch of a definitive share certificate in the name of Unilever Limited together with a blank transfer executed by that company or on its behalf as transferor. These documents will be sent by registered post at the risk of the applicant. The Company has agreed to waive the transfer fee for the registration of such transfers from the Offeror.

A brokerage of 4 annas per share will be paid by the Offeror to the Managing Brokers in respect of all acceptances. The Managing Brokers will pay 2 annas per share to Certified Brokers of any recognised stock exchange and to the National Bank of India Limited on the basis of acceptances of applications received and bearing their stamp. In addition to the 2 annas per share, the Managing Brokers will pay to Messrs. Place, Siddons & Gough, Messrs. Kothari & Sons and the National Bank of India Ltd. remuneration for any additional service rendered by any of them to and at the request of the Managing Brokers.

The consent in writing of the above-mentioned Bankers, Solicitors and Brokers to act in their respective capacities has been obtained and none of them has withdrawn their consent to the issue of this Offer for Sale. Messrs. A. F. Ferguson & Co. have also given and have not withdrawn their written consent to the issue of this Offer for Sale with their Report included in the form and context in which it is included.

The foregoing written consents, copies of the contracts numbered one to five above and the written statement of the adjustments made by the Auditors in arriving at the figures shown in their Reports and giving the reasons therefor have been attached to the copy of the Offer for Sale, which has been delivered to the Registrar of Companies, Bombay, for registration.

The documents mentioned below may be inspected at the Registered Office of the Company, Scindia House, Dougall Road, Ballard Estate, Bombay, during usual business hours (excluding Saturdays) until the Application List has been closed.

(1) The Memorandum and Articles of Association of the Company.

(2) Copies of the Contracts numbered one to five above.

(3) Copy of the order of the Central Government giving consent to the Offer for Sale.

(4) Copy of the order dated 8th October, 1956, of the High Court of Judicature at Bombay under

Sections 391 and 394 of the Companies Act, 1956, vesting the assets (subject to the liabilities, duties and covenants) of The Hindustan Vanaspati Manufacturing Company Private Limited, in the Company.

(5) Copy of the order dated 8th October, 1956, of the High Court of Judicature at Bombay under Sections 391 and 394 of the Companies Act, 1956, vesting the assets (subject to the liabilities, duties and covenants) of Joseph Crossfield & Sons (India) Private Limited, in the Company.

(6) Copy of the order dated 8th October, 1956, of the High Court of Judicature at Bombay under Sections 391 and 394 of the Companies Act, 1956, vesting the assets (subject to the liabilities, duties and covenants) of William Gossage & Sons (India) Private Limited, in the Company.

(7) The original Report of Messrs. A. F. Ferguson & Co., as set out herein and a copy of their statement as to the adjustments made by them in arriving at the figures shown in their Report and giving the reasons therefor.

(8) Copies of the balance sheets and profit and loss accounts upon which the Report of Messrs. A. F. Ferguson & Co., Bombay, is based, for the 5 years ended 31st December, 1955.

Copies of the Offer for Sale and WHITE application forms may be obtained by the public from all Indian branches of the National Bank of India Limited and from the Brokers. Copies of the Offer and BLUE application forms may be obtained by the staff from the Registered Office of the Company at Scindia House, Dougall Road, Ballard Estate, Bombay, and from the Company's offices at 4 Lyons Range, Calcutta; 12|1 Delhi-Ajmeri Gate Scheme, Delhi; 11|14 Armenian Street, Madras; Mattancherry Main Road, Cochin; 2 Central Street, Bangalore; Athgaon Road, Gauhati; Grand Trunk Road, Ghaziabad; Edamalaipatti, Pudur, Tiruchirapalli.

Dated at Bombay this seventeenth day of November, 1956.

A. J. C. HOSKYNS-ABRAHALL
S. H. TURNER
K. S. BASU
K. T. CHANDY
D. A. ORR
R. J. WHEELER
M. ZINKIN

For P. L. TANDON
K. T. CHANDY
Constituted Attorney

For THE LORD HEYWORTH
(Director of Unilever Limited)

A. J. C. HOSKYNS-ABRAHALL
Constituted Attorney

For A. M. KNOX
(Director of Unilever Limited)

S. H. TURNER
Constituted Attorney

For UNILEVER LIMITED
A. J. C. HOSKYNS-ABRAHALL
Contituted Attorney

From the Chair

Killick Industries Limited

Speech of the Chairman Mr E D Sheppard

ADDRESSING the Ninth Ordinary General Meeting of Killick Industries Ltd., held in Bombay on 27th November 1956 Mr E D Sheppard, the Chairman said:—

Gentlemen,

You will recall that during the course of the speech which I made last year at this Meeting, I attempted an analysis of the political and social thinking prevailing in the country in so far as it affects the formulation of economic policy. As a conclusion from this analysis I suggested that there was no alternative to the co-ordinated efforts of both the State and of Free Enterprise, and that in order to achieve as quickly as possible a better life for all in India, the fullest advantage must be taken of the contributions which each system is best capable of making. In effect this implied the application of "Mixed Economy" or as I would prefer to call it of "Joint Endeavour".

Since then the Avadi Session of the Congress Party has decided that the economic development of the country is to be directed towards the achievement of "A Socialistic Pattern of Society". Various policy pronouncements and Acts of Parliament which have followed in the wake of this decision give the impression that it is to be implemented by a process of establishing uniformity and an official discouragement of incentives or individual gain. Indeed the thoughtful mind cannot help but feel the strongest misgivings that, if it is along these lines that the Socialistic Pattern is to be pursued, it will eventually lead to frustration, and the belying of the hopes for a fuller life which so many millions of people have pinned on it.

Dog in a Barnyard

In a recent article entitled "The Dynamic Society", a leading economist has dubbed the philosophy which forms the basis of this type of economic thinking as being "like a dog in a barnyard. It cannot lay eggs itself and it will not let the hens do so". This writer points out that when men are not allowed to strive for their dreams and to enjoy the fruits of their strivings, they consume everything they produce from day to day and so make it necessary for the State to force them to abstain, in order to save and build tools for the future.

The same Economist points out that there are two methods by which the economic donkey can be propelled forward. One is to offer him a carrot and the other is to beat him. In both the cases the result is forward movement. Similarly there are two dynamic economic systems prevailing in the world today. One is that of Free Enterprise, or development through individual incentive, and the other that of the authoritarian State and its methods of compulsion.

We in India have rejected the stick theory and the concept of the authoritarian state as being alien to the traditional Indian way of life. Can we not therefore accept as a nation the logical corollary of introducing the carrot in its stead? We are not prepared to accept interference with our political freedom, or with such matters as the freedom of speech, and of the Press; why then should we take a completely different stand in relation to economic freedom? In this sphere people who would resist to the utmost limitations being imposed on their social and political rights, accept without murmur controls over such matters as production, profits wages and prices, and feel that it is perfectly reasonable for Government to regulate them. In my view this is an inconsistency which could lead to a frustration of the National Economy.

The Private Sector

The terms "Capital" and "Capitalist" have over a period of years been misinterpreted and distorted so much that in the public mind they are now associated with systems which are completely at variance to their real activities. "Capital" is widely identified with an undesirable concentration of power and the accumulation of personal wealth, rather than what it in fact is, namely the savings of people which have been created by hard work and self-denial and which are thus available to start more good things growing. Now a similar process of distortion is in being which seeks to identify the term "Private Sector" with something that is anti-social and anti-national. "Private Sector" is a term which is at variance with the system which it purports to describe. There is nothing "private" about the finances and accounts of the major industrial units existing within the so-called "Private Sector". These units of Free Enterprise are as public as they can be. They are subjected to continuous and close audit, and are available for scrutiny to a wide range of people. The goods which these industries produce and the products which they market are sold only because there is public requirement for them and at a price which this public is prepared to pay. Shareholders of these so-called "Private Sector" units in fact represent a wide cross section of public society. The recent passage of the new Companies Act into law has stripped the last vestige of even legitimate privacy from these Joint Stock companies.

Furthermore, the tendency to associate the "Private Sector" with the relatively few major corporate industries is itself quite wrong. The truth of the matter is that the so-called "Privae Sector" consists of all business activity and commercial endeavour except those few units which are operated and owned by the State. The vast range of these business and commercial interests varies from the largest industrial concerns on the one hand to the small shopkeepers carrying out their day to day trade in the bazaar on the other, and it is all these who are denoted by the misused term "Private Sector".

"People's Sector"

If it is necessary, as it apparently is, to differentiate within the mixed economy between those activities which are State controlled and State regulated on the one hand, and those which operate through the initiative of individuals on the other, then I would suggest that a more accurate description of the two sectors would be to rename what is today called the Private Sector as the "People's Sector" and the Public Sector as

the "State Sector". Such renaming would, I feel, go a long way towards removing the unfortunate and erroneous association of ideas in the minds of the public regarding the structure of Free Enterprise.

A Co-operative Society

We hear also a good deal of talk these days by socialistic planners of the desirability for increasing co-operative societies. I submit that a Joint Stock Company is nothing but a co-operative society in the fullest sense of the term. Its capital is created by co-operative faith in its venture, its direction is provided by those who reflect in their persons co-operative choice, its factories are worked by co-operative endeavour and finally its products are sold only if there is co-operation from the consuming public. The doctrinaire socialist, who suppresses or distorts facts that do not fit in with the theories that he has imbibed during his student days, tends to brush this argument aside with the remark that a handful of shareholders cannot be described as a co-operative society. To meet this contention I think it will interest you to know that in the major industries in India the ratio of shareholders to workers employed is approximately as follows:—

Ratio of Shareholders to Workers			
Steel	..	1	1
Cement	..	1	1
Textiles	..	1	2
Electricity	..	10	1

Surely the logical result of a dispassionate appraisal of all the facts is that the existing policy, namely that of a constantly increasing State Sector, and by implication a proportionately smaller People's Sector should be exactly reversed and the best interests of India would be served by the State doing only those things which the people cannot do by the exercise of their own initiative and judgment in the arena of the world market place. Can any Government truthfully say that it knows this market place better than its people know it?

Classless Society

On the subject of the use of terms which come to have a meaning foreign to their purpose, one must also comment on the "classless Society" so much in current vogue. Inasmuch as this term denotes a society from which has been banished hereditary privilege and unwarranted opportunity, and means the creation of a social organisation to which each one is entitled to contribute on merit alone, its implication can only be welcomed. Unhappily this is not the concept that is meant by those who so constantly refer to it. The type of "Classless Society" which these people appear to have in mind is one in which all men are dragged down to a level of uniform poverty.

Such a society must of necessity be a third class society. Any deliberate attempt to abolish a class by taxation or any other legislative means will never succeed in abolishing "Class". For in the vacuum so created an official bureaucratic aristocracy would emerge at once. What it would achieve would be to abolish variety, character, and those inspirational gifts which alone save a country from colourless uniformity. It is the personal vision and the difference between people that count and help towards the making of a nation. This difference of outlook must inevitably express itself in a search after varying environments. "Class" is not a matter of money and still less is it one of social ambition. It comes from the free exercise of choice in culture, environment, and the differences which life has to offer, it cannot be "ironed out" for the human soul does not lend itself to the process of laundry.

Doctrinaire Socialism

It is interesting to note the revulsion which has appeared in England against the dose of doctrinaire socialism that was injected into the economic system of that country for the five years immediately after the last war. In practice Socialism has meant the creation of huge irresponsive public corporations and the extension of bureaucracy. Nationalisation has not succeeded in changing the lives of the workers but has only added to the steady concentration of power in the hands of official classes. Trade Unions have become the strongholds of restrictive practices, limiting not merely industrial output but, far more important, liberties of individuals and those of minorities. It has become very clear to me that what people want is, as far as possible, to be allowed to choose from a bigger selection of things—material and spiritual. The way to satisfy them is not to cut down to a common size every one else's choice. That is precisely the way to deprive the community of the flexibility, the diversity, and the incentives upon which the policy of plenty and a dynamic society must depend. The right way is to create incentives that lead to an increase in the total national product and thereby level upwards and not downwards.

Middle Class Neglected

I would like, during the course of my talk this afternoon, to deal especially with the plight of the middle class of our country and the constantly increasing bleakness of the future which faces it.

That the middle classes are depressed, that they are being destroyed by taxation and the high cost of living, that some Finance Minister of the Government of India must do something about it—and that none every does; these are the truisms which have been with us ever since 1947.

What is this middle class and whom does it comprise? I would suggest that it embraces all those people who work with their brains and derive their income from salaries and professional fees or from the active management of property, those who do most of the organising and creative and inventive work from which the nation gains its vitality. The spread of this class stretches from the clerk and salesman at one end to business executives, and professional men at the other. The thread which unites them is social rather than financial. The contributions which these people make come from intelligence, character and example. For the most part they do not clock in and clock out for eight hours a day, but are always on duty. They are compelled to keep up a standard of living not merely for the sake of appearances, but in order to play their part in the social life which they guide and nurture.

Working Class Welfare

Universal adult franchise in our country encourages politicians to look solely to the masses and to ignore the middle class as though it were negligible. Since independence the well-being of the industrial working class has been the special care of the Central and State Governments, as also that of the majority of parliamentarians. As has recently been stated by the Labour Minister of the Government of India, there has been a rise in the real wages of this class. Not only can no one object to this, but indeed

if the raising of the standard of life of all people in the country is to be achieved, then we must regard the betterment of the living conditions of this particular class as a matter of great satisfaction and unstinted pleasure. At the same time one hears that the agricultural class, which of course constitutes the great majority of the Indian people, has also taken a few albeit faltering steps forward, on the path to a better life. It is the hope of all people that this trend will be emphasised and speeded as rapidly as possible.

But what of the middle class? When attention is focussed on their betterment there appears to be a curious lack of interest in it. No political champions come forward to safeguard their interests. As has been suggested earlier, the reason for this may well be purely one of numbers—in a population of 360 millions they do not appear to warrant the interest and attention of those standing for parliament and whose political future is decided by the counting of heads. Consequently the middle class is left friendless and unsupported. Unless this process of deterioration in its standard of life, and therefore in the morale of the people constituting this class is arrested, an irreplaceable component of the industrial and commercial structure of the country will be dangerously weakened, and no amount of planning or legislation will be able to replace it or revive it.

But are the numbers of the middle classes really so negligible? The figures I gave you earlier of the relative numbers of workers and shareholders in various industries show that the number of shareholders—about 90% of whom belong to the middle class—is by no means inconsiderable. They represent an integral and vital part of the social structure of all countries and can wield an influence out of all proportion to their numbers. I would liken them to the leaven of the mass and without leaven the mass cannot rise. In India today too much time and attention is devoted to the mass and far too little to the leaven of the mass.

Highest Taxed Nation

It is true to say that over the past years there has been an erosion of incentives in the case of most salaried people, whether serving in public life or in a private capacity. The general standard of living of salaried workers has been considerably reduced. This has been brought about principally by means of taxation. To the plethora of already existing taxes which have hit the middle class hard the last budget added even more. It was a measure of the extent to which tax-payers have been demoralised in the country over the past few years that after the last budget, which in real terms made India—still in a relatively early stage of industrial development—the highest taxed nation in the world, there was a feeling of relief that it had not been even more penal on individual earnings. This matter of taxation has been written and spoken about at such length and in so much detail that there is nothing new which can be said about it. All the arguments of disincentives, of inequality, and of the frustration which will result, have been put forward time and time again. I feel however that the time has now come when the inroads of taxation upon the earnings and on the standard of life of the middle class must be faced up to if there is not to be a collapse in the morale of that class which will be irreparable.

Lower Profits

Turning now to the affairs of your own Company, you will doubtless have observed that the profit is lower than that of the previous year. This is accounted for by the reduced profits of the Kohinoor Mills Co., Ltd., and the Ahmedabad Electricity Co., Ltd. for the period reflected in the accounts, and the reasons for which are well known to most of you. There was also, as anticipated, a loss on the first year's working of John Baker & Sons Steel File Factory, though this was fortunately considerably less than was estimated when this undertaking was planned.

I am glad to say that both the Kohinoor and Ahmedabad companies are now working at a normal rate of profit and that the steel file factory should—barring unforeseen eventualities—return a satisfactory profit for the current year.

Another factor which also contributed to the reduced profits is less easy to remedy. I refer to your Company's share in the Managing Agency commission of the Associated Cement Companies Limited which is received in the form of a dividend from Cement Agencies Limited. This became subject to the tax on dividends over 6% introduced in the 1956 Budget which had the effect of reducing the amount received by Rs 1.25 lakhs. It is difficult to see what can be done about this so long as this inequitable tax remains on the Statute Book.

Expansion and Diversification

The expansion and diversification of your Company's activities continue to receive the closest attention of your Directors. As you will have seen from the Report permission has been received from Government to increase the production of the steel files factory and a licence has been granted for the manufacture of nuts and bolts, dogspikes and coachscrews. In addition several other projects both large and small are in process of detailed examination.

Killick Nixon & Co

Also your Directors have recently come to an agreement with the shareholders of Messrs Killick Nixon & Co., Ltd. to purchase all the shares of that company and the matter is expected to be finalised early in the New Year. Killick Nixon & Co Ltd., will then become a wholly owned subsidiary of this Company. Among their assets is this Building in which we are now meeting. Their Shipping and Trading interests will lend a healthy balance to the predominantly Industrial activities which have hitherto represented the bulk of your Company's business.

Taking everything into consideration therefore I feel we can face the future with confidence and I have little doubt that when we meet here again next year the picture which I shall then be able to lay before you will be a happier one, though it may well be that the figure in the accounts which will show the most significant increase will be that under the heading ''Provision for Taxation".

Note: This does not purport to be a record of the proceedings of the Annual General Meeting which will be sent separately to shareholders.

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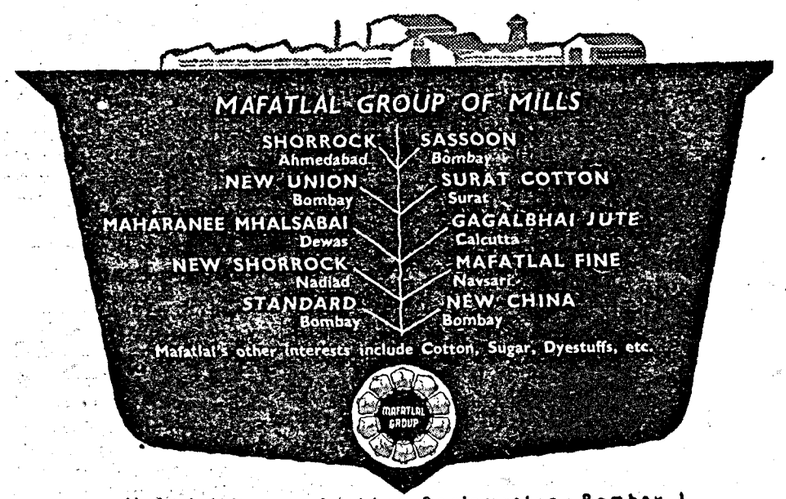
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Not Enough!

THE Finance Minister has done very well. He has not given in to the line of thinking which has been pressing for a rise in the bank rate. By presenting a supplementary budget instead, proposing more taxes he has shown an awareness of the problem facing the country which had not been evident during the discussions on the Plan so far. Indeed, the manner in which the problem of resources has been avoided so far, had confirmed the suspicion that Government might have something up its sleeve but grand strategy demanded that it should hold its cards until the time was more opportune. Resources have to be found for implementing the Plan. More and more of the additional income generated by development has to be channelled back into development. The feed back process has to start some time. All these must have been well-known, but the remedy had been kept a secret.

Many tax proposals must have been studied and other devices for mopping up surplus incomes must also have been carefully examined. State trading was thought of at one time partly as a fiscal device but this part of its activities was promptly dropped and no more was heard about it after agitation was started by the interests which would be affected by the expansion of State trading. The surplus from land which contributes nearly half to the national income cannot be mobilised so long as the present land system continues virtually unchanged. Trading surplus can be touched only partially. Direct taxation on personal incomes has already reached a point beyond which it cannot be pushed. The tax system has got into a rut. It does not bring into the public exchequer even a constant proportion of national income. So it has to be broadened and deepened. It is necessary to increase the coverage of taxation by reaching those classes of incomes which have hitherto been kept out of the purview of taxation.

The Finance Minister, however, has not spread his net wide. In the field of direct taxation, he has introduced the capital gains tax. This closes a gap and is justifiable on social grounds. In the wake of rising prices and inflationary pressures, capital assets tend to appreciate and capital gains following from it aggravate economic inequalities. But its effect will largely be to remove a lacuna in the existing system of direct taxes on incomes rather than to bring an altogether new class of incomes under the purview of taxation. The Government has had the authority to tax capital gains ever since the measure was first introduced in the Liaquat Ali budget; but the power has not been exercised and the tax on capital gains is for all practical purposes a new measure.

The other direct tax, the rates on which are proposed to be stepped up, is the tax on distributed profits of companies. It was introduced for the first time in the last budget on the suggestion of the present Finance Minister who was then in charge of Commerce and Industry. The Cabinet accepted it as a compromise not between excess profits tax and ceiling on dividends, both of which had been suggested and discussed, but as a compromise between offering an inducement to retain profits by a small rebate on the income-tax payable on them and impounding excess profits by more drastic methods. Corporate savings are an important source of fresh industrial capital, both for establishing new industries and for expanding existing ones. That profits are necessary for expansion and

Around Calcutta Markets

Yield Factor

Wednesday, Evening

MORE than one explanation has been offered for stock market inactivity, despite continued industrial progress. There is something to some of the arguments advanced for the quiet trend in equities. Industry may be progressing, but investors are suspicious of the Government's dividend policy. New Delhi's dividend directives to TISCO and IISCO are not only resented by the shareho'ders concerned. These directives have been widely interpreted as the Government's orthodox policy to dividend payments. Investors, it is argued, have lost interest even in sound shares, as they suspect that industry may be persuaded to follow a dividend-freeze policy.

This may be one of the reasons why equities are not moving up. But, if this is the conviction of investors, it justifies a further fall in equities. For, if dividend is to be freezed, equities will have to fall further to fetch reasonable yields. That equity yields should move up, has been argued, implicitly and explicitly, more than once in these columns. There is some circumstantial evidence in support of this theory. This problem is discussed later.

Costs and Taxes

There are other reasons why equities remain quiet. Fears persist that production costs will mount. Import costs have risen. Internal prices remain high. These fears have some basis, but can be exaggerated. With a time lag, rising production costs must be reflected in higher selling prices for manufactured goods. So, on this account alone, profits are not likely to suffer. It is, of course, arguable, that, if dividend payments are not allowed to be raised, it is immaterial whether profits are maintained or higher.

Tax fears are no less responsible for the quiet trend in equities. It is common ground that the tax load will have to increase. But increased indirect taxation is not necessarily a "bear" factor for industry or for equities. Nor is the Kaldor plan a handicap to industry. Implementation of some aspects of the Kaldor plan may, on the contrary, lead to a decreased tax load on industry as well as on individuals.

Dearer Money

In recent months, dearer money has had an adverse effect on equities. There are many aspects to this issue. Securities have fallen considerably. Higher yields from securities have had a psychological effect on equities. There is some relation between yields from stocks and from shares. As the former move up, the latter tend to rise. Something like this has been happening in the last six months.

Dearer money has also affected stock market activity. Bank advances for speculative purposes have been checked. This explains why even speculative shares are inactive. There are reasons to believe that banks have been reluctant to lend freely even to investors. This is one of the reasons why even investment activity in equities is poor. No doubt, these monetary factors have contributed to the prevailing stock market inactivity.

Yield Factor

There is something to all these arguments. But the yield factor is the most important influence behind the quiet trend in equities. Dearer money, suspicions about a dividend-freeze policy and some other factors may have made investors yield-conscious. Whatever be the reason or reasons, the behaviour of stock markets in the last few months underlines the investor's conscious or unconscious belief in higher equity yields.

Once this is appreciated, the seeming paradox between falling equities and the over-subscription of sound new issues is easily solved. Investors are not enthusiastic about the premia for the right issues of IISCO and TISCO because, at current market quotations, these right shares are not quite attractive. They are eager to subscribe to new issues like those of Guest, Keen, Williams or of Hindustan Lever because, despite the premia, investors are optimistic about these latter issues.

The Margin

Behaviour of Jute shares has been a disappointment in recent months. As export duties were abolished along with devaluation of the Pakistani rupee, there were hopes that Jute shares would revive. With the gradual unsealing of looms, there were further hopes that demand would improve. Later, when it was found that demand did not improve, looms were resealed. Jute shares failed to respond to any of these developments. Since the start of the Suez crisis, jute goods started moving up. But Jute shares did not respond.

There are reasons for the lack of response of Jute shares. Jute goods have been going up. Raw jute prices have also been rising. Both the industry and investors of Jute shares are conscious of the spinner's margin. Considering developments in Pakistan, the outlook for raw jute seems "bullish". But some are gaining the impression that this problem of the spinner's margin is being over-emphasised.

Auction Prices

Tea shares alone seem to have benefited out of the war in Egypt. Auction prices had been moving up in the last few weeks. Tea shares have also received support at higher levels. There is some buying of Tea shares for dividend considerations. This is the dividend season for tea companies. But speculative investors may be interested to know that, during the current week's auctions, demand and prices have tended to ease both days as the sale progressed.

There has been some selective support for Coal shares also. But Paper shares remain inactive. So are Miscellaneous and Engineering shares. These latter groups closely follow fluctuations in clearing shares. In recent weeks, clearing shares have been irregularly lower. This may be one of the reasons why Miscellaneous and Engineering shares remain rather quiet.

Around Bombay Markets

Ahmedabad Advance Debenture

Thursday, Morning

IN the absence of fresh developments, trading on the stock exchange was indifferent and devoid of any interest. The continued tight money conditions and the indication that stringency is bound to be even greater in the coming months has been inhibiting fresh investment purchases. Some bank finance has been locked up in recent months in taking up new issues, in addition to normal security trading and pressure has begun to be felt. The market, in the circumstances, will have to bide its time before investment support reappears. It may not, until budget proposals are well digested, that is, by about the middle of March next.

Meanwhile, one more issue has come on the market, namely, the Ahmedabad Advance Debentures. In order to modernise their plant, the Managing Agents, Tata Industries, have decided to issue Rs 30 lakhs of debentures carrying interest at 5.½ per cent, repayable in 10 to 15 years. This is an approved investment under the Insurance Act, and a substantial portion of the issue, it is reported, has been taken up by the Life Insurance Corporation and other institutional investors. The company has a paid-up capital of Rs 50 lakhs and has made a net profit of Rs 13,11,721 for the year ended June, 30 1956.

Shri A D Shroff, Chairman of the company, speaking at its annual general meeting during the week, referred to the substantial increase in excise duties from 1st September onwards and said that this "has thrown cloth markets into a state of near panic". "For a considerable time", he added, "stocks were not lifted by the trade and it was difficult to book fresh orders for forward sales even during such high demand periods as the Puja and Diwali festivals. The markets have become so bad that mills have been forced to allow substantial rebates, in many cases up to 100 per cent. of the recent rise in excise duty, to induce merchants to fulfil their commitments".

Dilating on the measures so far taken to rehabilitate the cotton textile industry, Shri Shroff pointed out that while substantial renovation of plant and equipment had been undertaken, much still remained to be done to put the mills on a firm competitive footing, at home and in export markets. In this connection, he emphasised the need for further expansion of processing capacity in the industry in order to enable it to produce a larger variety of processed goods, and warned that if the mill industry was not given its due share in expanding production facilities to meet the large anticipated future demand, a situation worse than what was witnessed today would have to be experienced by millions of consumers in India.

The reorganisation of the stock exchange envisaged under the new Act has been attracting considerable attention of late. When this Act comes into force, Shri M C Shah told Parliament, Bombay would no longer have two stock exchanges and hence the amalgamation of the Indian Stock Exchange with the Bombay Native Stock and Share Brokers' Association has become a matter of some urgency. Difficulties have arisen because of the wide differences in the terms and conditions of membership of these two trading bodies. If the parties do not succeed in reaching an agreement through negotiation, Government will have to intercede.

Cotton

Divergent Trends

THE slight improvement noticed at the close of last week proved in fact to be deceptive, as had been anticipated in these columns. There was little activity and prices continued to record new bottoms every day.

The market had set great store by export quota. The new Minister for Commerce and Consumer Industries had said earlier that an announcement would be made regarding the export of raw cotton "in a day or two". A Press Note issued early this week made it clear that Government was not in favour of releasing an export quota "at this stage when prices are high". To anyone who has been following the trend of cotton futures over the past few months, it would be news that present prices were high! In fact, not only has it been widely accepted for a fact that the price trend has been uniformly bearish for many weeks, it has also been contended that this has been mainly due to the by-laws which govern the current hedge contract and that the terms of the contract should be revised, if forward trading has to fulfil one of its primary functions, viz that of securing a parity between spot and futures prices. In the circumstances, it is asking too much to accept prevailing future rates as high.

Anyway, the trade has one consolation. That is, Government may relent a little and grant the long awaited export quota, if and when prices come down to the Government's idea of 'reasonable price level'. The pattern of trading during the week has demonstrated amply that the market was out to get the export quota! For, prices registered a landslide and the Jarilla contract which was ruling Rs 663 on November 19 succumbed to heavy selling pressure to register the lowest level of the season at Rs 629 on November 26th. The Vijay contract was also ruling distinctly weak in sympathy and recorded its lowest level during the week's trading.

Another interesting feature of the week was the gradual withdrawal of mills from the spot market, where activity has considerably dwindled and bases of spot and delivery contracts reflect the general weakness of the cotton market.

A notable development was the announcement of the policy in regard to the import of U S cotton. For the first time since the conclusion of the Indo U S Trade Agreement in respect of U S surplus farm products, the procedural details in regard to the import of American cotton have been released. The trade was relieved to find that there was no link between the import of U S cotton and that of East African cotton. Details in regard to the import of East African cotton are expected to be announced shortly.

development of industries, the Government has learned the hard way from experience. In the case of steel and cement industries, for example, it has now recognised that development has also to be provided for in the prices fixed for the products. An element has been added to the price where price control has been in force in order to pay for development.

If corporate savings in industries which are not intended to expand could be fully immobilised, one would not have to bother much for they could not then leak into investments which are not wanted and raise prices or aggravate shortages thereby. There is no guarantee, however, that corporate savings would not be used, directly or indirectly, and add to inflationary pressures. Hence the other and perhaps the more important proposal in the supplementary budget, for immobilising corporate savings through compulsorily deposit of a portion of the reserves of companies with the Reserve Bank. There is no mechanism by which such reserves could be kept out of mischief and yet be made readily available for approved uses. No measure devised for this purpose can be simple or frictionless. From a subsequent elucidation of his proposal for compulsory deposits, it does not appear that the Finance Minister fully appreciates the complexities that the proposal is likely to create. For one thing, it does not appear that industries can be divided into two broad groups, in one of which reserves could be left to be freely utilised by the companies concerned while in the other, they could be impounded until such times that the industry concerned is allowed to expand. Moreover, reserves whether earmarked for depreciation or maintained for strengthening the resources of the company in question, are never kept separate; they form in most cases a large part, if not the bulk of the working capital. Even if a part of these resources are to be compulsorily deposited with the Reserve Bank, the banking system, if not the Government, will have to assume the responsibility of finding the working capital of such industries. The Finance Minister is to be congratulated for having sensed the essence of the problem, but he has yet to present a scheme for its detailed operation before the workability of the measure can be judged.

By and large, the above proposals suggest that the Finance Minister is attacking only the soft spots of the economy where control can be readily exercised. Quantitatively, however, it does not amount to much, as will be evident when the yields from the proposed taxes and the volume of deposits expected are compared to the deficit which has to be covered.

Rising prices and rapid decline in foreign assets call for a two pronged attack. The indirect taxes that have been proposed are aimed at checking the latter. The foreign exchange deficit is too large, however, to be affected to any appreciable extent by higher import duties. The Finance Minister has been banking on substantial foreign assistance and it is possible that continuation of 'token' imports and imports of incentive goods—one does not know in which class to place the continued imports of luxury cars, albeit in knocked down condition—may be a necessary condition for getting such assistance. Except on some such assumption, it is not possible to make any sense of the present import policy which continues to allow non-essential imports when we are supposed to be making heroic efforts to build up the country and conserve all available foreign exchange for imports of essential capital goods. To what extent token imports help to improve the quality of domestic manufactures and nylon bush shirts, Tootal ties or Pyramid hand-kerchiefs help to enthuse our youth to greater efforts, need to be examined carefully.

For the feed back process, which is the essence of developmental planning, it is immaterial whether resources flow directly into the desired channels of investment or they are routed to such channels via the exchequer. So it is not enough to mobilise the savings which are already accumulating; it is perhaps far more important to increase the total volume of savings, by restriction on consumption wherever such restriction is possible. If savings of the magnitude required for the successful implementation of the Plan could be realised purely through fiscal measures, the Government could do without vexatious controls and unwanted interference with the lives of the people. The Finance Minister seems to think that fiscal measures by themselves will do the trick and he will not have to expose his Government and his party to the approbrium of imposing obnoxious controls.

Even physical controls cannot be successfully operated without supporting fiscal measures. In view of the patent inadequacy of the latter and the Finance Minister's awareness of the magnitude of the problem, it is likely that the greater reliance is going to be placed on direct control on bank credit and that compulsory deposits are not the whole story. While the intention "to progressively reduce" deficit financing is to be welcomed, it is necessary to emphasise at the same time that restrictive measures, though inevitable and necessary, are not all that we required. The upsurge of money demand following deficit financing has also a positive role to play in inducing the flow of idle resources into production. The process needs to be strengthened by determined and systematic attack on the bottlenecks which develop and prevent the full realisation of the savings potential which lies dormant in an under-developed economy. Above all, it needs organisational effort to move resources to right uses.

This aspect of deficit financing and demand is apt to be forgotten. It can be seen clearly in the relative movement of sectional prices, particularly in the relative stability of the index of manufactured goods during a period of rapid rise of the index of food and raw material prices. Lately, however, prices of manufactures have also been tending to move up. This pinpoints the need to hold down wages, largely through a check on prices of wage goods. To release the savings potential in the economy, a systematic drive to organise production of consumption goods through techniques which do not make heavy demands on scarce resources has to be organised. It has often been talked of but has never been seriously taken on hand. The Finance Minister may have good reason to be allergic to village industry when the case for such industry is presented on narrow uneconomic grounds. In his search of savings, however, he can ill afford to neglect this potential source, particularly when the Government is committed to the decentralisation of the economy. Some day in the distant future we shall all be heroes. But the fight is here and now and the challenge becomes more and more insistent day by day. Why doesn't he grasp the nettle firmly by hand?

Two Ways to Peace

PAKISTAN'S Prime Minister is entitled to his logic. Mr Suhrawardy does not believe in a neutral foreign policy. In his opinion, a neutral foreign policy does not pay. India believes that this is the most realistic foreign policy for any country. Like Pakistan, India is anxious to win friends. But the Pakistani way of winning friendship is to enter into military alliances. Mr Suhrawardy justifies Pakistan's membership of SEATO and the Baghdad Pact on the ground that even the most powerful nations like America and Russia pursue a policy of military alliances such as NATO and the Warsaw Pact to win friends and to ensure security. There are two ways to peace. Military alliances have not eliminated the "cold war". Such pacts have, on the contrary, provoked local wars. Because military alliances are potential threats to peace, India follows a policy of good neighbourliness.

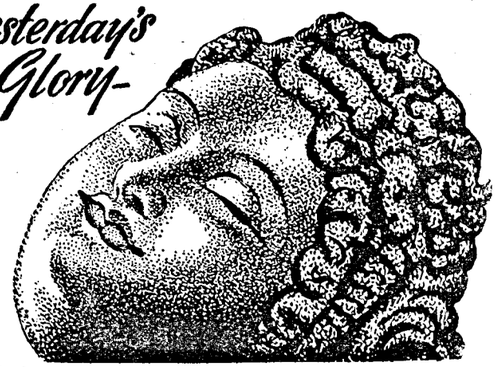
India cannot be unconcerned about her neighbour's foreign policy as Pakistan's membership of SEATO and Baghdad Pact are threats to peace in Asia. Mr Suhrawardy is not diplomatic in his defence of Pakistan's military alliances. He boasts that Pakistan's military alliances are, or will be, useful in solving disputes relating to Kashmir and Canal Waters. Precisely. This is the main justification behind New Delhi's stand that Pakistan's military alliances have completely changed the context of the Kashmir issue.

Mr Suhrawardy is not only blunt, he blows hot and cold in the same breath as he justifies Pakistan's policy of military alliances. He confesses that no country has aggressive designs against Pakistan. And yet, he argues that Pakistan will seek military alliances as long as there is the remotest danger from India to Pakistan's safety and territorial integrity. Those who are familiar with Pakistan's political and economic make-up will appreciate the Pakistani Premier's ulterior motives in fabricating such threats from India. Informed world opinion will not be impressed with this deliberate attempt to foster fear complex in Pakistan. India has no aggressive designs on Pakistan. But India and the outside world will be intrigued by Mr Suhrawardy's reference to Muslims in India as "my countrymen".

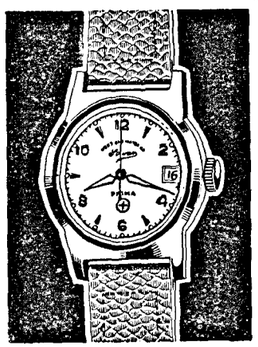
Mr Suhrawardy's undiplomatic outburst was obviously provoked by the acceptance of a Constitution by the Kashmir Constituent Assembly. Pandit Nehru's observations on the Kashmir Constituent Assembly's decision are appropriate. More relevant is the Indian Prime Minister's reaction to reports that Pakistan may again raise the Kashmir issue in the Security Council. It is more than time for New Delhi to inform the United Nations that Pakistan, an aggressor in Kashmir, is still in unlawful occupation of one-third of that State despite the UN Commission's original and fundamental directive that Pakistani troops must first be withdrawn from Kashmir.

Then, and only then, can the latter processes envisaged by the UN Commission be implemented by India. It is equally urgent that India must make it clear to the Security Council that Kashmir and the refugee exodus from Eastern Pakistan are inseparably related issues. In recent months, Pandit Nehru has shown realism in his approach to India's relations with Pakistan. There will be hope that India's representatives to the United Nations will put forward an informed and just defence of India's policy to Pakistan.

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its growth. "In the circumstances, the best bet lies in setting up a Government sponsored construction corporation." Among the advantages he claimed for it was the adoption of cost-plus-a-fixed-fee type of contract. Dr Sen did not think that a single corporation would fill the bill and wanted the first to start with private collaboration rather than as a 100 per cent State enterprise. But he did not rule out the latter form. On the contrary, he suggested, if two such types function side by side, it would be possible to compare their respective performances and gain valuable experience for deciding which would be the right organisation for the future.

Shri Kunwar Sain also welcomed the proposal, not because he particularly favoured the cost-plus-a-fixed-fee basis of contract but on the ground that such a corporation would be able to cut through the present dilatory departmental procedure and work more efficiently. He particularly welcomed it because the experience of such a corporation would provide a healthy check on the rates quoted by private engineering firms.

There were no two opinions, however, that such a corporation was necessary in view of the limited number of contractors and the huge volume of work remaining to be taken up. The Seminar, however, left it undecided whether it should be a company or a corporation, obviously meaning by the latter a statutory public corporation, though it insisted that whatever form be chosen, it should be an autonomous body, free from Governmental interference, except in matters of policy. It should function like any other construction firm and compete with contractors, corporate bodies or individuals on equal terms, although naturally as a national undertaking, profitability of its operations would not be the primary consideration governing its development.

"Character Roll" of Students
Maintenance Suggested

Patna, December 3.

Shymnandan Sahay, Vice-Chancellor, Bihar University, has suggested the maintenance of a character roll of every student in colleges to serve as a guide to the Government in making appointments in the services.

He was addressing a meeting of the University Senate here on Friday. He said that indiscipline in the recent past frequently disturbed the even tenor of academic life.

It should be impressed on the students that their conduct and behaviour in the college would have a decisive effect on their career, he added.

Shri Sahay also suggested that the University should refuse permission to a student to appear for examinations if his character was unsatisfactory.

"What the university is supposed to impart is education and not merely literacy or scientific knowledge," he said.

He also called for the intensification of extra-curricular activities in the colleges to direct students' energies to proper channels.

Shri Sahay said that every teacher should be entrusted with a group of about 20 students and he should keep an eye on the day-to-day activities of those placed under him.

—PTI message

Real specialists in this sort of thing may be found among the K M T cadres in Formosa. Why not obtain their services under some sort of technical assistance? Considering the outcome of K M T work on national character control in China generally, perhaps, if some such programme as this is adopted in India, it would be well for people like Shri Sahay to start buying property in the Andamans.

Letters to the Editor

"Britannia 320"

WE were interested to read your article "Farnborough and Indian Airlines" in the September 29th edition of The Economic Weekly and, in particular, the statement that "The Britannia is designed for larger distances than India would require".

May we put before you some facts and figures concerning the Medium Range Britannia 320? This would seem to be an ideal aircraft for operating over the air routes of India by virtue of the capacity, speed and economy it offers over both long and short ranges typical of airline services in your country. It will be available to airline operators in 1958.

The Britannia 320 is economical over sector distances from 200 miles upwards. Capacity payload of 28,000 lb can be carried over stages of up to 2440 statute miles including full reserves and fuel allowances. at an average True Air Speed of 390 mph. This aircraft has accomodation for 79 first-class seats, four abreast, including a rear lounge for six people. Alternative seating arrangements provide for up to 133 passengers in a coach class configuration. In addition there is provision for 790 cubic feet of cargo in the under-floor holds.

An analysis of the operating costs of the Britannia 320 shows it to be profit-making even on very short sectors such as the Allahabad-Gaya route. For example, on first class services over this sector, a passenger load factor of only 63 per cent is required to break even on Total Costs. Over a longer route, such as Calcutta—Bombay, this figure would be reduced to as low as 34 per cent.

Your article states that the aircraft required for trunk services in India must be capable of cruising at 350—450 mph, have an efficient stage distance of 500—1500 miles and must be capable of holding up to 100 passengers in tourist class seating.

We therefore feel that the statement "so far Britain has not produced an aircraft which is in any way suitable" is a little misleading since the Britannia 320 would appear to meet, and in fact better, these requirements.

J H M Cockayne

Press Office,
The Bristol Aeroplane Co. Ltd.
Filton House, Bristol, England.
November 30, 1956.

Consumption Multiplier

I HAVE no comments to make on Mr B C Desai's letter in the issue of November 24 except to remind him with reference to para 4, that, inspite of himself, he agrees with me and not with the authors of 'consumption-goods multiplier' when he says that "starting from the investment end (is) more logical."

A K Das Gupta

Banaras Hindu University,
Banaras
November 24, 1956.

Obituary

Bhimrao Ramji Ambedkar

BEFORE he died, Ambedkar fulfilled his vow of leaving, with his followers, the Hindu fold. No one will ever know what impelled him to take the refuge of the Buddha. Was it because Buddha's philosophy fascinated him as it fascinates many a modern intellectual? Was it his doctrine of compassion that attracted him or was it because he found in Buddhism a symbolic and living refutation, more symbolic than living, of the injustice in Hindu religion and society against which he had fought all his life with such intrepid courage, persistence and steadiness? Partly the key to the riddle of Ambedkar's personality, the strange qualities in him that endeared him so much to his own community and aroused such political antagonism in others would be found in the answer to this question.

It was years ago that Ambedkar had publicly declared his firm resolve to forsake Hinduism. For a time after making this announcement, he toyed with the idea of getting himself and his followers converted into the Sikh religion. Khalsa College in Bombay was the product of his flirtations with the Sikh leaders in this period. Then followed dallying with the Congress when Ambedkar joined the Cabinet as the Law Minister and drafted the Constitution. This was work after his heart. Then followed something of no less importance—the Hindu Code Bill. But he could not see through the legislation to reform Hindu society for the Bill which he sponsored had to be dropped, despite the support promised for it by Pandit Nehru. This resulted in his break with the present Government, and much unpleasant mutual recrimination. Frustrated, Ambedkar fell back on his old resolve, which he carried out in the end. But it did not bring him any sense of fulfilment. He had faded out from politics and died prematurely, a frustrated man.

Who had done more for the Harijans, Ambedkar or Gandhiji? The question sums up Ambedkar's achievements and failures.

No public figure in recent times had so many facets to his character as Ambedkar had. A brilliant student of economics, Ambedkar collected more academic honours abroad in his own subject than perhaps any of the academic luminaries of his times. Forsaking economics for law, he acquired an enviable reputation as a jurist which led him later to the first Indian Cabinet after Independence. It was a scholarship by the late Gaikwad Sayaji Rao which enabled Ambedkar to study abroad, in London and Columbia. But his return to Baroda was not the proverbial home-coming of one who had won laurels abroad, and on the very first night of his stay, he was hounded out from his hotel by an angry mob which objected to a Mahar polluting the sanctity of Hindu society. Such incidents in the life of a highly placed, England returned Indian of his status must have been rare even in those days. Social status and occupation cut across caste and untouchability. That has been the tragedy of the untouchables. Those among them who progress in education and move up the economic ladder, usually forsake them. But iron had entered Ambedkar's soul, and though he also succumbed, like others, to the ambivalence of marrying outside his community and living a life appropriate to his status rather than his birth, he made the cause of Harijans his own and served it with unflinching devotion. Ambedkar believed in education as the ultimate solvent of social injustice and conflict. He was a rationalist, scornful of poverty and the outward exhibition of saintliness.

Then why did he turn to formal religion at all? Or oppose conversion of Harijans to Christianity which would have removed the stigma of untouchability, and brought them both economic and political advantages under the British administration. Here perhaps his spirit shone and his sturdy self-respect stood firm as a rock. The fight that Ambedkar took up is long and unending for he had no illusion that economic betterment or political reform could be a final solution to the problem of social discrimination which lies at the root of untouchability. For he was not fighting against superstition alone or outmoded customs but for a basic truth which has to be lived by every individual. A just economic system and right laws can only create the conditions for such a life; they are no substitutes for it.



Our Delhi Letter

More Trucks on the Road

INDIA is likely to take a big stride forward in the motorisation of its economy. The full picture would emerge in a month's time when the Government announces its decision on the Tariff Commission's enquiry into the automobile industry. There are, however, pointers that increased production, dieselisation of commercial vehicles and extension of cheap credit to road operators would be the main prongs in the Government's drive to double the annual offtake of motor vehicles. The Second Five-Year Plan envisages that indigenous capacity for production of cars and trucks should increase from around 29,000 in 1955 to 59,000 by 1959-60. The Ministry of Commerce and Industry had suggested a five year target of 65,000. But the indications are that the five-year target would be approached in the second year of the Plan with an output (and assembly) capacity of nearly 60,000 trucks, cars and jeeps by the end of 1957. As a result of the recent measures taken by the Government, output had attained the annual level of nearly 36,000 cars and trucks by the middle of this year and is expected to rise up further by the end of 1956. The Ministry of Heavy Industries has begun to make direct allotments of raw material quotas, including wrought iron, sheets, plates and coal, to the various producing units. This will continue.

In 1953, the Tariff Commission submitted a report on the future development of the automobile industry. The Government decided to implement the recommendations of the Commission. This meant that only six firms with definite manufacturing programmes of production within the country were allowed to continue in operation and the other six firms engaged in assembly had to cease operations within a period of three years.

The approved firms have made considerable progress in the direction of indigenous manufacture. The Hindustan Motors are producing 65 per cent of the total content of their Hindustan Landmaster cars and the Premier Automobiles are producing nearly fifty per cent of the parts that go into the assembly of their Dodge and De Soto trucks. The Standard Motors, however, lag behind with a comparable figure of five per cent and the Tata-Mercedes-Benz with 12 per cent.

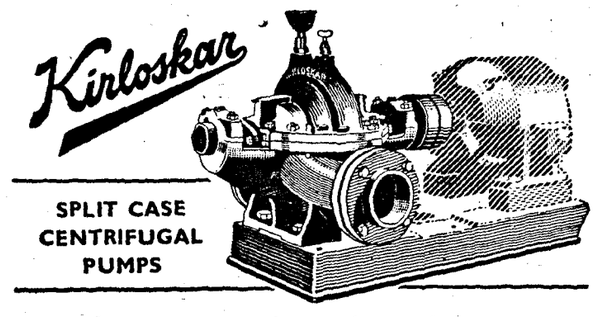
The Tariff Commission's report, already submitted to the Government, has made recommendations on the fair ex-factory prices of various types of motor vehicles produced in the country and the method of readjusting these prices as an increasing number of components are manufactured in the country.

It is certain that the Government will not permit an increase in the number of manufacturing units. The automobile industry has crushing overheads and an expansion of the number of manufacturing units would result in the creation of uneconomic establishments. This is the reason why the recent East German offer to manufacture 4-passenger 10 horse power cars at a selling price of Rs 4,000 to the consumers has been turned down. Nor are negotiations with the manufacturers of BMW cars in West Germany, which put forward a similarly attractive proposition, likely to bear fruit.

The Government, however, is keen on dieselisation. Negotiations are therefore proceeding with the Ford and International group of American automobile manufacturers for the setting up of capacity for the manufacture of their diesel trucks in the country. While Ford truck engines may be manufactured in Madras in partnership with the firm of Perkins, the Hindustan Motors in Calcutta may change over to the manufacture of International diesel trucks from Studebaker petrol trucks.

These are still in the stage of negotiation. An important aspect of the negotiations relates to the extension of credits. If Fords agree to give a credit of, say Rs 10 crores to their Indian counterparts, the latter, in turn, could extend hire-purchase terms to actual operators. Thus all-risk and third party insurance on the trucks would be deposited by the borrower with the manufacturer who would be reimbursed for the cost of the vehicles over a period of years in instalments drawn from the profits of operation. This method was used extensively in many European countries for the motorisation of transport and is likely to succeed in raising the offtake of commercial vehicles in India where capital with the small operators is scarce.

Alternatively, the Reserve Bank of India might be approached for a bulk credit to the manufacturers for working the scheme.



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From the London End

European Free Trade Area

TO the Government benches, the Commons' debate on the European free trade area was a most welcome relief from the agonies wrought by the Suez adventure. The broad support of Labour for the policy of the Government was, according to the **Financial Times**, "the most interesting feature" of the debate. Other organs of Conservative opinion generally interpreted the broad agreement in this country as a "significant indication" that Suez did not irretrievably "disrupt national unity" as was originally feared. And yet the quickening tempo of British policy to this question appears to be indubitably the result of the Suez crisis. The patent indifference (and virtual contempt) with which the United States had initially treated Anglo-French pleas for oil supplies has forced the British Government "into Europe"—and this decision appears to possess all the features of being irrevocable. The Conservative acceptance of the principle of a European common market must, therefore, be understood to be the result of its growing anti-Americanism. And yet this acceptance contains a crucial (and publicly recognised) contradiction which in the present circumstances can only be resolved by the astutest of compromises. How can Britain, in the words of the Chancellor, "harmonise the interests of Britain, the Commonwealth and Europe"?

The First Stage

In the present discussions, the term "free trade area" appears to imply a somewhat modified form of Customs Union or Common Market. A Common Market in the contemporary understanding of the term includes not only all the features of a Customs Union but also the free and unrestricted movement of capital and labour between the countries participating in the market. A Common Market is, therefore, the first stage towards the ultimate economic (and possibly political) countries. It is presumed in the integration of the participating European scheme that the common market will require the setting up of a supra-national authority concerned with the pursuit of a common financial policy, foreign trade and monetary policy and policies concerned with wage rates, industrial location, social services and so on. A free trade area in contrast presumes an arrangement between countries to establish a greater degree of trade co-operation between themselves by a phased reduction in tariffs and of discriminatory import restrictions and no more. An examinaton of all the statements that have so far been made by representatives of the British Government make it clear that the portended free trade area would not require each country to do away with its tariffs completely. Nor would it require each of the participating countries to pursue a common tariff policy towards countries outside the area. A free trade area can possibly mean that a greater level of trade can take place for any one group of commodities rather than for all commodities as would be visualised in a Customs Union or Common Market.

Common Market Scheme

Such a description of a free trade area naturally takes most of the glitter out of the present discussions. The countries of Western Europe are, however, pursuing a policy which has possibilities of taking the free trade movement considerably beyond the scope to which the U K authorities are prepared to commit themselves. It is therefore, well to examine the background to the Continental European and British schemes.

At the Messina Conference of June 1955, the Ministerial Council of the European Coal and Steel Community decided to establish a committee under the chairmanship of the Belgian Foreign Minister, M Spaak, to formulate proposals for the creation of a European Common Market and an organisation for the administration of atomic energy utilisation. The Spaak committee's final report was made available in May, 1956. It set out the fundamental rationale for the intended Common Market and outlined certain concrete proposals. The report proposed that a maximum period of 15 years would be required for the complete abolition of all internal customs tariffs. It stated that the tariff policy of the member countries would be unified and a common tariff vis-a-vis third countries would be established. In the initial stages all the participating countries would abide by the OEEC for the liberalisation of quantitative trade controls and that subsequently, all such controls would be abolished. With regard to agriculture, certain transitional provisions would be necessary in view of the wide variation of the stages reached in the agricultural development of each of the member countries. The implementation of the proposals, it was recognised, would bring about various dislocations and here, the Spaak committee proposed that a fund should be established for investment and for the re-adaptation of redundant workers. Various institutions would be set up to organise and administer the Common Market.

The Politics of it

The need for urgent examination and acceptance of the proposals was underlined by the Spaak committee by reference to the broader facts of the economic and political situation. It stated that:—

"While on the one hand, the United States in almost every sector is producing one-half of the world's goods and on the other the Communist countries, numbering a third of the world population, are increasing their production annually by 10 or 15 per cent, Europe, which once had a monopoly in the manufacturing industries and could count on its overseas possessions for considerable resources, now finds its external position weakening, its influence declining and its capacity for progress diminished by internal divisions".

The political factor in the Spaak committee proposal must thus be seen as an integral part of the common market scheme. In July last, when the French Assembly agreed (by vote) for the continuation of negotiations for a Common Market treaty, M Mollet, the French Prime Minister, suggested that European integration was the only road for France in view of the fact that "confronted by the American and Russian colossi, no European country, Britain not excepted, can hope to make its weight felt and its voice heard in isolation".

Lest Britain Misses the Bus

Throughout the post-war period Britain had persisted in deluding itself that its status and power was

only matched by those of America and Russia. The United Kingdom therefore, did everything in its power to prevent the full realisation of West European economic and political integration. For a time this obstructionist policy proved somewhat successful. With the now full operation of the ECSC and the determined manner in which Continental Europe is pursuing the Common Market proposals, a change in British policy and approach has become inevitable. Now, when the Spaak committee has been entrusted with the task of drafting a treaty on the Common Market, the UK has come to realise that events in Europe have by-passed its own policies. The Times now states that "it is important for Britain to get into these discussions before the European countries have made their own compromises."

British Counter-proposals

The contradiction referred to earlier has now reached the point where a solution of some sort must be found. The Chancellor of the Exchequer indicated in the Commons debate that the Spaak committee proposals had received the "sympathetic consideration" of the Government and more important, "the Government has reached a point of presenting its own proposals to the Continental European countries as a basis for negotiations". It is recognised that should a Common Market be brought into existence (without British participation) then three critical developments, unfavourable to the UK are likely to take place. First, the Common Market will necessarily discriminate against British exports destined to the countries of Continental Europe. This must be considered to be a matter of sufficient seriousness as British trade with Continental Western Europe amounts to 25 per cent of its total exports and 23 per cent of its total imports. Secondly, the Common Market will, in the course of time, become a major competitor to Britain in non-European markets, and finally, the establishment of a European Common Market without Britain can mean the emergence of new economic power grouping in Europe with Britain's relative status considerably diminished.

The British counter-proposals attempt to meet these points without at the same time, enabling an immediate realisation of the Spaak committee proposals. The scheme for a free trade area as envisaged by Mr Macmillan will be a gradual one and it is doubted "whether 1957 will see the end of the negotiations." The treaty, which the Chancellor of the Exchequer has in mind is one under which "European tariffs will disappear over a period of 10 or more years". It envisages a number of important provisos which may very well take the essence out of European thinking on this matter. For example, the abolition of tariffs and quantitative controls over imports would be subject "to the proviso that they may be restored temporarily at any time by a country faced with balance of payment difficulties." The British free trade area idea further envisages the complete exclusion of all foodstuffs and other agricultural products.

Fear of Isolation

This, it is stated can be a basis on which the harmony of the interests of Commonwealth and Empire to that of the portended free trade area can be ensured. Many people in the UK are however, coming to recognise that the continued defence of imperial preference is no longer the key to the cohesion and unity of the Commonwealth. As the **Economist** recently pointed out, many of the Commonwealth countries who wish to develop their economies, "want to buy machinery in the cheapest market". This often means the "lowering of tariffs on American machinery'. Further, many Commonwealth countries have varied their own trade policies with little reference to either the prerequisites of imperial preference or to the effects of such policies on Britain's foreign trade. There have been occasions in the past when the Australian authorities have subjected their imports from all sources to the most rigid controls in spite of the open knowledge that such controls impinged upon Britain's export programme. On the other side of the picture is the gradual realisation on the part of many Commonwealth and Empire countries that Britain no longer provides a stable market for raw materials.

It is this recognition which now forces the Labour opposition in Britain to suggest that cohesion of Commonwealth and Empire in the present situation can best be served, not by imperial preference but by bulk purchase of raw materials and foodstuffs and by long term contracts with the overseas sterling area. Nevertheless, the absence of similar economic interets between the overseas Commonwealth countries and the UK has made a number of prominent commentators conclude that all talk of imperial preference in the present situation is of little significance. The Banker put the matter in the following way :—

> "The world markets would be divided into the dollar bloc, the Communist countries, the West European Community—and what remains of the Commonwealth group. Pulled between the move of the newer dominions towards republicanism and independence and the inevitable attraction of Canada towards the realities and philosophy of the dollar bloc, the Commonwealth group—or rump—would stand in splendid but dangerous isolation".

The trend of the Parliamentary debate as well as the public discussion indicate the inevitable movement of Britain into Europe. This movement, is however, being hedged by virtue of the obvious differences in reconciling the fundamental interests of many of the overseas sterling area countries with those of Britain. The Suez crisis has however, put the seal to British doubts. The weakening links with the Commonwealth, the reality of the British alliances with the United States, the virtual collapse of Britain in the Middle East and Asia generally and the unpredictable nationalist movement in Britain's African Colonies bring into focus the inexorable path that Britain must hence tread. That path leads to Europe and nowhere else.

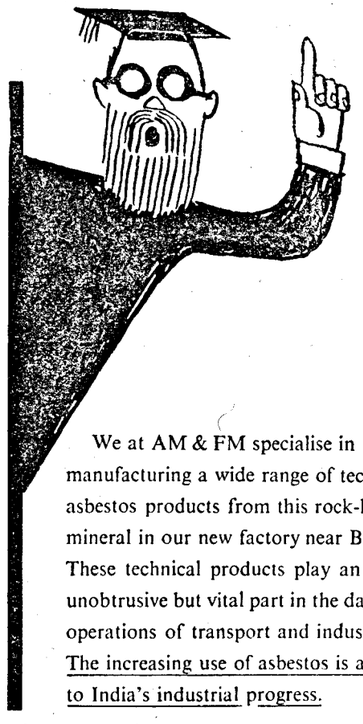
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Some Economic Aspects of Large-Scale Farming

A N Sharma

THE present study is based on the case histories of 12 large-scale farms varying in size from 60 to 350 acres. Two of them are situated in Agra, four each in Mathura and Aligarh, and one each in Etah and Mainpuri Districts. These farms were selected to present the prevailing situation of large scale farming in the Agra Division of Uttar Pradesh. However, their selection was governed also by the response of farmers and the availability of farm records with them. The enquiry was conducted during 1955-56. The frequency of visits to these farms was, in most cases, three, and in some cases four. Information was collected by personal interviews, during which a schedule of enquiry was filled up.

Table I shows the size and location of the farms.

There are two approaches in the study of a combination of enterprises in farming; the area basis, and the income basis, i e, the percentage of area devoted to different crops or the percentage of income received from different crops, expressing the relative role of the different enterprises. We approach the problem in both the ways.

Table I—Size and Location

Case No.	Location: District	Location: Village	Owner	Size of Farm (acres): For crop cultivation	Size of Farm (acres): Garden area
1	Agra	Achhnera	Shiv Prasad Agarwal	200	10
2	Agra	Kailash	Chhidulal Bhargava	80	16.6
3	Mathura	Chhatikara	Rao Krishna Pal Singh	200	10
4	Mathura	Annoda	Ram Rakhash Pal Singh	70	—
5	Mathura	Jagdishpur	Kr Girvar Singh	60	15
6	Mathura	Chatta	Koshi Farm Ltd	350	16
7	Aligarh	Gajrauli	Pt Kishan Lal	80	17
8	Aligarh	Lehra	Prem Chandra	80	—
9	Aligarh	Chirauli	Lalit Narain Dube	120	—
10	Aligarh	Nehra	Bhagwati Prasad	250	—
11	Etah	Tikatar	Kr Surendra Singh	200	—
12	Mainpuri	Jasrana	Kr Kaim Singh	76.4	18

Table II—Area Under Different Crops 1954-55

(In acres, percentage in brackets)

Case Nos	Size groups (acres): 50-100	100-200	Over 200	Total of 12 cases
	2, 4, 5, 7 8 & 12	9 & 11	1, 3 & 10	
A—Kharif Crops				
Paddy	—	8	—	8
	—	(2.58)		(0.41)
Jowar	26	19	20	65
	(5.00)	(6.12)	(2.22)	(3.76)
Bajra	41	30	46	117
	(7.89)	(9.7)	(5.12)	(6.76)
Maize	21	28	36	85
	(4.04)	(9.03)	(4.00)	(4.92)
Til	—	—	10	10
	—		(1.11)	(0.57)
Jowar & Arhar	9	15	15	24
	(1.73)		(1.77)	(1.38)
Bajra & Arhar	4	—	6	10
	(0.06)		(1.15)	(0.58)
Sugarcane	58	44	169	271
	(11.17)	(14.19)	(18.82)	(15.68)
Cotton	14	—	42	56
	(2.69)		(4.68)	(3.24)
Urd	1		5	6
	(0.18)		(0.55)	(0.34)
Moong	7	2	8	17
	(1.34)	(0.64)	(0.88)	(0.98)
Sweet Potato	8	—	—	8
	(1.52)			(0.56)
Tomato	1	—	—	1
	(0.19)			(0.05)
Radish	1	—	—	1
	(0.19)			(0.05)
Cauliflower	2	—	—	2
	(0.38)			(0.10)
Sunnhemp	2	—	—	2
	(0.38)			(0.10)

COMBINATION OF ENTERPRISES

Area Approach

In the case of large scale farming the general expectation is that there is, and should be, considerable specialization and commercialization. About specialization, it is said that at least 40 per cent of the area should be under one particular crop, or at least 40 per cent of the income should be from one source before a farm can be called a specialized farm. Judged from this standard we find that on the whole (taking the total of the 12 cases) there is no specialization since the maximum percentage comes to 32.59 per cent under wheat closely followed by sugar-cane in which the area is 15.68 per cent. See Table II.

This paper is a brief adaptation of the thesis submitted by the author to the Agra University for the degree of M Sc (Ag) in May, 1956.

Fodder Crop	13 (3.08)	9 (2.90)	4 (0.43)	26 (1.63)
Total of Kharif Crops	208 (38.15)	140 (45.16)	361 (40.20)	709 (40.48)
B—Rabi Crops				
Wheat	170 (32.75)	80 (25.80)	313 (34.84)	563 (32.59)
Barley	36 (6.93)	31 (10.0)	54 (6.01)	121 (7.00)
Gram	48 (9.24)	28 (9.22)	65 (7.23)	141 (8.76)
Wheat & Mustard	11 (2.11)	—	38 (4.23)	49 (2.25)
Tobacco	—	—	5 (0.55)	5 (0.29)
Pea	8 (1.54)	18 (5.81)	17 (1.89)	43 (2.49)
Potato	21 (4.04)	13 (4.19)	35 (3.89)	69 (3.97)
Luffa	1 (0.19)	—	3 (0.33)	4 (0.33)
Arbi	1 (0.19)	—	—	1 (0.05)
Brinjal	1 (0.19)	—	—	1 (0.05)
Mirch	4 (0.75)	—	—	4 (0.23)
Fodder crops	7 (1.34)	—	—	7 (0.36)
Total of Rabi Crops	308 (61.85)	170 (54.84)	530 (59.80)	1008 (59.52)
Grand Total	516 (100.00)	310 (100.00)	891 (100.00)	1717 (100.00)

Table III—Annual Gross Income from Various Sources

(1954-55)

(Income in Rs % in brackets)

Case Nos.	50—100 acres: 2, 4, 5, 7 8 & 12	100-200 acres: 9 & 11	Over 200 acres: 1, 3, 6 & 10	Total of 12 cases
A—Kharif Crops				
Paddy	—	—	1400 (0.9)	1400 (0.04)
Jowar	2839 (2.42)	1994 (1.32)	1823 (1.20)	6656 (2.1)
Bajra	3584 (3.05)	2555 (3.33)	3510 (2.32)	9649 (3.34)
Maize	2813 (2.39)	3465 (4.00)	2586 (1.71)	8864 (2.56)
Til	256 (0.13)	—	975 (0.64)	1231 (0.38)
Sugarcane	23030 (19.62)	25880 (33.78)	59886 (39.66)	108796 (32.36)
Cotton	736 (0.61)	—	8790 (5.75)	9526 (3.6)
Arhar	777 (0.66)	625 (0.81)	1316 (0.87)	2718 (0.9)
Urd	432 (0.36)	—	340 (0.22)	772 (0.2)
Moong	740 (0.63)	176 (0.23)	751 (0.49)	1667 (0.4)

Taking the farms individually we find that in farms Nos 3 and 8, 42.86 per cent and 41.30 per cent respectively of the total area are devoted to a single crop, wheat. In all the remaining cases the percentage devoted to different crops nowhere approaches the standard mark. Taking all farms together wheat is found to have been given a remarkable preference over other crops (col V, Table II).

It is significant therefore that farming even in such cases remains largely of the traditional type of grain cultivation, and has almost the same degree of diversification. Inspite of most of these farms being suitably located, i e, enjoying good transport facilities and the proximity of cities, these farmers do not take to growing vegetables or market gardening.

The Income Approach

The income method yields the pattern shown in Table III.

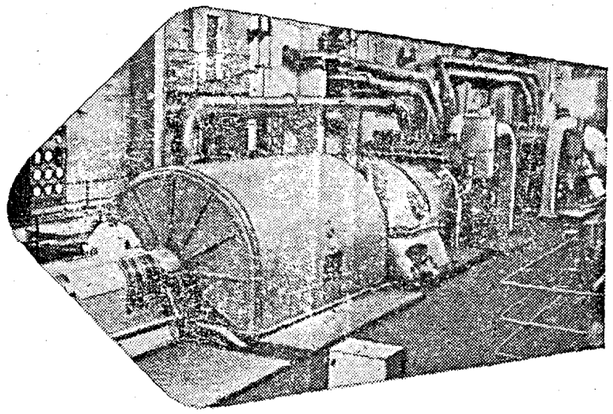
The largest single source of gross income (taking the total of the twelve cases (Col V, Table III), is sugarcane —32.36 per cent, closely followed by wheat —29.57 per cent. Other crops form very low proportions. The percentage under vegetable is only 12.74 out of which potato contributes 6.50. The share of gram and barley is only 3.55 per cent and 3.18 per cent respectively. Gardens yield a very small income 2.65 per cent only. The highest percentages of gross income in the Kharif season are received from Cotton, Bajra, Jowar and Maize 3.6, 3.34, 2.1 and 2.56 per cent respectively.

The Choice of Enterprise

A break up of the data according to the size of farms (arranged in three groups, as shown in the Tables II and III) conforms to this general pattern with but minor variations. Besides, so far as market gardening is concerned farms under group I seem to have some area under it and the larger farms are concentrating more on cereal cultivation. The area under sugarcane (39.65 per cent) in the case of group III is influenced by the special circumstances of case No. 6 which supplies cane to Dubra Sugar Mill. However, the degree of diversification in the case of farms between 50 and 100 acres is amazing.

Thus, even in the case of large-scale farming the present study shows that the choice of enterprise has been largely governed by custom and tradition. Diversification

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Potato	5685 (4.84)	—	—	5685 (1.78)
Tomato	1190 (0.10)	—	—	1190 (0.35)
Radish	600 (0.51)	—	—	600 (0.18)
Cauliflower	640 (0.51)	—	—	640 (0.19)
Sunnhemp	114 (0.09)	—	—	114 (0.03)
Fodder Crops	2197 (2.96)	787 (1.02)	2692 (1.78)	5676 (1.79)
Total of Kharif crops	45633 (38.03)	35482 (51.46)	84069 (60.72)	165184 (50.42)
B—Rabi Crops				
Wheat	42478 (36.20)	19314 (25.20)	33164 (21.89)	94956 (29.57)
Barley	3749 (3.10)	4640 (6.05)	1855 (1.22)	10224 (3.18)
Gram	5190 (4.50)	2091 (2.73)	4130 (2.73)	11411 (3.55)
Mustard	1853 (1.57)	1103 (1.42)	5320 (3.52)	8276 (2.57)
Tobacco	—	—	1400 (0.92)	1400 (0.43)
Pea	695 (0.58)	843 (1.10)	327 (0.21)	1865 (0.57)
Potato	9556 (8.14)	5670 (7.40)	5700 (3.77)	20926 (6.50)
Luffa	155 (0.12)	—	—	155 (0.04)
Arbi	1470 (1.25)	—	—	1470 (0.45)
Brinjal	1190 (0.09)	—	—	1190 (0.36)
Mirch	1950 (1.17)	—	—	1950 (0.60)
Total	68186 (56.81)	33661 (48.54)	519896 (38.57)	153743 (46.93)
Garden	6200 (5.16)	—	2500 (1.71)	8700 (2.65)
Total of Rabi Crops	74386 (61.97)	33661 (48.54)	54396 (40.26)	162443 (49.58)
Grand Total	120019 (100.0)	69143 (100.0)	138465 (100.0)	327627 (100.0)

and not specialization is still the dominating character. The most important cause of this was found to be the problem of marketing, which prevents these big farms from combining dairy or market gardening with other farming. The other causes for diversification are: as a check against natural hazards, and for a more balanced land-use. But while diversification guards against natural hazards or risks to some extent, it also increases the market or trade risk because farmers have to deal in small quantities of a large number of commodities and the price fluctuations in the case of all those commodities must affect them.

The Idea of Efficiency

Efficiency is most rigidly defined in the field of mechanics where it is used to describe the ratio of useful work, or effect produced, to energy spent in producing it. With some modifications, the same idea may be carried over to economics and business. Broadly defined it is the relation of output to the input complex of labour, equipment etc. And greater output per unit of input is another way of saying increased efficiency when we refer to increased production by greater economy in the use of productive agents.

It is generally believed that bigger the scale of operation greater the productive efficiency. The same belief is held in agriculture, and it is proposed to examine this here.

Some of the accepted measures of efficiency could not be adopted in this case as the necessary data were not available for these farms. We, however, adopted three methods found to be most convenient under the circumstances, and the details are as shown in Table IV.

Table IV—Costs and Returns in Relation to the Size of Farms

Case Nos	Net cropped area (acres)	Total cropped area (acres)	Operational costs (Rs per acre)		Gross returns (Rs per acre)		Profit or loss per acre on net cropped area	
			On net cropped area	On Total cropped area	On net cropped area	On Total cropped area	Profit (Rs)	Loss (Rs)
1	200	220	233- 5- 1	222- 1-11	216- 3- 9	196- 8- 9	—	19- 1- 4
2	80	100	247- 9- 1	198- 0-11	308- 3- 0	246- 0-10	60- 9-11	—
3	200	216	197- 2- 8	182- 9- 1	179- 3-10	161-15- 0	—	17- 8-10
4	79	79	227- 7- 7	227- 7- 7	179- 9-10	171- 9-10	—	55- 7- 2
5	60	79	210- 0- 5	151- 8-11	218-13- 1	191- 6- 2	38-12- 3	—
6	240	248	226-12- 1	218- 7- 1	214- 9- 4	202-10-11	—	12- 2- 9
7	80	88	213-12- 2	194- 5- 3	281-10- 4	256-14- 0	67-13- 2	—
8	80	84	169- 4- 7	153- 4- 3	245-15- 8	223- 5- 0	75-11- 1	—
9	120	140	168- 9- 9	168- 6- 9	214-12- 3	234- 4- 6	46- 3- 9	—
10	210	220	202- 3- 4	193-13- 3	132- 0- 5	126- 0- 4	—	70- 2-11
11	200	200	179- 9- 7	129- 9- 7	254- 2- 9	254- 2- 0	74- 9- 2	—
12	76.4	92	233-10- 5	193- 9- 0	311-14-11	252- 4- 0	78- 4- 6	—
Average	135.4	144.5	208- 7- 4	193- 9- 8	219- 0- 9	204- 7- 4	10- 9- 3	—



In order to have a clearer idea the twelve cases are grouped below in three size-groups :

Table V—Size Groups

Size Groups (Acres)	No of farms.	Operational cost on net cropped area (Rs per acre)	Gross return on net cropped area (Rs per acre)	Net profit or loss	
				Profit (Rs per acre)	loss (Rs per acre)
50 - 100	6	217- 2- 5	359-10- 9	42- 8- 4	—
100 - 200	4	197- 9- 1	216- 3-11	4- 8- 7	—
200 - 300	2	210-12- 7	175- 1- 1	—	35-11- 6
All farms	12	208- 7- 4	210- 0- 9	10- 9- 3	—

The popular feeling that costs decrease with size is not confirmed by these data. On the whole operational costs per acre on the basis of net cropped area and total cropped area are seen to be Rs 209-10-0 and Rs 194-3-11 respectively. The gross return per acre on the basis of net cropped area is Rs 221-5-11, and of total cropped area Rs 204-6-9. Together these twelve farms made a profit of Rs 11-11-1 per acre during 1954-55. Seven farms made profits and five suffered losses. The maximum profit was Rs 78-4-6 per acre in case No 12 and maximum loss was Rs 70-11-2 per acre in case No 10. The minimum figure for profit and loss were Rs 38-12-7 in case No 5 and Rs 12-2-9 in case No 6 respectively. **There is no co-relation between the magnitude of profit and loss and the size of farms.** From Table V we find that the largest group suffered loss and the other two groups made profits. The maximum profit was, however, made by farms of 50-100 acres. The largest farms suffered loss because part of the area was not fully developed on which the yield was comparatively low.

It may be concluded that the most efficient or the most profitable farms are found to be of the size of 50-100 acres. Larger farms appear to be less efficient. This is mainly due to two factors:—

(i) Supervision becomes less effective as the size increases. For example, in case No 1 which is of 220 acres, considerable produce was stolen away due to lack of supervision.

(ii) Some of the agricultural operations get delayed in larger farms. Agriculture requires timely performances of all its operations, and delay in some of them affects the yield adversely. It was observed that on comparatively larger farms in some cases the operations get delayed.

The average yields per acre for the most important crops, covering about 70 per cent of area, obtained during 1954-55 were as follows:

Table VI—Crop Yields in Relation to Size of Farms.

Size groups	Average Yield (Mds per acre)					
	Wheat	Sugarcane	Gram	Barley	Bajra	Jowar
50 - 100	13.50	380	10.5	9.0	7.6	9.1
100 - 200	10.50	375	7.5	10.0	7.75	8.9
200 - 300	11.50	300	6.0	5.0	8.5	9.0

Table VI reveals that the farms of 50-100 acres gave the best results. For wheat this group averaged 13.50 maunds whereas the other two groups got only 10.50 and 11.50 maunds. In the case of Sugarcane, Gram and Jowar, farms of 50-100 acres got the highest yield. In the case of barley farms of 100-200 acres got the maximum yield and only for Bajra the maximum yield recorded was by farms of 200-300 acres. Case No 11 got an exceptionally good Barley crop and Case No 10 an exceptionally good Bajra crop. These are, however, exceptions and should not be considered. On the whole the farms 50-100 acres are seen to give the best yield.

Crop Intensity and Size of Farms

The procedure adopted in calculating the index of crop intensity is: The net cultivated area has been taken as 100. To this we have added the double cropped area and the area under such crop mixtures which mature and are reaped at different times and yield equally significant incomes as in the case of Jowar and Arhar, Bajra and Arhar, and Wheat and Mustard. The case of such mixtures like Wheat and Barley, or Jowar and Bajra are of different nature and such mixtures should be treated as a single crop for such purposes and no further addition be thus made. The total figure thus arrived at is taken as the total cropped area for which an index on the basis of net cropped area is calculated. The following results have been obtained:

Size groups		Index of Crop intensity
I	50 - 100 (Acres)	110.12
II	100 - 200 ,,	107.10
III	200 - 300 ,,	104.00

Group I (50-100 acres), the smallest of the three, shows the highest index of crop intensity and as the size increases the index declines. This shows that (i) on the larger farms land is not being put to the maximum use, and (ii) for increasing the total farm business activity intensification is a better remedy than larger size.

Income and Expenditure According to Time

Agriculture, like other activities, requires finance. The requirement varies with the intensity of farm operations, and there are certain peak and slack months of demand. Since these farmers do not keep proper accounts, it was not possible to find out the income and expenses in different months. However, detailed discussions with them gave the picture as outlined below.

In July the demand for capital is large for manuring, ploughing, and sowing of kharif crops, whereas the only source of income is from vegetables and the stored rabi crop. In August, the requirements go down with fewer operations when income is only from fodder crops. The requirements rise in September when the fields are prepared for rabi crops. Organic manures are used, but the income is more or less constant.

Expenses go down slightly in October in comparison with the previous month because the harvesting of kharif and sowing of rabi start in the last week, but the income increase as kharif crops are ready for sale. The demand for finance again rises as both these operations are done in November and also because one irrigation is given to the wheat crop. The income also increases in this month. Very little money is required in December and so is the case with income.

The demand again rises in January as the fields are prepared and sugarcane is sown in the latter part. The financial requirements become

more acute as the proportion of farm income becomes less in comparison with the expenditure, and this continues upto April. In these months some money is required from outside. Money is needed in February as Arhar is irrigated and wheat is weeded.

The demand for money again rises in March when harvesting of wheat and Arhar begin. The wage rates are nearly 1½ times more than those in the previous months. In April and May the demand remains comparatively low as winnowing and thrashing start. Income increases in April from the sale of rabi crops, but the maximum income is received in May. Again, on the farms where summer ploughing is given the demand for money is great in June, otherwise it is a bit easy. The above is illustrated in Table VI, where we give data (from another large-scale farm—the B R College, Bichpuri farm of 436 acres) for which detailed figures were available.

Table VI—Income and Expenditure of B R College Farm (Bichpuri) 1954-55

Month	Expenses		Income	
	Rs	%	Rs	%
July	9412-12- 9	13.6	13485-15- 6	18.1
August	3929- 5- 9	5.4	659-15- 3	0.9
September	7443- 1- 6	10.3	4783- 0- 0	6.4
October	6224- 4- 3	8.6	3995- 5- 0	5.4
November	7445- 8- 0	10.3	17857-13- 0	26.2
December	3596- 3- 3	4.9	2878-14- 0	3.7
January	8114- 4- 0	11.2	3102- 1- 6	4.2
February	5883-13- 9	8.3	6732- 1- 0	9.1
March	7867- 8- 0	10.8	6799- 7- 6	9.2
April	3326- 3- 9	4.6	3291-12- 3	4.3
May	2706- 8- 6	3.7	4619-13- 0	4.2
June	6174- 9- 3	8.6	5549- 9- 0	7.3
Total	72,024- 7- 0	100.0	73,745- 1- 0	100.0

(To be continued)

PC.438(A)

How banking serves the COIR INDUSTRY

INDIA is the world's chief producer of coir and coir products, her yearly output being around 130,000 tons. More than half this output is exported, earning about ten crores of rupees in foreign exchange. The coir industry, which is exclusively South Indian, is concentrated in Malabar and Travancore-Cochin, and employs over six lakhs of workers.

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A LEADING BANK IN SOUTH INDIA

Small Scale and Cottage Industries in Punjab

Ved Prakash

ECONOMIC development requires a continually expanding output of agriculture. The increase in agricultural output cannot come from new land, of which there is very little. Higher output has to be obtained through more intensive and more efficient cultivation. As development is accelerated, there could even be a reduction in the absolute numbers engaged in agriculture.

Industrial output has increased by almost 50 per cent in the last five years, but there has been little increase in industrial employment. Although mining railways, construction and urban trade have absorbed fairly large numbers they have made little impression on the occupational pattern as a whole. While agricultural production has increased by about 20 per cent in the last five years and though this has reacted beneficially on the quantum of work available in the rural sector, it can hardly be expected to reduce visibly the surplus of man-power on land.

Under these conditions, if per capita income in the agricultural sector is to keep pace reasonably with income in the other sectors there must be a steady diversion of people from agriculture to other occupations. The adequacy of our Plans must therefore be judged in terms of the opportunities they open out for employment in non-agricultural activities.

In Punjab whose economy has been unbalanced since partition, miseries of which are too well known to need recapitulation, where pressure of population on land has been mounting, the development of small scale and cottage industries has definitely checked the growing menace of unemployment and ushered in all round prosperity. The number of factories, and workers employed have increased to 2,311 and 54,250 in 2955 from 600 and 37,486 respectively in 1947. These figures are swelling day by day. 2,600 small units have come into being, a good number of them sponsored by enterprising refugees from Pakistan.

The small scale industries which have made a mark, are described below:

Cycle Parts Industry

Cycle parts industry can easily be stated to be the representative of small scale industries of Punjab. It is estimated that there are about 300 manufacturers giving employment to 6,000 workers and producing on an average cycle parts etc worth about 160 lakhs. To provide technical assistance to factories of cycle parts a Finishing and Testing Centre have been set up at Ludhiana. A number of concerns have started manufacturing complete cycles of quality comparable to imported goods. The Atlas Cycle Company, Sonepat, which produces about 250 bicycles per day finds a ready market.

Sports Goods Industry

India at present manufactures about Rs 1 crore worth of sports goods of which Punjab alone accounts for Rs 65 lakhs or 65 per cent.

Sports goods industry is mainly located at Jullundur and partly at Batala. The industry provides employment to 3000 persons. There are 150 units which manufacture a variety of sports goods, viz: cricket bats, hockey sticks, tennis rackets, footballs, shuttle cocks, sports nets and requirements of carrom, chess, golf, billards etc.

In 1955-56 sports goods worth Rs 64 lakhs were produced out of which goods worth Rs 47 lakhs were exported. The badminton rackets found a good market in the foreign countries. The sports goods industry at present, suffers from paucity of raw materials like willow, mulberry, etc. Plans have been launched to provide for growing these trees. The Government of India proposes to establish an industrial extension centre for the development of sports goods industry at Jullundur. Groups of small scale units will be set up. These units will be provided with accommodation for workshop and residence on a hire-purchase basis or on rent and with electric power and water at reasonable rates. Loans will be advanced to the units for their working capital.

These small scale units will be set up around central workshops which will guide the units through qualified technical persons in the improving both technique of production and quality of products. The workshops will also undertake purchase and distribution of raw materials disseminate marketing information and help the units in the procurement of orders and their execution.

Light Engineering

Light engineering industries include manufacturing of chaff-cutters, crane-crushers, iron presses grinders, ice-freezers, juice extractors, ball bearings and agricultural implements. Chaff-cutters of Batala are known throughout India. About 5,000 crane-crushers are made annually which have a good home market. A number of small concerns at Batala, Goraya, Phillaur, and Ludhiana are engaged in making ball-bearings, weighing machines, hand saws, persian wheels, plough chains, agricultural implements, lathes, drills, cotton crushers etc. There are 250 units of production giving employment to 5,000 workers and the value of goods produced is Rs 1 crore.

Hosiery Industry

The name of Ludhiana is associated with this industry. Out of 873 factories engaged in hosiery goods in India, 803 factories are located in Ludhiana. More than 80 per cent of the total production of woollen hosiery goods in India is accounted for by two centres, Ludhiana and Dhariwal. The hosiery factories are installed with 2,50,000 machines. Punjab also manufactures some of these machines. The state substantially meets the demand of most Indian factories. Raschel looms, hydro-extractors, glove fabrics machines, steam calendars, bobbin winders, Jacquarel sinker body, under wear machines, hose machines and their spare parts, etc are some of the machines which are manufactured.

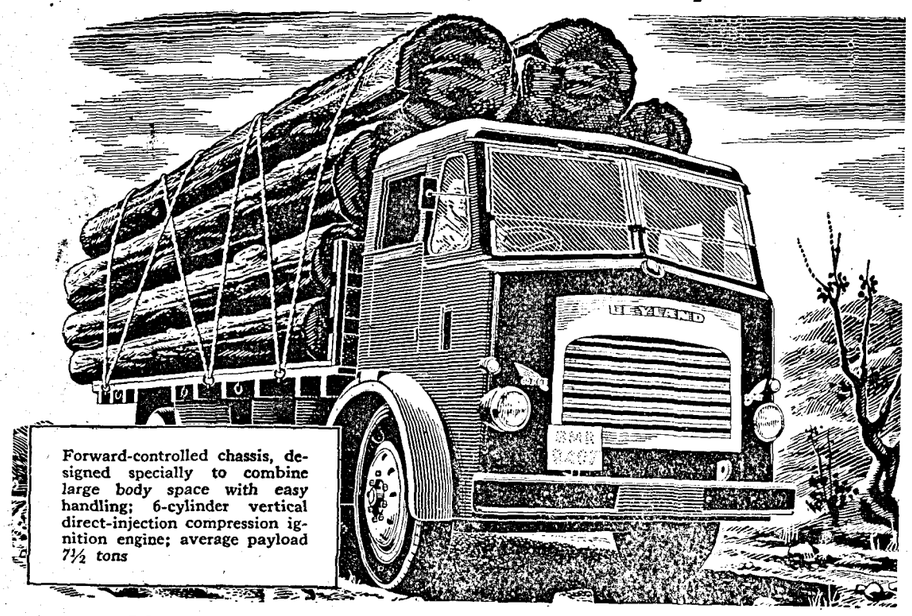
Metal Industry

All types of domestic utensils and articles, requiring high mechanised skill are produced for local, inter-State and export trade. The chief centres of production are Jagadhari, Ludhiana, Jullundur, Amritsar and Rawari. About 1,850 individual units of these industries in the State provide employment to 17,000 workers.

Handloom Industry

Handloom industry is the largest of small scale industries of the Punjab. On its welfare depends the prosperity of Punjabis, as it has greater employment potential for

More than 2,00,000 miles – and this LEYLAND 'COMET' runs smoothly as ever!

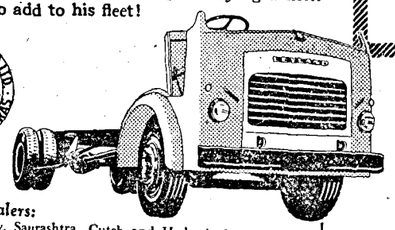


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George Oakes Private Limited
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For Assam:
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Messrs. Dharam Singh Ram Singh (Motors) Private Ltd.
25 Bhopal House, Lal Bagh, Lucknow and
Messrs. Agarwala Brothers
The Mall, Kanpur

For Vindhya Pradesh:
Messrs. Agarwala Brothers
The Mall, Kanpur

the rural population, at present under-employed. There are 51,889 handlooms in the State which can provide employment to about 65,000 persons.

The handloom industry is chiefly located in Hoshiarpur and Amritsar districts, though fairly distributed all over the Punjab. Hoshiarpur and Amritsar handlooms specialise in cotton fabrics, like curtain cloth, shirtings, coatings, chaddars, dhoties khes, garhas, duries, towels, dusters, lungies, etc and artificial silk products such as shirtings, saries, lungies, boskies, etc. Blankets, lohis, shawls, and carpets are the important woollen goods which are produced in Panipat, in the Karnal ditrict and in Kulu sub-divisions of Kangra District.

Sericulture Industry

Sericulture industry affords a fairly remunerative occupation to the rearer and the reeler. It is a seasonal industry being subsidiary to agriculture. The rearing is done once a year from February to the end of April. About 700 maunds of dry cocoons worth about Rs 21,000 are provided at present in Punjab from its 1,00,000 mulberry trees. The Department of Industries arranges to supply disease-free seeds, provides guidance in the art of reeling and assists planting of the right variety of mulberry trees on large scale. Thirty thousand saplings of Japanese mulberry were imported for the first time through the Central Silk Board from Japan. A demonstrative and experimental farm at Sujanpur in Gurdaspur District has also been started for conducting research. The climate of Punjab is conducive to the rearing of silk worms.

Handicrafts

There are a number of crafts in which the craftsmanship of Punjabi workers have found expression e g ivory carvings, ivory inlay, artistic copper, brass and metal wares, pottery, wood carvings, lacquer goods and several varieties of textile fabrics, shawls, and carpets etc. Many of these handicrafts which suffered a set-back due to partition are fast recovering.

Other industries like leather goods, laundry soaps, radio arial machines, table and ceiling electric fans, sewing machines and cottage match industry are also making rapid strides.

The secret of being the pioneer and spearhead in these industries lies in the encouraging help provided by the Punjab Government to the producers. Government has set aside Rs 3.54 crores and 2.18 crores for the development of small scale and cottage industries respectively. The importance of industrial cooperative societies for small scale and cottage industries was recognised for improving techniques of production, qualitative improvement in designs and creating markets. A Deputy Director of Industries has been given the powers of Deputy-Registrar, Cooperative Societies, for effective coordination of industries and the cooperative department. The societies are organised by the Industries Department for efficient working, but the actual working is left to non-official promotional bodies. Trade associations, have been formed under the guidance of Industries Department to solve jointly their problems like marketing, standardisation of products etc.

State Aid

The State has started industrial areas at Ludhiana, Jullundur, Sonepat, Panipat, Bahadurgarh and Jagadhari for rehabilitating refugees. One such area has been earmarked in Chandigarh. An individual can get plots on hire-purchase or rental basis and Government will make available factory buildings according to requirements of the entrepreneurs on a rent of four per cent of the cost of the factory building. The allottee can purchase the land and factory building during the period of lease: the land at market price and the factory buildings at depreciated value. Loans will be made available for machinery up to fifty per cent of the cost.

These concessions are in addition to the financial assistance already available for small scale industries in the industrial areas where loans, upto Rs 50,000 are advanced to purchasers of plots under a scheme which obviates the necessity of mortgaging immoveable property. Besides all this there are work centres at Jullundur, Ludhiana, Panipat, Sonepat, Rohtak, Hissar employing about 6,000 workers daily. The work centres provide vocational training in short courses of a few weeks.

The Industries Department has a stores purchase organisation at Jullundur which patronises individual industries with a price preference of 10 per cent for the goods required by various Government departments. The price preference scheme should be stopped and the State government should order for the entire purchase of goods produced by local factories only. The State Government has selected, in consultation with the Legislators and Deputy Commissioners of the districts, three villages in each tehsil for intensive development of village and small scale industries. Besides, the Batala Community Centre, comprising about 400 villages, has been selected for intensive development of the cottage and small scale industries. Here, it is proposed to develop the handloom industry by setting up dyeing houses and by advancing working capital, improved looms and accessories, weavers' cooperatives.

Quality Control

To improve sales in the country and exports to foreign markets, the Punjab Government has started the Quality Marking Scheme. The Scheme is already in operation at Ludhiana and Batala for the hosiery and agricultural implements industry. Under the scheme, standard goods are given quality stamps. With the introduction of this scheme, sales have registered a marked increase. The Quality Marking Scheme is proposed to be extended to cover the furnishing fabrics industry at Panipat, the furniture industry of Kartarpur, sports industry of Jullunder, etc.

The Government of India will set up Industrial Extension Centres at Batala, Jadadhari, Ambala and Jullundur. They will operate under the Small Industries Service Institute, which was sanctioned for Ludhiana in April 1956 by the Central Government. It is in the process of being established. The four extension centres will deal with specific problems of sports industry at Jullundur, machine-tools and agricultural implements industry at Batala, metal utensils industry at Jagadhari and scientific instruments industry at Ambala. Technical knowledge will be provided to these industries through these extension centres. Another important facility which will be provided through the extension centres is that of common servicing for respective industries. This will remove the existing handicap of the small units which cannot afford the outlay required for extensive machinery.

To facilitate owners of small units who do not have the necessary

financial backing to instal additional machinery, the National Small Industries Corporation at the instance of the Union Government has started the Hire Purchase Scheme. The benefits under the scheme will be available to all small scale industrial units using electricity and having a capital investment of less than Rs 5,00,000. Equipment under this scheme will be available on easy terms of payment at an interest of 5 per cent over a period not exceeding 8 years. Initial advance deposit, ranging from 20 per cent to 70 per cent will have to be deposited for procuring the machinery on hire purchase basis.

The State Bank of India is also introducing pilot schemes for provision of credit through banking institutions. Ludhiana has been selected as the Pilot centre. The purpose of the Pilot Project is to examine and recommend how credit to small industries by various agencies—the State Bank, the State Financial Corporation, Cooperative Banks, Commercial Banks and Government sources—can be most effectively provided and coordinated.

The Reserve Bank of India has agreed to make credit facilities available to the handloom industry at two per cent through the medium of State Cooperative Banks. Government has also agreed to guarantee a portion of the losses, if any, and to subsidise handloom weavers at not more than three per cent interest.

With the reorganisation of States on November 1, PEPSU has been integrated with Punjab. Not only have the different tax barriers been eliminated but the market has also been enlarged. All these, together with the encouragement of both the Central and State Governments will go a long way in developing the small scale and cottage industries of Punjab and provide much needed new employment to the people.

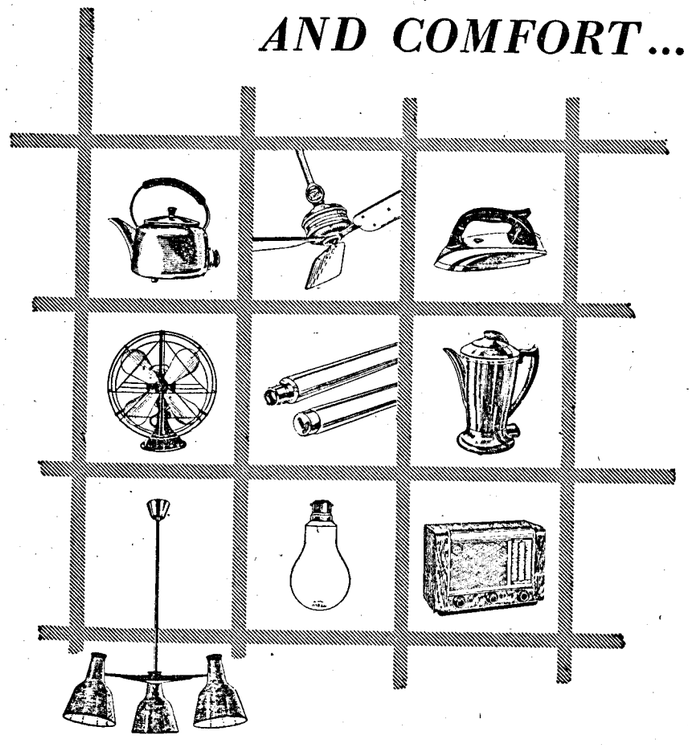
Bombay State Financial Corporation

THE Financial Corporations established under the State Financial Corporations Act, 1951, for the former States of Bombay and Saurashtra have been amalgamated. The Central Government has, after consulting the Governments of former Bombay and Saurashtra States, constituted a Board of Directors of the Corporation for the new State of Bombay for such matters as were, necessary to give effect to the amalgamation. The amalgamated Corporation will be known as the Bombay State Financial Corporation and will serve all the areas of the new Bombay State.

There were no Financial Corporations in the territories of the former States of Kutch and Madhya Pradesh, which have now come over to Bombay State. The Financial Corporation for the former Hyderabad State has been transferred to Andhra State.

The head office of the Financial Corporation will be at Bombay and there will be a branch office at Rajkot. The authorised capital of the Financial Corporation will be Rs 4 crores, divided into shares of Rs 100 each. Issued and paid-up capital will be Rs. 2 crores. Shares of the Financial Corporation shall stand guaranteed by the Government of Bombay as to the repayment of the principal and the payment of annual dividend at a minimum rate of 3½ per cent.

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From the Chair

The Great Eastern Shipping Company Ltd

Speech of the Chairman, Mr A H Bhiwandiwalla

THE following is the speech delivered by Mr A H Bhiwandiwalla, Chairman of The Great Eastern Shipping Co Ltd at its Eighth Annual General Meeting held on 6th December 1956:—

Gentlemen,

It is my annual pleasure to welcome you at this meeting and speak to you on the shipping industry in general and the working of your Company in particular.

The Directors' Report and Accounts of the Company have been in your hands for sometime now and with your permission I shall take them as read. The results as you know, are satisfactory. The Report and Accounts contain a mass of statistics on the working of the Company, and I do not propose to inflict them on you here again.

The good results derive largely from our tramping activity and the expansion of our agency business. The year under report also saw the epoch-making acquisition by the Company of the first-ever tanker purchased by Indians. Another noteworthy feature of the Company's activities is its contractual commitment to carry 70,000 tons of rice from Burma to India on Government account. After the end of the financial year and in less than six months, the Company's ships have carried almost the entire 70,000 tons of rice.

Tramping Business

Your Company has taken active interest in tramping right from the commencement. The adventurous and enterprising spirit with which shipowners have been imbued from the dawn of history attains its high water mark in tramping. Your Company had to face competition of an international character from well-established foreign shipowners; this is an implicit challenge in tramping business. Owing to ignorance and apathy on the part of Indian shipowners, as well as the Government in this country, about the importance of tramping business and its requirements, we had to face not only lack of co-operation, but actual hostility and obstruction, in the form of numerous restrictions that were placed on our "freedom of the high seas". **The position has improved with the Government's recognition of the role of tramping in the country's economic life.** I am, however, sorry to say that the majority of Indian shipowners interested in the liner trade have not yet, to say the least, appreciated its significance. Liners and tramps are like two wings, each equally indispensable to the life and growth of India's shipping industry.

In view of this prevalent bias against tramp shipping, the Government has been influenced and swayed by the liner interests and prejudices, and conditions for the creation and growth of the tramp fleet in this country have not been established. It is hoped that the Government will consider the matter dispassionately and allow the same freedom of operation to trampowners in this country as is enjoyed by successful tramp-owners in other maritime countries.

Economics of Shipping

There is a lot of confusion and far from clear thinking about the economics of shipping in this country. In normal peace times and in the absence of emergencies, the maximum operational efficiency and the optimum utilisation of tonnage should guide and govern the employment of ships. There is nothing sacrosanct about the carriage of India's exports or imports in Indian ships. What matters is the rapid growth and development of Indian tonnage plying on the high seas. This can only be brought about if the Government does not interfere with the employment of vessels and permits tramp operators to follow considerations of operational efficiency and gainful employment which will assist the rapid expansion of the merchant fleet. If some of the Indian ships do not carry part of India's imports or exports, the country will no doubt have to pay the freight charges in foreign currencies. But the Indian ships, which are more gainfully employed in other trades, will earn more foreign exchange than will be paid to foreign ships for carrying part of India's imports and exports. It is the net difference in foreign exchange that matters. The astonishingly rapid progress made by Norwegian and Greek shipowners in recent years would not have been possible if the Governments of those countries had imposed the restrictions which are fettering the Indian tramp operators at present.

Time-Chartering

The Government restrictions on letting out Indian ships on time-charter to foreigners have acted as a restrictive influence on expansion of Indian tonnage and foreign exchange earnings without doing an iota of good to the country. If an Indian shipping company wants to expand rapidly it must make sure of gainful employment of at least some of her ships for a period of time. Time-chartering out of ships provides this sort of employment for an assured period and makes the shipowner immune from the risks of fluctuations in the freight market. With such a hedge he can afford to take the risks of the freight market by building and or purchasing more ships at the prevailing high level of prices in the place of those chartered out. Moreover **tramp operators have to judge the freight market** and at times to cushion off the risks of a fall in the market by letting out some of their vessels on a time basis. The only difference between letting out a ship on a time basis and fixing her for a voyage is the difference between the wholesale selling of freight and the retailing of freight. Whilst the Government has no objection to the retailing of freight, it has prohibited wholesale selling of freight to the great detriment of the shipping industry. May I earnestly appeal to those in authority to examine this question dispassionately and exempt at least tramp operators from the restriction on letting out of their vessels on a time basis?

Importance of Tramps

We ploughed a lonely furrow and preserved when the sun was not shining so brightly on the tramp trades. We carried wheat in bulk from West Australia to India at 55 Shillings per ton as compared with today's rate of 140 Shillings. Our shipowner friends then said "Tramps are a dying breed". What do we find today? Tramps are flourishing at present more than liners. The post-war development of shipping

proves that countries which stuck to liner services only have increased their tonnage at a slower pace than the countries engaged in tramping. My appeal therefore to all concerned is not to pass a hasty judgment on the comparative usefulness and importance of tramps and liners. Both tramps as well as liners have their respective roles to play in the development of shipping and tramps are far from being either a dying or a useless breed.

M. V. "Jag Laxmi"

I am pleased to inform you that from occasional tramping we have advanced a stage further and have formed a permanent nucleus of ships for our tramp activities. Our present tramp fleet consisting of s s "Jag Vijay", m v "Jag Laadki" and s s "Jag Shanti" will be considerably strengthened by the addition in February 1957 of the largest cargo ship on the Indian registry viz, mv "Jag Laxmi" of 12,080 tons deadweight, which will be completed and delivered to us by a Japanese shipyard. The earnings from tramping have contributed a good deal to the satisfactory results achieved during the year under report.

Let me however utter a word of caution. Tramping is very susceptible to trade cycles. Booms and depressions alternate much more intensively in this line of shipping. It is therefore most important that a tramp operator should consolidate and strengthen his position in good days in order that he comes out unscathed in bad days which inevitably follow in their wake. It is hoped that the Government will create a suitable climate in which tramping as well as liners can flourish side by side and accelerate the development of Indian shipping. May I reiterate that I have nothing against my friends in the liner trades and it is my conviction that both liners and tramps must understand each other and live together.

Agency Business

With the securing of the agency of the Hellenic Lines Ltd of Piraeus and New York, your company's agency business has grown considerably. During the calendar year 1956 we shall have handled more than 100 ships as agents at Indian ports. The vessel of the Hellenic Lines with their sailings from Indian ports to the USA ports, the vessels of the Yamashita Line and a number of other tramp operators have brought considerable revenue to the Company and have added to the earnings for the year under report. The growing tendency on the part of foreign shipowners to entrust their agencies in India to nationals of this country is a welcome development. Your company being a shipowner itself, is ideally placed to look after the interests of foreign shipowners at Indian ports, and render first-class service. This has not only meant better business and full satisfaction to these principles, but has also ensured improved revenue and better returns to you. This agency business has also enabled your company to establish valuable contacts and cement mutually remunerative business relationships, besides providing valuable experience in new trades and lines.

Tanker "Jag Jyoti"

The 12th of April 1956 will rank as a memorable and eventful date in the history of Indian shipping, because it was on this day that the first-ever Indian-owned tanker was acquired by your Company. The Transport Minister's recognition of this pioneering will have heartened and thrilled you. The tanker has been chartered out to the Standard Vacuum Oil Company for carriage of refined products on the coast. The teething troubles have been overcome and your company is gaining very valuable experience in this new line.

In fact your Company wanted to purchase a second tanker. Instead the Government has acquired a tanker for their Shipping Corporation. With the acquisition of these two tankers, I am glad to say, the country has just made a beginning in this vital branch of shipping. With increasing industrialisation and mechanisation of agriculture and the rise in the standards of living, the demand for oil is bound to grow up considerably. The country will therefore need a sizable fleet of tankers for the carriage of crude oil from oil producing countries to India and distribution of refined products on the coast. A good beginning in the carriage of crude oil to India can be made by the building and acquisition of two supertankers of 36,000 tons deadweight each. Although it is announced that the Government proposes to acquire and operate further tankers in the public sector, I for one cannot believe that it is the Government's unalterable intention to exclude private enterprise from the task of nation-building in this important field. I therefore request the Government to dispel the doubts and declare categorically that it will change its policy towards acquisition of tankers or super-tankers by Indian shipping companies. The building up of a tanker fleet will require considerable funds and I hope that the Transport Minister will be successful in his endeavours to secure additional allocation of finance for shipping.

Rice from Burma to India

With the rise in the international freight market, the Burma-India Conference which was catering to this trade and which included some foreign shipping companies, folded up its tent and declared its inability to cover this berth except at fantastic freight rates. It was the same Conference which had prevented in the past young Indian Companies, like ours, from participating in this trade monopolised by their members on the pretext that the berth was adequately covered by their members and therefore they could not allow outsiders to participate in this trade. When the members of the Conference declined to lift this vital movement of rice from Burma to India, your Company approached the Government and assured them of our willingness to co-operate in the essential movement of rice from Burma to India at reasonable freight rates. Subsequently, I am glad to say, Indian shipping companies undertook to lift 3 lakh tons of rice from Burma to India in six months at freight rates which were 20 to 25 per cent lower than those indicated by the members of the Conference. Your Company has almost fulfilled its commitment for the carriage of 70,000 tons of rice ahead of others and has thus established its claim to a 25 per cent share in this trade.

Coastal Trade

It will please you to learn that the fulfilment of your Company's commitment to carry Burma rice did not adversely affect the liftings on the coast. Unlike others, your Company chartered outside tonnage and ensured that the carriage of coastal cargoes in the Company's vessels was not adversely affected. In fact our coastal liftings amount to a quantity which could only have been lifted by the engagement of all our owned vessels in the unremunerative coastal trade. It is a creditable achievement especially because your Company, like other companies, could well have diverted

some of its coastal tonnage to the Burma-India rice trade without bothering to charter additional tonnage at the present high charter rates. In view of the uneconomic freight rates on the coast, any diversion from the coast brings in some sorely needed relief. However, your company resisted this common temptation and has continued to maintain its coastal liftings.

Uneconomic Coastal Freight

The uneconomic coastal freight structure can be evidenced from, among other things, the extremely slow growth in coastal tonnage as compared with overseas tonnage. In fact no one can afford to buy, for coastal operation, ships at today's very high level of prices and high costs of operation and run them at low and uneconomic freight rates. The Government's persistent refusal to permit a commensurate rise in the coastal freight rates has administered a setback to the cause of Indian shipping. If the Government had conceded economic freight rates in time, shipping companies would have acquired additional tonnage for coastal operation at reasonable prices at the most opportune time. It is no use now crying over spilt milk and let us hope that the Rail-Sea Co-ordination Committee which has examined this question thoroughly will recommend to the Government the necessary increase in the coastal freight rates, so as to bring them to an economic level.

Transport Bottleneck

The inadequacy of the coastal tonnage in relation to the cargo offering for coastal movement will be greatly aggravated with the progressive execution of the Second Five-Year Plan and enormous increase in the quantum of cargo that is expected to be moved by coastal vessels. We feel sure that the rising tempo of various schemes and projects under the Second Five-Year Plan will bring about a transport bottleneck in the country. The Railway and road transport will not be able to handle all the increased traffic and the coastal movement by sea may be expected to increase progressively from 3 million tons to about 5 million tons per annum. Meanwhile a number of old coastal vessels may have to be scrapped. The problem of replacement and expansion of coastal tonnage therefore assumes great urgency and importance.

Your Company was among the first to be seized of this problem. The freight rates on the coast, even allowing for any increase that may be recommended by the Rail-Sea Co-ordination Committee and accepted by the Government, cannot bear the extremely high cost of new or secondhand tonnage. This is because in the ultimate analysis the coastal freight structure is bound to be influenced by the railway tariff. The railways carry an overwhelmingly large proportion of the country's internal traffic and the coastal freight rates therefore cannot be far out of step with the railway rates. The shipyards of the world are fully booked and delivery of new ships cannot be expected under 3 or 4 years. Second-hand tonnage is extremely scarce and the very few ships that are offered are quoted at fantastic prices.

Liberty Ships from USA

My colleagues on the Board, Mr Vasant J Sheth toured the UK, the USA, Europe and Japan to see if any way could be found out of the prevailing tonnage crisis. He found that the only country which could assist India is the USA with her mothball fleet and her generous tradition of assistance to under-developed countries. On his return to India, the Company decided to pursue the matter earnestly and deputed the Company's former General Manager Dr Sen to the USA. For four months Dr Sen persisted in his skillful advocacy of India's dire need for ships, which could only be met by the release of liberty ships from the mothball fleet of the USA. The Government of India and the Indian Ambassador in America Mr G L Mehta lent their weighty support and made their good offices available to Dr Sen. After protracted negotiations and conferences with various Executive Departments of the US Government, Dr Sen felt confident of their support of enactment of suitable legislation for the release of liberties from the Mothball fleet to India. However, because of the impending elections in that country, it was too late to introduce the necessary legislation. Now that the Administration has emerged successful in the elections, I have every hope that the necessary legislation will be passed shortly and that at least 12 liberties will be released to our country.

These secondhand liberty ships which, though aging, have been kept in good condition, are urgently required to augment our coastal tonnage in the transitory period and to avert a transport crisis. By releasing them now the US Government would have helped us before these ships run out their useful life and become obsolete in their stables. With the progress of the Second Five-Year Plan there is bound to be a very severe tonnage crisis on the coast. These ships will just help us tide over the crisis in our transport system and thereby assure the success of our Second Five-Year Plan. If the USA Government requires an undertaking that these ships would only be used for our coastal trade and not for competition with the US Liners, this may be given on a Government to Government level. It cannot be regarded as an unreasonable demand in view of the US Government's legitimate concern to safeguard their own interests. What is most important is that we must get going and save ourselves from being engulfed in a transport crisis. It is also clear that these ships could be utilised for the coastal trade only if they are released at the usual prices and not at the international level of prices. The coastal trade with its low freight rate structure will not be able to bear the incidence of the high international price level of ships.

Only U S Can Assist Us

In the conditions as they exist in the world today, we are sure that it is only the US Government which can assist a young country endeavouring to build and consolidate a democracy on foundations of unregimented economic planning and well-being. Other powers are in no position to assist our country in this direction. Our Prime Minister is visiting the United States and perhaps during his visit the release of US Liberties could be arranged. If the Government desire to pursue this vital matter we are prepared to send our representative to the States in order that he may be available on the spot for necessary consultations.

Your Company took the initiative and have put in considerable efforts for the release of liberties from the mothball fleet of the USA. Out of 12 liberties proposed to be released to our country, we can legitimately claim an allotment of six liberties for our coastal fleet. Three or four liberties will serve as timely replacements for the three or four coastal time-charters which will be expiring shortly and the remaining two or three liberties will be a welcome addition to our coastal fleet. Your

Company is prepared to finance up to 50 per cent of the cost of these ships from its own resources.

Port Facilities and Dock Labour

The progressive implementation of the Second Five-Year Plan would not only bring about an increase in the coastal movement by sea but will also increase the foreign imports of capital goods, machinery and raw materials into the country. The present port facilities in the country are woefully inadequate. Congestion at ports and delays to ships which are common even at present are on the increase. It will therefore be an impossible task to handle the enormously increased coastal and overseas traffic at the ports without a speedy and commensurate improvement and expansion of port facilities. Otherwise, I am afraid, we shall not only be unable to handle the increased traffic, but would also pay heavily for the limited traffic in terms of increased transport costs and waste of national tonnage as a result of dislocation and congestion at the ports. The Government would therefore be well advised to accord topmost priority to the improvement and expansion of port facilities.

The introduction of the piece rates in Bombay has had a salutory effect on the output and earnings of dock labour. It is essential that the piece-rate system should be extended to all the ports. It is hoped that increasing co-operation between employers and dock labour will improve the turnround of ships and will enable them to carry more efficiently the increased overseas and coastal traffic.

Fleet Expansion

Your Company started its operation in 1948 with one liberty ship which was acquired for about Rs 22 lakhs. At present the Company owns eight ships worth Rs 3.25 crores at cost and much more at market value. The three new ships which are on order will cost a further sum of Rs 3.75 crores. By the time this young company of yours is 11 years only, we shall have invested as much as seven crores of rupees in the Shipping industry and become owners of 11 vessels — a steady accretion of one vessel each year.

I have taken into account only the committed expansion programme of the Company. The allotment of liberties from the US mothball fleet and part of the expansion programme submitted by us to the Government in pursuance of the Second Five-Year Plan, have not been taken into account. We are still awaiting the Government's decision on our expansion plan submitted to them in February 1956.

Capital Structure

The initial paid-up capital of the Company in 1948 was a modest figure of Rs 20 lakhs. Since then your Company issued bonus shares twice, issued new equity shares of Rs 20 lakhs and preference shares of Rs 25 lakhs. The paid up capital of your Company thus stood on 30th June 1956 at Rs 85 lakhs, out of which Rs 60 lakhs was equity share capital and Rs 25 lakhs preference share capital. With the present issue of Rs 60 lakhs in equity shares, your total subscribed capital will rise to Rs 1.45 crores and subscribed equity capital to Rs 1.20 crores. Your directors took the decision to increase the capital not only because your Company was undercapitalised in relation to the cost of the fleet, but also because they wish to maintain a healthy ratio between the risk-bearing capital and loan liability of the Company to the Government.

Prospects

Our tramps are doing very well. mv "Jag Laxmi" which is expected to be delivered in February 1957 will operate for four months in the current year. The earnings from the operation of the tanker, agency business, Burma-India rice trade and 4 months trading of mv "Jag Laxmi" will also be reflected in the current year's results. Subject to unforeseen circumstances, therefore, I visualise a bright future for your company in the current year.

In the five months ending 30th November 1956, the gross freight earnings have been Rs 144 lakhs as compared with Rs 96 lakhs for the corresponding period during the year under report. If the remaining seven months maintain the promise of the first five months of the year, the gross freight earnings should reach the target of Rs 3 crores, as compared with Rs 2.11 crores for the year under report. On this assumption and in the absence of any unexpected setbacks or deterioration in trading conditions, it may be possible to maintain the dividend on the increased capital.

Government Assistance

I have time and again criticised those policies and actions of the Government which in my opinion, are retarding the development of shipping. By and large, however, the Government is endeavouring its level best to develop Indian Shipping by grant of generous loans and many other measures of assistance. The Transport Minister, The Transport Secretary, officials of the Transport Ministry, The Director General of Shipping and his staff have all continued to assist and promote the cause of Indian Shipping. Your company owes a deep debt of gratitude to them all. It is a rare experience that Government departments go out of their way and take the initiative in conveying useful information and providing valuable guidance to companies even on telephone. With such assistance from Government, I am sure, your Company will march forward to new milestones of progress and play its rightful part in what our Prime Minister aptly called "the mighty adventure of building a new India".

The news about the resignation of Shri Lal Bahadur Shastry as Transport Minister has been received with great regret by all and especially those who have first-hand knowledge of his sincerity and devotion to the cause of Indian Shipping. It is hoped that his qualities will be utilised in same responsible capacity for the good of the country.

Government Director

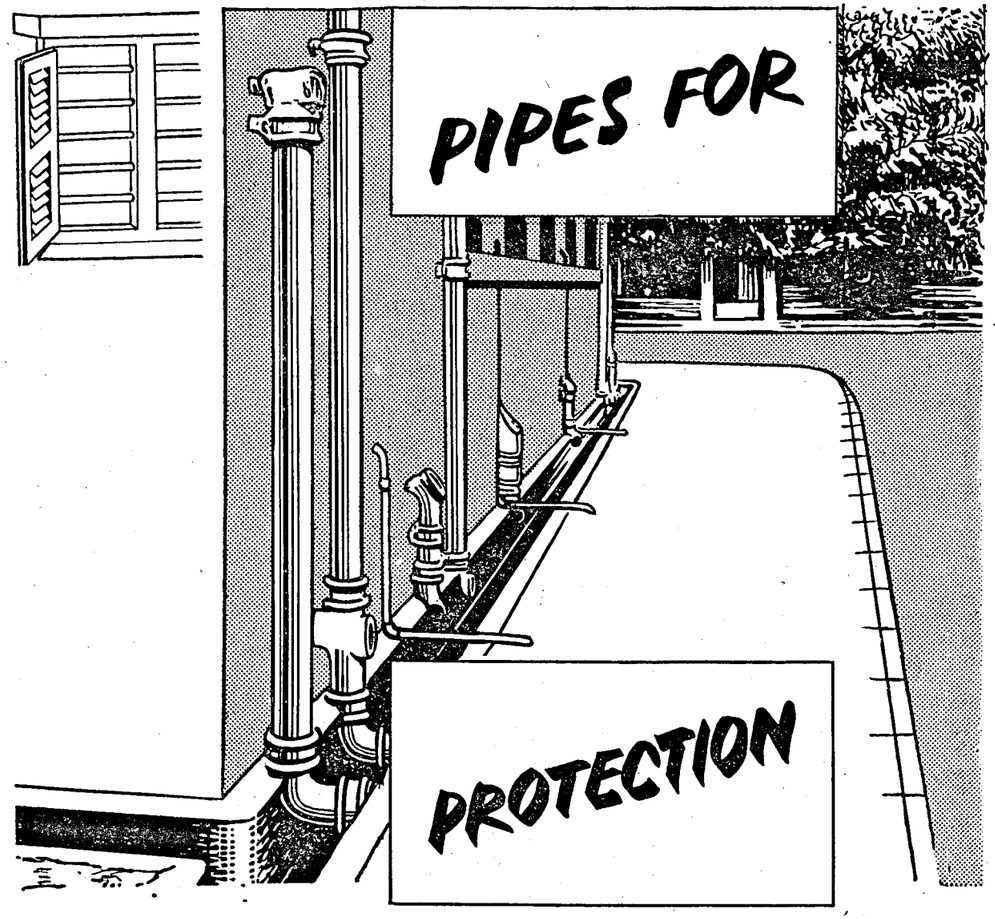
You will, gentlemen, undoubtedly wish me to extend a cordial welcome to Shri P. R. Subramanian, Senior Deputy Director General of Shipping, who has recently joined the Board of your Company as a Government Director. Mr Subramanian is an able officer with a long experience of shipping problems. His association will therefore be of great benefit to your Company.

Gentlemen, I am sure you will join me in expressing our well-deserved appreciation and thanks to the staff, both afloat and ashore, for their devotion to duty and the way in which they have shouldered increasing responsibilities as a result of the rapid expansion in the activities of the Company.

I thank you Gentlemen, for giving me a patient hearing.

May I now move that the Report and the Accounts for the year ended 30th June 1956 be and are hereby adopted?

Note: This does not purport to be a record of the proceedings of the Annual General Meeting.



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Capital Gains Tax and the Tax on Bonus Shares

I S Gulati

NOW that the capital gains tax has been re-introduced, the question of the taxation of bonus shares assumes some significance. The tax on bonus issues was introduced in April this year in order to prevent the use of bonus issues as a means to scatter the percentage which dividend payments bear to paid up capital (i.e. subscribed capital plus capitalised reserves) and thereby to avoid the new super-tax on dividends. It was clearly a measure taken to prevent tax avoidance, and not one, as was put forth by the then Finance Minister, for which any justification in terms of equity or economic expediency existed.

In fact the measure could be said to have introduced some sort of inequity in that it subjected to tax only those capital gains as were represented in bonus issue (although the extent to which bonus issues do represent capital gains differs for different types) and did not touch other capital gains. Now a general tax on capital gains has been brought in. But it is not clear from what has been reported so far how it is proposed to treat bonus shares, for the purposes of the capital gains tax.

An Anomaly

If the idea is not to treat bonus issues as capital gains, but to continue to tax them separately at the rate of 12½ per cent, this would amount to continuing with the sort of tax-differentiation referred to above. Of course, now the tax differentiation would not necessarily operate against gains accruing in the form of bonus issues. It will operate against bonus issues so long as the tax rate otherwise applying to capital gains in general is lower than 12½ per cent, and in favour of bonus issues when the rate applying to the general capital gains exceeds 12½ per cent. This is an anomalous position indeed, and should not be allowed to continue.

A still more important question relates to the very advisability of continuing with a separate tax on bonus shares. In his Report on Indian Tax Reform, Mr Kaldor argues that

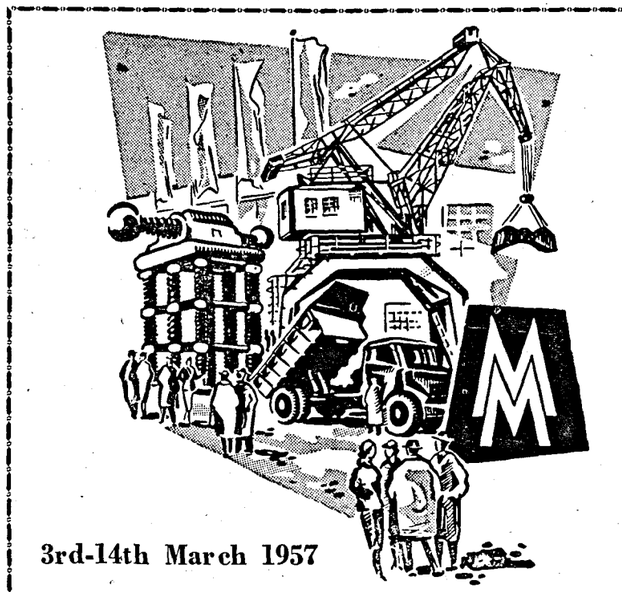
> "the taxable capacity created by a bonus issue depends on the consequential appreciation in the market valuation of the company, and is not measured by the bonus issue itself"

and this appreciation cannot be separated off from other factors affecting the valuation of shares. Therefore, he advocates a general tax on capital gains which automatically mops up gains created by bonus issues, along with all other capital gains.

Differential Benefit

Even though we might dispute the justification for a separate tax on bonus issues on grounds of equity, the administration will perhaps insist on having such a tax so long as there is a super tax on dividends. This latter tax relates, for the fixation of rate, dividend payments to paid-up capital. To do so seems fundamentally wrong, because it assumes that the paid-up capital represents capital effectively employed in business. In actual practice the capital effectively employed may be in most cases much more than the paid-up capital, and therefore to restrict dividends on the basis of paid-up capital is not very fair. As Kaldor has argued, the choice of paid up capital favours those who were clever enough to have capitalised reserves in the past as against those who did not.

A revision of the basis of the super-tax on dividends is called for in order to rectify the adventitious character of the differential benefit now accruing to those who had capitalised their reserves in good time, and also to remove the justification however slender for a separate tax on bonus issues.



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Capital Gains Tax

B K Singh

THE Finance Minister, Shri T T Krishnamachari, has announced the imposition of a tax on capital gains made on or after April 1, 1956. Such a tax was levied in 1947 but was abolished after a brief period of two years in April 1949. The Act authorising the tax, however, was not repealed. It still remains on the statute book.

During the last War profits were subject to an Excess Profits Tax which reached 62 per cent. on the excess over the standard profits. At the end of the War, the tax was rather hastily abolished in 1946. With the discontinuance of the E. P. T. a Business Profits Tax was levied on profits earned by businesses as an anti-inflationary measure. At the same time as the B. P. T. was introduced, a Capital Gains Tax was imposed on capital gains escaping income taxation. While presenting the Budget the Finance Member had proposed a graduated tax on realised capital gains exceeding Rs. 5,000 but the exemption limit was raised to Rs. 15,000 on the recommendation of the Select Committee. The rate of tax payable on realised capital gains exceeding this limit was fixed as under:—

1. Where the amount exceeds Rs. 15,000 but does not exceed Rs. 50,000.
   One anna in the rupee.
2. Where the amount exceeds Rs. 50,000 but does not exceed Rs. 2,00,000.
   Two annas in the rupee.
3. Where the amount exceeds Rs 2,00,000 but does not exceed Rs 5,00,000.
   Three annas in the rupee.
4. Where the amount exceeds Rs 5,00,000 but does not exceed Rs. 10,00,000.
   Four annas in the rupee.
5. Where the amount exceeds Rs. 10,00,000.
   Five annas in the rupee.

In the case of the corporations the entire capital gain was to be included in the total income of the company and the usual company rate of tax was to be charged on the entire total income. The tax was assessed on any profits or gains accruing from the sale, exchange, or transfer, effected after 31st March 1936 of property of any kind held by an assessee, whether or not connected with his business, profession or vocation but does not include (i) any stock in trade, consumable stores or raw materials held for the purposes of his business, profession or vocation; (ii) personal effects, that is to say, movable property (including wearing apparel jewellery and furniture) held for personal use by the assessee or any member of his family dependent on him; (iii) any land from which the income derived is agricultural income. The gains were to be measured over the acquisition price, which in the case of capital assets held before 1st January 1939 was to be taken as the fair market value of those assets on this date. It was provided that losses on the sale of capital assets in any particular year could be set off only against the capital gains of that year, or they could be carried forward for the following six years but not beyond, to be set off against any future gains.

The then Finance Member justified the proposal to levy Capital Gains Tax on the ground that large capital gains had been made in recent years which lay outside the scope of the Income Tax Act. Capital gains are usually in the nature of unearned increment and, consequently, they should be taxed at a higher rate than earned income. Unfortunately, however, the imposition of the tax synchronized with a period of falling capital values and the expected revenue from the levy did not materialize. The Finance Member's hope that the tax would discourage investment was more than fulfilled. In fact, the tax measure had come too late.

The new proposal seeks to reduce the exemption limit to Rs. 5,000. Concession is proposed to be given to persons in the lower income groups in that no Capital Gains Tax would be chargeable if the total income including the capital gains does not exceed Rs. 10,000. The rate of tax to be charged on capital gains would be the income-tax rate applicable to the other taxable income of the assessee increased by one-third of the capital gains he makes in the relevant year. In the case of the companies the rate of tax would be the usual income tax rate. The assessee would be allowed the option to have his gains worked out either on the basis of original cost or on the basis of its value on the 1st January, 1954.

In a period of continuously rising prices and capital values, capital gains become an eminently suitable subject for taxation and should be brought within the tax net. In view of the greatly accelerated rate of capital expenditure under the Second Five Year Plan prices and profits are bound to rise and give rise to inflationary tendencies. The capital gains tax is highly effective in an inflationary phase as a deterrent to investment in securities and real property and as a curb on speculation. Excessive business profits arise at a time when large development expenditures are being incurred and hence the exclusion of capital gains from the scope of income taxation would be quite indefensible either on grounds of equity or of administrative efficiency. Capital gains are an important factor in aggravating economic inequalities and there is no justification for regarding capital gains as a species of income not liable to taxation.

Given the order of the development plans, if tax resources should fall seriously short and inflation should result, it may involve large cuts in the consumption standards of the weakest sections of the community. The kind of tax system which would be best adapted to meet the requirements of the Second Plan must have an adequacy of both depth and range. It is necessary to increase the coverage of taxation of wealth and property. The taxation of capital gains would increase the resources available to the public sector, ensure greater equity in the taxation of income, reduce inequalities of wealth, and reduce inflationary pressures in a developing economy with its increasing measure of industrialisation and urbanisation.

The new proposal of taxation of capital gains seeks to withdraw some of the existing exemptions. These are capital gains arising on transfers of property on compulsory acquisition, capital gains arising on distribution of assets on dissolution of partnerships or on liquidation of companies, capital gains

arising on the sale of residential property possessed by the tax-payer for seven years, etc. Thus the present proposal removes the inequitable features of the former measure. The present tax has been so framed that all capital gains should come under the tax net sooner or later. The former exemptions reduced the yield of the tax considerably—one of the reasons given for the abolition of the tax in 1949.

The preferential treatment of capital gains is sometimes defended on the ground that it would retard investment in the private sector, which was essential for rapid industrial development. In the first place, it has not been established that the former tax had important adverse effects on investment, or hindered the free interchange of securities. Secondly, various studies in the U S A have arrived at the conclusion that in the U S A the tax had no significant effect on the volume of stock-exchange transactions. The Capital Gains Tax does not tax investments nor even capital appreciation but only such gains as are realized by the owner. The tax would, of course, offer hardly any inducement to persons who invest purely from speculative motive.

Around Calcutta Markets

Against the Rentier

Wednesday, Evening

NEITHER commodity nor bullion markets seem to have been materially affected by the proposed Capital Gains Tax. But there has been a slump in stock markets as a sequel to the higher supertax on dividends and the Capital Gains Tax. At the time of this writing, there has been a slight technical recovery. But conditions remain unsettled. A firm or consistent recovery in equities is not likely. For the new imposts are heavily biased against the coupon-clipper. Effects of the new taxes are likely to be less on industry, though the Capital Gains Tax may check speculative activity of all types.

Partial recovery in some speculative scrips like Indian Iron is due to the realisation that the super-tax on dividend remains unchanged for those companies which distribute dividends between 6 to 10 per cent. IISCO is one such company. In the meeting held on Saturday last, the details of the new right issue were finally sanctioned. IISCO management gave an undertaking that the dividend would be maintained on the increased capital. This has helped the partial recovery in Indian Iron.

Bonus Shares

There are two other factors which may have aided the slight recovery in equities. Hopes linger that many companies would pay the higher taxes than lower dividend payments. It was on some such ground that Tea shares managed to stage a slight recovery from the bottom levels. There is something in this argument. This is not the place to dilate on the finances of tea companies. Some other industrial companies also may decide to pay higher taxes rather than lower dividends unduly. That the Government's intention is to restrict dividend payments is, however, beyond dispute.

After the immediate slump in equities, there has been some speculative support on the assumption that the higher dividend taxes will encourage the issue of bonus shares. There are some passages in the Finance Minister's speech in the Lok Sabha which may lend weight to some such assumption. It is clear that the Union Finance Minister wants to encourage self-financing by industry. This means and implies a more liberal attitude to bonus issues. Taxes on bonus shares have not been raised. There is some validity in this argument. But it is difficult to appreciate, how it can be an explanation for building up equities. For, the effects of the higher taxes on total dividend payments will remain.

Liquid Capital

Industry cannot be as much worried about the higher dividend taxes as about the provision relating to deposits of its annual profits and past reserves with the Government. There is no doubt that New Delhi is suspicious about the use of these funds by some sections within the private sector. Here, the parallel between industry and life insurance companies enters the picture. In the wider public interest, this may be justified. There are some who wonder why the Government is taking time to introduce similar measures in relation to provident funds of employees.

But this is an issue which is not directly relevant to the stock market. Cynics will argue that this provision will, like nationalisation of life insurance, deprive some speculative industrialists from utilising funds under their control in stock markets. This is another argument why speculative activity may decline. But this has no long-term relation to investment problems. There is, however, something in the argument that the new provision for deposit of industrial funds will create problems of liquid capital for industry.

Compulsory Deposit

True, it is not the intention of the Government to take away the whole of industrial reserves as deposits. Only a percentage of such reserves has to be deposited under the penalty of taxation of depreciation and development rebates. It does not follow, however, that enough liquid resources will be left with industry in all cases for its day-to-day requirements. This is because requirements of working capital and the provision of such capital from internal savings vary so widely from company to company. Moreover, the needs of working capital will not be the same in industries which are intended to expand and others e g cotton textiles which are not to expand during the Second Plan period. Even those companies which are left with adequate liquid resources may complain that the interest rate to be paid by the Government on that part of their resources which is compulsorily deposited may be less than what they can earn by investing their surplus cash.

The Finance Minister makes it clear that the Government is anxious that industry should speed-up capitalisation of reserves to finance its expansion plans. On any such demand by industry, the deposits will be refunded. But industry resents the control that the Government will automatically exercise by acquiring industrial deposits. This provision, along with the Government's ownership and control of investment of life funds, does empower the Government with comprehensive control over industrial finance. This is undeniable. But it is also inevitable if industrial expansion in the private sector also has to be according to Plan.

For the Plan

New Delhi is not opposed to the use of industrial reserves for expansion by industry. The purpose behind the provision about deposits of industrial reserves is to ensure industrial expansion according to the Plan. It will not lead to any permanent diversion of funds away from the private to the public sector. Only those industries which do not fit into the Plan perspective may have cause to complain. But there cannot be many such industries. It is not against the organised section of the private sector, though it is aimed at encouraging organised industry to expand as envisaged in the Second Plan.

Meanwhile, this provision should help the Government in its ways and means position. Along with the rupee counterpart fund, to be formed against sales of American supplies of foodgrains and industrial raw materials, it will ease considerably the Government's ways and means position. This should have a salutary effect on the money market and the various market rates of interest. These incidental benefits should help both industry and stock markets in due time.

Rentier

Only the rentier will be the permanent sufferer. After some time, possible effects of a stock market slump on the new issue market will not be felt. Recent trends are highly interesting. Equities have been falling for some months. But sound new issues have been over-subscribed. This divorce of investment from speculative activity is a welcome development, and augurs well for the future of industry as well as for stock markets. Attempts at indirect limitation of dividends are likely to encourage this new trend in investment activity.

Coupon-clippers must be prepared for lower returns on their investment. But they have a remedy. By not supporting equities at higher levels, they can ensure a reasonable return on their investment. This indicates a level for equities which is well below that prevailing in this country until recently. There is, perhaps, scope for a further downward adjustment in equity values. But, as the capital gains tax and attempts at dividend limitation discourage speculation, the temporary wrong done to rentiers will have been undone. Stock markets, rentiers and industry must abandon their speculative outlook and cultivate genuine investment habits.

Equipment for Rourkela Steel Works

ORDERS have now been placed for practically the entire equipment for the Rourkela Steel Works.

During last summer orders were placed for the coke oven plant on Dr Otto & Comp, the blast furnace plant on G H H and the gas cleaning plant on Lurgi, all German firms. The value, fob, of equipment for these three departments comes to about 104 million Deutsche Marks (about Rs 11.7 crores).

As a result of the negotiations which the Indian Steel Mission had in Germany, orders have been placed for the value of approximately 647 million Deutsche Marks (about Rs 72.7 crores) for the remaining sections of the Plant. The principal items are as follows:

	Million D Marks
i) Steel Melting Shop—Krupp-Voest ..	80
ii) Strip Mill—Demag ..	71
iii) Blooming Mill—Sack ..	19
iv) Heavy Plate Mill—Krupp ..	17
v) Plate Finishing Equipment—Schloemann	42
vi) Electrical Equipment for Rolling Mills—	
A E G 45 m.DM	
Siemens 59 „	
Brown Boverie 15 „	119
vii) Power Plant—Siemens	47
viii) Water and Gas Systems —Mannesmann-Seiffert	36
ix) Steel Structures—German Consortium ..	52
x) By-product Plant—Koppers ..	50

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(Sd.) Tenneti Viswanatham
Chairman, Advisory Commission,
(Company Law Administration)

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Around Bombay Markets

Supplementary Budget Reactions

Thursday, Morning

THE immediate effect of the supplementary budget proposals was confusion and panic. The market has been treated with the annual budget shock in advance. The caretaker Parliament will not be called upon to approve any fundamentally new proposals. So it is only when the new Parliament assembles that a proper budget will be presented. But even the present proposals have some useful political content which is calculated to help the Congress Party in the forthcoming elections. That these proposals will not hit the common man has been emphasised by the Finance Minister and this will no doubt be taken up by others.

The serious repercussions of higher tax on dividends and tax on capital gains on the capital market can hardly be overemphasised. But it is also being realised, albeit slowly, that once it is accepted in principle that more and more of resources have to be channelled, through taxation and Government borrowing, into planned investment, whether in the public or the private sector, some control over internal savings of the companies and on dividends was inevitable. The wonder is that it has been so late in coming. There may be difference of opinion about the manner of exercising such control; but it is rather late in the day to question the principle of it. Moreover, since the capital market is being deliberately undermined, it also follows as a corollary that the Government will have to assume the responsibility, more and more, of providing the necessary resources for developing those industries in the private sector the expansion of which are part of the Plan objective.

The immediate impact of the supplementary budget was nervous liquidation all round. The announcement took the market completely by surprise, just as the nationalisation of Life Insurance had done earlier in the year. Sluggishness gave way to a bout of selling and no buyers were coming forward to absorb these sales. The consequence was a general fall in price level. Some of the leading scrips suffered heavily in this widespread confusion. It looked as if a payments crisis would arise, if the market did not recover sufficiently early.

As the week progressed, however, the market tended to recover, by fits and starts, as the implications of the taxation proposals became clearer. What helped the market was the realisation that the proposal for raising the super-tax on dividends would not materially affect companies which do not pay dividends higher than 10 per cent. Scindia, which pays only five per cent, Bombay Dyeing and Indian Iron, paying 10 per cent each, were the first to rally and recover their losses. The second group to rally included Premier Automobiles, National Rayon and Tata Locomotives.

The group likely to be hardest hit include Swadeshi Mill, Shivarajpur, Century, Kohinoor and Bombay Burmah. The price range of this group naturally tended to decline. Towards the close, however, Century shot up on expectations of issue of bonus shares.

While it is easy enough to classify shares according to their dividend payments and judge the possible effect of higher taxes on dividend, speculation centres on quite a different point, namely, whether the companies which pay high dividends would not continue to do so, even after higher taxes, since their profits must also tend to be proportionately higher. For cotton mills generally, the consensus of opinion seems to favour this view.

More will be heard in the next few days about the possibility of channelling reserves into fresh bonus shares, in order to circumvent higher taxes on dividends. This, again, applies specially to the textile industry. The Plan may not favour expansion in their case but there is nothing in the Plan to prevent replacement of depreciated plant and equipment for which a genuine case can be made out for strengthening their capital structure by capitalisation of reserves.

The results of working of two companies, which have been published during the week, deserve notice. Tata Locomotive and Engineering Co. has been able to record a handsome profit of Rs 77.79 lakhs for the year ended March 31, 1956. Gwalior Rayon Silk Manufacturing and Weaving Co. Ltd. show a profit of Rs. 1.01 crore. The Directors report that extension of the staple fibre factory to increase production capacity to 40 tons of staple fibre per day is nearing completion and that the plant is expected to be in commission before the end of this month.

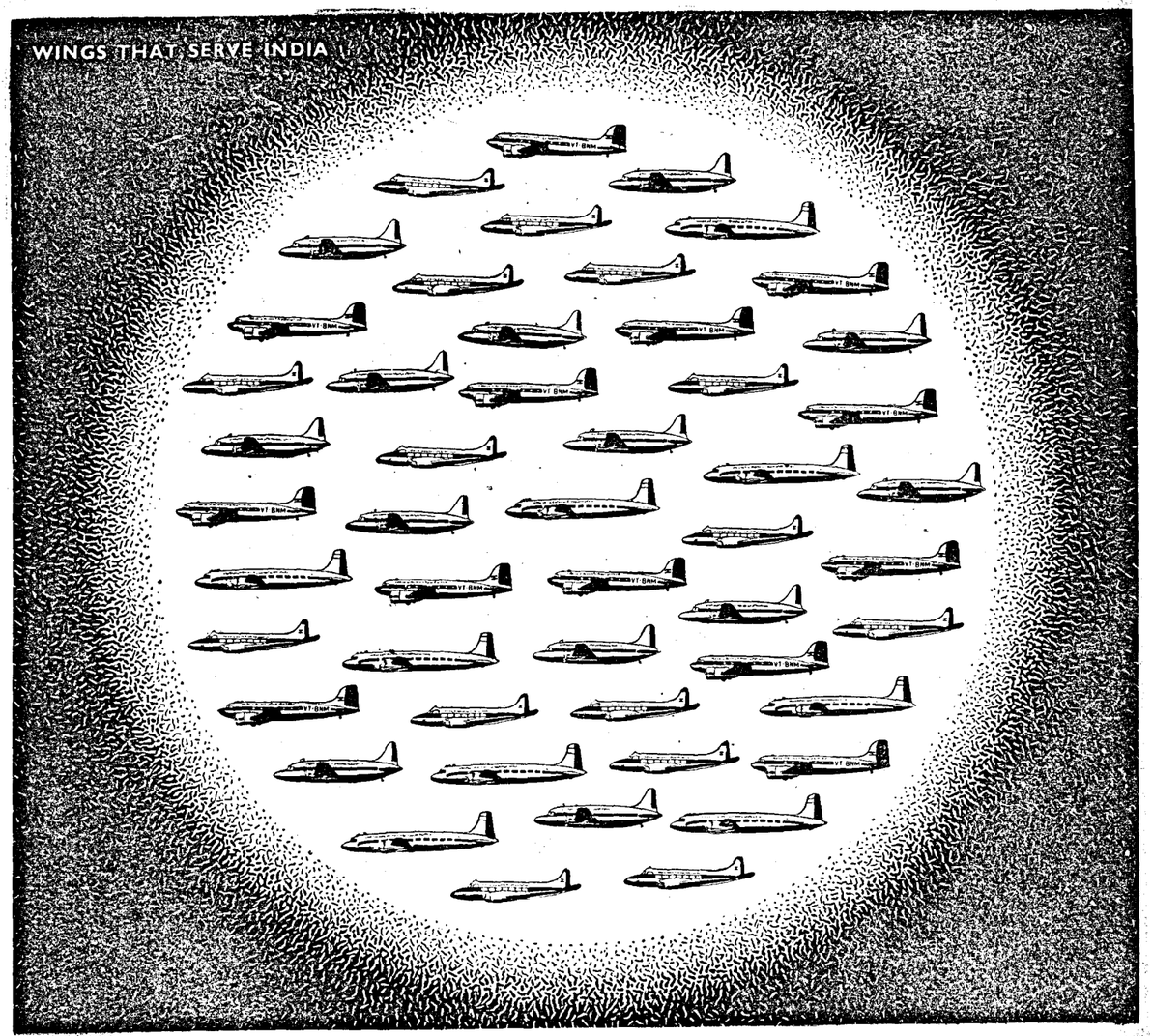
Cotton

Export Quota at Long Last

THE news of the week in cotton was the announcement of the export quota of 50,000 bales of Bengal Deshi and 1,50,000 bales of other exportable varieties of ¾" staple and below.

What had happened in the interval between the earlier announcement to the effect that the time was not yet ripe for the export quota and the present announcement? The question naturally arises when one recalls the market's keen disappointment when it was given out that there would be no export quota for some time. The proceedings of the Export Advisory Council encouraged the market to expect some favourable news. Later, it was stated that as prices were 'high' no export quota would be announced 'at this stage'. Soon after this, comes the announcement of export quota. It is rather unfortunate that the Government should choose a time when prices were around the lower levels to announce the quota. If the quota had been released earlier when there was quite a bullish trend in the market, the authorities could have taken advantage of higher prices and gained a little more by way of foreign exchange!

If the Government's approach to the export quota was strange, it is even stranger to find that the market is practically unable to lift itself up. The continued bearish trend, despite the quota announcement, is attributed to the meagre size of the quota as also to the doubling of the export duty on Bengal Deshi. Besides these, reports are flowing in of accelerated movement of new crop and slow buying by mills which further subdued the trend in both cotton futures and spot markets.



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CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1438.54	1439.61	1443.59	1335.72
2. Rupee Coin	125.27	122.32	120.74	109.04
3. Deposits				
a) Central Government's	49.99	54.69	52.15	51.36
b) Banks'	51.07	52.04	54.87	62.37
c) Other Governments'	15.94	12.72	47.18	10.16
d) Others'	13.37	13.66	13.01	15.48
4. Foreign Securities	457.24	457.24	462.21	647.07
5. Balances held abroad	79.29	84.63	106.72	71.25
6. Rupee Securities	765.47	765.47	750.50	553.58
7. Investments	59.61	61.13	83.39	50.43
8. Loans and advances to Governments	2.96	1.80	6.35	2.00
Scheduled Banks				
1. Demand liabilities (net)	634.69	638.17	633.41	605.87
2. Time Liabilities	458.52	457.79	457.61	424.27
3. Cash on hand	35.89	37.12	38.31	35.27
4. Borrowings from Reserve Bank	57.41	56.65	57.81	18.03
of which against Usance Bills	45.34	40.80	40.29	6.45
5. Advances and Bills discounted	710.86	711.62	708.72	546.89
of which State Bank's	127.43	128.37	129.76	93.08
6. Invst. in Govt. Sec.	365.50	365.52	371.53	394.76
of which State Bank's	106.62	106.61	107.44	118.57
Cheque Clearance	152.34	153.81	135.20	136.56

†For Reserve Bank and Cheque Clearance week ended 30-11-56. Scheduled Banks week ended 23-11-56.

Bombay Money Rates	30-11-56	23-11-56	2-11-56	2-12-55.
Inter-Bank Call Rate	3½	3½	3¼	2⅞
3 months deposits	3⅜	3⅜	3⅜	3
6 months deposits	3¼	3⅜	3⅜	3

Bombay Bullion — In Rupees and Annas

	6-12-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	105-7	105-5	104-9	94-8
Forward	105-8	105-11	104-11	95-0
Silver (per 100 tolas)				
Spot	174-1	174-5	172-9	173-6
Forward	174-10	175-3	172-13	174-3

TEA AUCTION SALES IN CALCUTTA

	1956-57 June 1 to October 23, 1956		1955-56 June 1 to October 18, 1955	
	Packages Numbers approx. 100 lbs. each	Avg. Price per lb Rs. a p	Packages Numbers approx. 100 lbs. each	Avg. Price Rs a p
For Export				
Assam	370,669	2-15-11	388,406	2-12- 3
Cachar	69,781	1-10- 9	80,502	1-15- 7
Darjeeling	68,520	3- 2- 0	61,790	2-12- 9
Dooars	181,591	1-14-11	197,043	2- 1- 5
Terai	17,623	1-14- 5	33,154	2- 0- 5
Tripura	6,868	1- 9- 6	7,719	1-14-10
Other Districts	121	1-10-10	—	—
Total	715,173	2- 9- 0	768,614	
For Consumption in India				
Dusts:				
Assam	136,576	2- 8- 1	128,962	2- 6- 9
Cachar	18,075	1-13- 4	23,930	1-15- 6
Darjeeling	3,827	2- 4- 7	3,311	2- 5-11
Dooars	57,884	1-14- 1	57,694	2- 0- 9
Terai	2,347	2- 2- 1	5,269	1-14- 9
Tripura	968	1- 9- 3	695	1-11- 6
Green tea	51	0-10- 0	30	1- 8- 7
Other Districts	6	1- 9- 5	3	2- 4- 0
Total	219,734	2- 4- 5	219,894	2- 4- 2
Other Grades:				
Assam	5,375	1- 7- 1	16,677	1- 5-11
Cachar	875	1- 1- 1	4,675	1- 3- 3
Darjeeling	2,320	2- 4- 1	2,891	2- 5- 8
Dooars	1,761	1- 4- 1	8,988	1- 4- 3
Terai	151	1- 8- 3	681	1- 5- 8
Tripura	398	1- 3- 5	1,167	1- 3- 7
Green tea	2,305	1- 7-10	1,148	2- 5- 0
Other Districts	20	1- 8-11	27	2- 0- 5
Total	13,187	1- 8- 6	36,254	1- 6- 8

Source : D C I S, Calcutta.

TEA EXPORTS FROM INDIA

(In thousands of lbs)

	Aug 56	July 56	June 56	July 55 to June 56
Destination :				
United Kingdom	32,974	18,176	21,887	317,052
U S A	3,273	1,041	1,476	28,085
Canada	2,715	1,155	884	19,453
Australia	671	358	712	7,466
Iran	72	72	128	7,167
Kuwait	28	127	73	2,726
Other Countries	6,551	3,575	5,439	82,507
Total	46,284	24,504	30,599	464,456
Exports in the corresponding months of the previous year				
United Kingdom	26,637	20,870	14,272	358,677
U S A	1,752	2,039	806	32,266
Canada	2,064	1,365	847	22,352
Australia	161	—	—	8,145
Iran	362	333	21	8,334
Kuwait	291	296	9	2,618
Other Countries	23,964	6,101	1,917	61,782
Total	55,231	31,904	17,872	494,174

Source : D C I S, Calcutta

INDEX NUMBER OF WHOLESALE PRICES

(Base: Year ended August 1939 = 100)

Group and Sub-Group	Week Ending 17-11-56	Week Ago	Month Ago	Year Ago
I **Food Articles:**	**418.3**	**411.1**	**365.6**	**321.8**
Cereals	533	527	516	390
Pulses	420	411	396	323
Others	271	264	246	228
II **Industrial Raw Materials:**	**518.3**	**504.0**	**505.5**	**419.6**
Fibres	504	481	482	425
Oilseeds	571	563	557	403
Minerals	521	526	551	422
Others	423	421	422	452
III **Semi Manufactures:**	**418.9**	**415.9**	**405.3**	**338.8**
Leather	443	439	410	392
Mineral Oils	210	210	210	202
Vegetable Oils	627	603	579	395
Cotton Yarn	503	503	489	410
Metals	327	327	326	277
Oilcakes	492	492	458	365
Others	362	362	362	330
IV **Manufactures:**	**386.1**	**389.3**	**386.8**	**373.6**
Textiles	417	422	418	406
Jute	448	443	—	425
Cotton	417	426	426	399
Rayon & Silk	421	421	413	479
Woollen	266	266	266	278
Metal Products	390	390	390	371
Others	296	296	295	284
V **Miscellaneous:**	**589.1**	**588.8**	**581.9**	**542.4**
All Commodities:	**430.4**	**426.4**	**418.8**	**363.6**

SEA AND AIR BORNE TRADE OF INDIA

(Value in lakhs of rupees)

Year/month	Import	Exports including Re-exports	Balance*
1952-53	644,98	559,23	— 92,58
1954-55	633,12	588,27	— 62,75
1955-56	650,57	598,63	— 75,05
April	49,84	39,43	— 11,47
May	49,22	43,97	— 6,81
June	49,41	47,30	— 3,14
July	50,00	50,69	— 50
Aug	44,79	51,83	+ 5,69
Sept	48,20	58,22	+ 7,39
Oct	49,73	48,14	— 3,43
Nov	60,08*	49,45	— 12,75
Dec	56,29	52,23	— 6,29
Jan	55,55	46,34	— 11,88
Feb	64,93	51,71	— 16,23
Mar	72,53	59,32	— 15,64
1956-57			
April	57,73	39,42	— 19,67
May	66,68	45,04	— 22,34
June	63,20	46,13	— 17,66
July	58,45	41,57	— 17,37
Aug	64,76	49,40	— 15,36
Sept	74,50	49,14	— 25,36
Oct	68,71	52,68	— 16,03

*Adjusted for transit trade, etc upto July 1956

Source : D C I S, Calcutta

WORKING CLASS COST OF LIVING INDEX

(Monthly average or calendar months)

	Bombay 1934 = 100	Calcutta 1936 = 100	Madras 1936 = 100	Kanpur 1939 = 100	Delhi 1939 = 100	Ahmedabad 1949 = 100	Kharagpur 1949 = 100	Ludhiana 1949 = 100	Cuttack 1949 = 100	Jharia 1949 = 100
1952	337	351	330	441	373	104	97	92	109	110
1953	363	349	351	453	366	111	101	90	107	104
1954	359	327	341	408	360	98	93	90	100	82
1955:	538	321	321	371	339	87	92	84	99	77
Jan	352	310	333	372	344	85	91	86	95	75
Feb	345	310	326	384	334	83	89	84	94	77
Mar	340	310	321	377	331	83	87	81	93	76
Apr	340	311	314	352	329	81	87	79	95	73
May	336	375	307	335	318	82	87	80	100	75
June	333	317	311	347	318	85	93	80	101	76
July	340	325	316	371	336	90	96	82	101	77
Aug	341	329	318	375	348	92	95	83	103	78
Sept	333	327	322	373	347	90	94	84	106	79
Oct	331	334	323	385	347	91	95	85	100	80
Nov	330	339	327	392	354	92	96	88	100	79
Dec	332	329	334	393	365	93	96	90	99	77
1956:										
Jan	334	319	334	404	363	92	93	90	98	77
Feb	337	315	333	394	358	90	93	89	97	78
Mar	350	325	340	398	362	93	96	90	99	80
Apr	358	338	354	409	365	96	101	92	105	86
May	357	342	356	408	365	95	102	92	110	87
June	358	350	365	419	363	97	104	92	112	86
July	354	365	369	436	375	98	105	93	114	89
Aug	361	368	372	445	382	102	106	94	116	91
Sept	392	366	368	445*	386	—	—	—	—	—

Note: - = not available

* Figure for October is 448

Source : Central Statistical Organisation
Labour Bureau, Government of India
Deputy Labour Commissioner, Bombay Government.

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This story begins in 1888...



The world still awaits the adventure of Wireless . . . it's the age of the horse-drawn carriage. And people who talk of flying aren't airmen as yet; they're poets.

Calcutta is India's capital, and at one of its busy wharves, there's a picturesque mailboat from England, self-conscious in its new power of Steam. Look away for a moment to something else that is new. There! In those crates . . . the first few cakes of a new soap: *Sunlight*. The crates say: 'Made in England by Lever Brothers.'





Bobbing away on porters' heads, the cakes go off to some obscure bazaar of old Calcutta and from there . . . on to journey's end: the homes for which Levers have made the soap.

That's how it was one summer day of 1888. Lever Brothers (then, a three-year old British enterprise) thought the world of *Sunlight*. Soon, thousands of bazaars were stocking 'the tablet that foamed'—and families became converts for good.

Little by little, the motor car arrived (the model with the turkey-croak hooter); then the telephone began to jangle in Indian homes. And in those homes, time wasn't standing still either. People were asking for new and varied products to meet their changing needs. So, Levers—developing in step with them—produced for the home such things as *Lifebuoy* . . . *Vim* . . . and *Lux Toilet Soap*. This is becoming a story of familiar names, isn't it?



In 1922, Levers started making soaps in Calcutta—encouraged as they were by the increasing demand for their products. In 1934, a second factory went up in Bombay.



In 1926 came Dalda Vanaspati from Holland. And, with it, there started a revolution in India's nutrition—the use of a hardened vegetable oil for cooking. To manufacture *Dalda* in India, a new Lever Company was born in 1932: 'HVM'—the Hindustan Vanaspati Manufacturing Company Limited.

And still the Indian home called for newer and 'different' products. And so there came to India *Pears Soap*, *Erasmic* and *Gibbs* products, *Himalaya Bouquet* toiletries, *Rexona Soap*—familiar members of the Lever family. Marketing of these products led to the formation of yet another Lever Company in 1935: 'UTL'—United Traders Limited.



Now, you can't separate the tale of these products from the tale unfolding *within* Levers. The people in their factories and offices were changing for one thing. Foreign experts were joined by the young men of India and today four-fifths of Levers' executives are Indian.

Meanwhile, Levers were buying all the raw materials that India could offer. These purchases grew as manufacture expanded—till, in 1955, about 88 per cent of the oils and fats that Levers traded was supplied by India's fields and coconut groves.



An international partnership—that's what soon grew up in Levers. Foreign technical and marketing experience linked up with the talents and resources of India. Result? The Indian housewife today is supplied with products that are among the world's best.

Today, we are sixty-nine years from the craft of soap that, almost unnoticed, started Levers in India. Today, a new chapter in our story has opened with the association of Indian and foreign capital in Levers. Indian and British Directors work together on the Board, too. Here's a joint venture that serves the nation and advances with it.



Yes, the future arrives with each tick of the clock. And Levers face that future with a new name: 'HINDUSTAN LEVER LIMITED.' So the stories of HVM and UTL end, in a sense—because they've merged with 'Lever Brothers' to form Hindustan Lever.

But the Lever story goes on. For India's story goes on, and Levers have grown with India's needs and progress. As it has done for sixty-nine years, Hindustan Lever will continue to serve the Indian home.

HINDUSTAN LEVER SERVES THE HOME

HLL. 1-34

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Mission to Washington

IT was inevitable that, the moment India became independent, she would emerge as the leader in Asia. Much has happened in Asia and in the world since India's independence. Some of the Western countries have been inclined to write India off as an ally for democratic peace. Suspect in both camps of the "cold war", India has pursued a policy of good neighbourliness. Her foreign policy is now better appreciated. India's economic achievements compare favourably with those of Communist China. Bandung has convinced Asia that India has no design to be an arrogant and aggressive leader in Asia. Her moral status is now firmly established. New Delhi's foreign policy is appreciated in Moscow, Belgrade and Peking. Cairo values New Delhi's mature judgment. Despite the Anglo-French aggression in Egypt, India remains a member of the Commonwealth. Since the Anglo-French aggression in Egypt, India and America have drawn closer together.

Since independence, New Delhi has functioned as a bridge between two rival sides in the "cold war". India's first major achievement was the joint enunciation of Panch Shila by New Delhi and Peking. This was the prelude to Bandung. Her second achievement was to convince the Soviet Union that Panch Shila was the only secure basis of relations with nations and neighbours. Deeper international influences would seem to confirm Pandit Nehru's reiterated belief that, in spite of Hungary, the process of liberalisation of regimes in Eastern Europe will continue. In the past, India has adroitly exercised her influence as a Commonwealth member and her friendly relations with Communist countries to ease the tension between the two rival camps. In the changed current phase of the international situation, it is essential that New Delhi must co-operate with Washington to eliminate local tensions as well as to maintain world peace. It is a happy coincidence that Pandit Nehru will have talks with President Eisenhower at an opportune time when India and America are in closer agreement on the immediate world issues.

Developments since the Summit Conference at Geneva have provided the opportunity for closer collaboration between India and America in the interests of world peace. De-Trumanisation, along with de-Stalinisation is a process which is not without significance. But it is neither necessary nor relevant to stress any clandestine understanding between America and Russia to evacuate Europe for joint exploitation of Asia. This is not the main motive behind Washington's hostile reaction to the Anglo-French aggression in Egypt. Here, it is useful to discuss the changed global strategy since the Geneva understanding between East and West not to start an atomic war. Before the Geneva Summit Conference, Washington's policy was to ring the globe with bases and bastions. This strategy has become obsolete since the "hydrogen" stalemate. Pentagon now relies on "Fortress America" for strategic retaliation in the event of war.

Washington's earlier policy of fortifying overseas bases has had some unintended consequences. It has encouraged the revival of Anglo-French colonialism. With American supplies of war equipment, Britain and France had tried to maintain their positions in Indo-China, Algeria and Cyprus. Since the nuclear deadlock, Britain and France have increasingly relied on NATO equipment to perpetuate colonialism. NATO

equipment was, contrary to the agreement between America and NATO allies, used by Britain and France during their aggression against Egypt. With "Fortress America" as the basic defence strategy, the realisation has dawned on Washington that America's earlier world strategy has been exploited by some of her NATO partners to perpetuate colonialism. Washington is now in a mood for a reappraisal of the necessity, as well as of the indirect consequences, of overseas bases and military alliances like SEATO and the Baghdad Pact. Sadder by the Egyptian experience, President Eisenhower may now concede that Pandit Nehru's apprehensions that Pakistan may exploit her membership of SEATO and the Baghdad Pact are not entirely without basis, despite the distinct understanding that Pakistan will not use American supplies of war equipment against India.

India has been consistent in her attitude that military alliances provoke counter-alliances, and create, instead of preventing, tensions. New Delhi has been equally emphatic that SEATO and, in particular, the Baghdad Pact are military alliances which may be exploited to perpetuate colonialism. Developments in Egypt have confirmed these fears. It is the Baghdad Pact which has provoked Russia to make attempts to win friends in West Asia, even as NATO has created, and justified, the Warsaw Pact. Wiser by the Egyptian experience, Washington now accepts the necessity for strengthening the United Nations. To enhance the status of the United Nations, it is necessary to make this organisation truly representative. This is one of the main arguments for encouraging all countries, now under subjection, to choose the form of government they like, so that they, as free nations, can become member-States. Meanwhile, it is necessary to admit all independent countries, including Red China and Japan, into the United Nations. No doubt, Pandit Nehru will inform President Eisenhower about his talks with the Chinese Prime Minister as the former discusses with President Eisenhower the question of Red China's admission into the United Nations. There are now brighter prospects that Russia will not oppose Japan's claim to be a member-State. Egypt and West Asia will be the major issues in the agenda for discussions between Pandit Nehru and President Eisenhower. On these issues, it will not be difficult for the Indian Prime Minister and the American President to reach an agreement. Pandit Nehru's visit to America will have achieved its main purpose if he can secure President Eisenhower's full endorsement to the policy of strengthening the United Nations in order to preserve world peace.

Going Their Several Ways

WHAT the Planning Commission is thinking, what the Government at the Centre is doing and what is happening in the State Governments—it is not often that one has to connect all three even in the limited sphere of Governmental activity, where information is so much more readily available. To get a conspectus of what happens in the lives of the people in the towns and villages is, of course, much more difficult. With the sights fixed principally on 'coastal statistics', on the movements of foreign trade and payments, industrial production and only the broader changes in agriculture, one can hardly expect to get a full view of what is happening in the country. And of late foreign affairs have been so much in the limelight that even that limited view has tended to be dimmer than usual.

But a number of things have come tumbling together in the last few days and their impact has been so powerful that willynilly, one has to sit up and take notice. Developments each of which could be normally left to follow its own course and treated in isolation have come crowding together in such a manner that sorting them out becomes difficult, if not impossible. Yet the opportunity should not be lost; indeed it is essential to try to get a connected picture for there is no reason to suppose that as time goes on, things will sort themselves out of their own accord, so that each problem can be handled as it arises, by itself.

There has been a sizeable problem of foreign exchange before the country for some time. The losses in foreign reserves month by month have been so heavy that it is no longer wise for the government to pretend that there is no reason for any 'scare' and that business can go on as usual. Foreign resources for the Plan, it was known all along, would be harder to secure in the sense that self-help would not avail beyond a point. Not that the problem of raising internal resources presents no difficulties; it is in fact much more formidable for one cannot draw on external assistance to a considerable extent, as is possible in the case of the former, under favourable auspices. But flexibility of operations in the field of foreign resources is definitely more restricted.

The question of internal resources had also to be tackled some day of course. But considerations of strategy made it advisable that the Government should go slow and the economic situation prevailing at the time when the draft Plan was drawn up, did not impart urgency to it. Now there has been a change, forced by rising prices and the Finance Minister has modified his assessment of the situation from one of 'strains, but no inflation' to that of 'incipient inflation.' Partly the present emphasis on resources is also in order to present a clean bill to the prospective foreign lenders, particularly those who go by the accepted commercial criterion of credit worthiness.

To suggest, however, that the Government has been waiting, Micawber like, for some thing to turn up would be wrong and unfair. It has been assiduous in extending foreign contacts and foreign economic collaboration for the completion of the Plan, it is hoped, will fan out and all will be well.

It is perhaps only a question of foreign exchange here and now, to meet the deficits in the next few months, until the World Bank loan becomes available and the credit arrangements which are now being negotiated with so many countries are finalised. But why did we allow ourselves to get into this predicament, when import control has been in operation and every little thing involving foreign payments needed Delhi's approval?

It is easy to be wise after the event and say that somebody must have tripped somewhere. Of course, even so, outsiders who do not have access to all the inside information may go wrong. Was the Finance Minister over-optimistic in banking upon foreign assistance, or rather, the timing of it? Since on Government's own admission much of the present difficulties have arisen from the staggering of steel imports, would it be too naive to ask whether these imports could not be phased? And since in the next few months, large payments will become due on account of the steel plants, would it be equally naive to ask if the steel plants could not be taken up one after another in an orderly function, instead of crowding them up all together? Energy and enthusiasm are precious indeed, particularly in a country where things move so slowly. But since one cannot put into the Plan what is not there, even superior energy has to move through the narrow grooves of resources here and now.

This takes us back to where we started from and the Planning Commission, the Government at the Centre and the State Governments moving and acting along their separate ways. Faced with such blatant, albeit minor, failures in planning—for temporary stress and strain can be overcome and they cannot finally prevent implementation—one cannot help wondering what has the Planning Commission been doing by way of co-ordination and phasing of programmes? The Commission's stature does not go up when such mismanagement of affairs come to public notice.

The National Development Council which met over the weekend had wider problems of co-ordination to discuss. This being the first meeting of this august body after the reorganisation of the States, it was too early perhaps for it to consider the question of resources seriously. But it did some valuable preliminary work in that direction. The direct taxes which the Finance Minister introduced in the supplementary budget, it may be taken for granted, are only a prelude, though perhaps a necessary one, for a much bigger bill of indirect taxes to come. As a matter of fact, Delhi is expected to take powers for it before the Parliament dissolves. What the National Development Council did was to take the first decisive step towards straightening out the present basis of sales-tax which is chaotic in the extreme. The States have all along been extremely jealous of their rights over this source of taxation which is bound to be exploited even more fully in the future. The limited powers that the Centre has taken by the Sales Tax Act passed by the Parliament earlier in the month do not profess to encroach upon the States' right to tax. It is primarily to fill the lacuna created by the Supreme Court decision restraining the power of the State Governments to tax inter-state sales. Even so the move is in the right direction and it is much to be welcomed that the Centre will now levy, collect and distribute taxes on sales of coal and coke, cotton, hides and skins, jute and oil-seeds. The articles listed, it will be noticed, are all raw materials of industry so the objection is met that Parliament intends to interfere with the liberty of the People of the States to tax themselves! They are still free to tax as much as they like the consumer goods consumed by themselves, and not by the people of other States!

What the National Development Council has done is to agree on principle that sales tax on mill made textiles, tobacco and sugar should be replaced by a surcharge on the Central excise on these articles and that the revenue derived from the surcharge will be distributed among the States, as advised by the Finance Commission. The Chief Ministers who met in Delhi were given the assurance that routing of these taxes through the Centre will not affect the shares of their respective States.

What is far more important for the Second Plan than even the question of resources was also touched upon by the NDC, but it hardly attracted much attention. It is the broader question of popular participation in the Government and in the execution of the Plan. The Home Minister put the proposal before the Council for its approval, which was of course duly given, that the district administration should be reorganised and that with the exception of law and order, and collection of revenue, the rest of the functions should be progressively handed over to popular bodies. All this is in the Plan. But the absence of any discussion on it and lukewarm reception to the proposal did not leave the impression that the Chief Ministers are too much worried about such things. On the contrary, their visits to Delhi are primarily to exact the utmost they can get from the Centre—matching of State's contribution against Central assistance come in for the usual criticism—while Delhi takes the opportunity to press, but not too obviously or blatantly, its claims for introducing some measure of uniformity and coherence in the structure of sales tax levied by the States.

Between these two somewhere comes the Finance Minister's performance at the Associated Chamber of Commerce. This was not the first time that he was facing the representatives of foreign capital in India but on this occasion, he went all out to be nice. He was even prepared to yield on the vexed question of taxing perquisites which had so rattled Clive Street. It was perhaps not the occasion to go into the principle of the thing. His predecessor had been firm in refusing to countenance the suspicion of discrimination which concessions like free passages and paid holidays abroad created, at least in the minds of the Indian employees of the foreign firms. Of course, the fine manners which the Finance Minister put on for the special benefit of his distinguished audience had the general foreign exchange situation, and prospects of getting foreign assistance in view. He was naturally eager to make things smooth so that Government's efforts may succeed. But does he also share his predecessor's faith in the inflow of private capital as a factor of importance in meeting the foreign exchange deficits of this or the following Plans?



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Juvenal.

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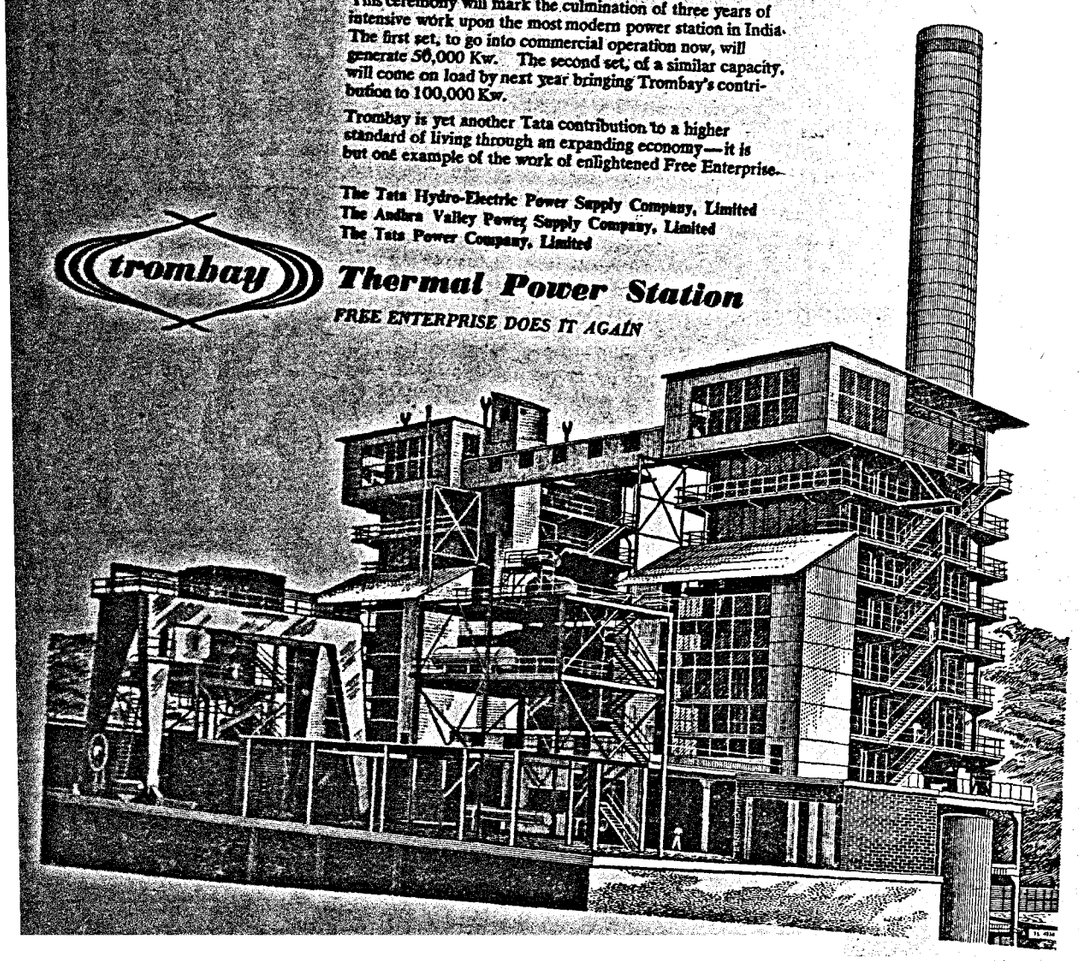
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Weekly Notes

India and China

MR CHOU EN-LAI can be amiable and urbane. His statements and pronouncements during his visit to India have been simple, and yet firm. He showed his religious tolerance by entering the Buddhist temple at Calcutta's Mahabodhi Society barefooted. Equally, he disclosed his catholic outlook by his repeated emphasis that nations must agree to disagree. On many issues, there are differences of opinion between Communist China and non-Communist countries, including India. It has been one of the main themes of his statements in India that such differences are no obstacle to friendly relations among nations. Both implicitly and explicitly, he has stressed that differences of opinion between India and China have not prevented the establishment of amicable and cordial relations between the two countries. But Mr Chou En-lai can also be astute. This he has shown in his references to America. He has expressed full appreciation of America's policy to Egypt. He hopes that relations between China and America will become cordial. Mr Chou En-lai hinted, in his Press conference in Calcutta, that Peking was willing to settle the repatriation problem, but Washington must relent its attitude. Taipeh is the major source of irritation between Peking and Washington. If this is the only reason behind America's unfriendly attitude to Communist China, Mr Chou En-lai's recent offer to Chiang Kai-shek should facilitate amicable relations between the countries. With the recent orientation in America's global strategy, Taipeh ceases to be important to America as a distant outpost. Possibilities of rapprochement between Peking and Taipeh provide Washington the opportunity to establish cordial relations with Communist China. Mr Chou En-lai's hope that Pandit Nehru's talks with President Eisenhower will lead to a greater understanding between America and Communist China will be widely shared.

India and China, the original sponsors of Panch Shila, have much in common. Mr Chou En-lai's claim that the Indo-Chinese formula for world peace has been endorsed not only by Asian and African countries, but also by some European countries, will be conceded. Both India and China are poor countries. In both, the main problem is to eliminate poverty. Different solutions are being tried in the two countries. But that does not preclude, as Mr Chou En-lai rightly stressed, mutual help and co-operation. Both have a common interest in abolishing colonialism, as it perpetuates inequality and poverty. The Anglo-French aggression in Egypt is an attempt to revive colonialism. Mr Chou En-lai was therefore, justified in his comment that, while West accuses Communist countries of subversive activities, some Western countries are not only guilty of aggression, but are also pursuing subversive tactics. To admit this is not to accept Mr Chou En-lai's interpretation of Hungary without mental reservations. Neither the considerable budgetary appropriations in America for propaganda in Eastern Europe nor subversive activities by West in Hungary can, or will, be denied. Mr Chou En-lai was emphatic in his observation that socialist countries will not allow their achievements to be taken away by "subversive activities of colonialists in socialist countries", but this is surely not the whole story in Hungary.

No Change in Coal Target

THE Statement attributed to the Minister for Heavy Industries about the formation of a National Coal Development Corporation, and containing the surprising decision to raise the target of coal production in the Second Plan from 60 million tons to 65 million tons, which was flashed in a PTI message and was commented upon in the last issue, has been flatly contradicted by the Minister concerned. The *New Sketch*, India's Coal Organ, published from Dhanbad, writes in its latest issue:

"This statement bristling with so many incorrect assertions in every blessed detail having reportedly emanated from no less a person than Shri Manubhai Shah, the Union Minister for Heavy Industries, was a bewildering experience which easily created an unprecedented sensation among the coal public. In the first place, the National Coal Development Corporation had already been formed and was known to everybody except the Minister Shri Shah, as it seemed. Only last week we published a lengthy advertisement issued by the Corporation for quite a number of important posts to be filled up. The Minister's ignorance seemed to be colossal. The object of the Corporation was primarily to look after the State collieries, their development and output and it was misleading to state that its sole purpose was to step up coal production from 38 million tons to 65 million tons. It was neither correct to state that the total target of coal production was 65 million tons nor that the additional target of the private sector was 12 million tons and of the public sector 15 million tons, the true position being that the total target was 60 million tons to be achieved at the end of the Second Plan period with 10 million tons for the public sector as additional annual targets. It was confusing to call the Balwantrai Committee as the Coal Development Board and to connect this committee with the private sectors' additional output target wrongly placed at 12 million tons instead of 10 million tons. To say that it was the responsibility of the Corporation to raise the balance of 15 million tons of additional coal was another mis-statement alleged to have emanated from the Minister. It was no surprise that the whole industry was taken aback by these statements because a statement by one Minister was as good as that of another in view of the joint responsibility of the Central Cabinet of Ministers."

But all this was much ado about nothing. The paper, usually well informed about coal, is authoritatively informed that the Minister made no such statement. It goes on to say that "We now find to our relief that Minister Shri Manubhai was entirely misreported. He is reported to have commented as follows when his attention was drawn to the misleading statement:

> "I have been misreported. I did not say that a National Coal Development Corporation will be formed. Indeed, I could not have said so as the corporation was set up last October with the Minister of Production as its chairman. Nor did I refer to any change in the targets of coal production. The Plan aims at producing 60 million tons of coal. The additional 22 million tons is apportioned between the public sector (12 million tons) and the private sector (10 million

tons). There is no question of a change of allocation."

News reporters covering a story on coal from Ahmedabad may trip on a matter of detail but it is not as simple as all that. How could P T I put out a message with just that air of plausibility which makes it so dangerous? It sure would have embarrassed any other Cabinet but targets are now-a-days played up and down so often that the Ministers have only themselves to thank if news men occasionally take such liberties. It would be comforting to note that at least somebody in the Cabinet was upset over this sorry business.

Legal Props to Trade Unionism

THE question whether employers should be forced to recognise duly registered trade unions was raised in the Lok Sabha early this week, when a half-hour discussion was led by a Communist member on the non-enforcement by Government of the Indian Trade Unions (Amendment) Act, 1947. The debate brought up certain interesting questions: Whether the Government can defeat the purpose of the Bill by not enforcing the Act, passed by Parliament? Whether the non-enforcement of the 1947 Act affected our trade union development? Whether legal support even to weak unions will make them strong enough to be an effective agent in collective bargaining? Whether political considerations encourage employers to distinguish between unions while giving them recognition?

The first queston is only of academic interest because if the Congress Government did not want to enforce the Act, it would not have introduced the Bill. In its unbounded enthusiasm after political independence, the Congress Party and the Congress Government immediately embarked on the task of achieving economic and social freedom for the masses through the most natural and simple means of legislation. In 1947-48, the Government of India put on the statute book many progressive labour laws, like the Factories Act, the Employees' State Insurance Act, the Industrial Disputes Act and the Minimum Wages Act, without caring to see whether they could be adequately enforced or not. The amendment to the Indian Trade Unions Act also belongs to this first "flush" of labour legislation. When the question of enforcement and implementation came, practical considerations put a damper. Another factor which influenced such legislation was the predominance of the Labour Minister's policies over those of the Government. The Minister who piloted the labour Bills was fond of enacting Laws. His successor detested legislation and preferred negotiation and collective bargaining to adjudication and State intervention. The 1947 Amendment Act was not enforced, because its provisions were incorporated in the Trade Unions Bill, 1950, which the anti-legislation Minister allowed to lapse.

The non-enforcement of the 1947 Act, however, could hardly have made any difference. The present Labour Minister was not far wrong when he said in Parliament that non-enforcement had strengthened trade unions instead of weakening them. In fact, it should not be forgotten that Indian labour is one of the most protected in the whole world and this has been responsible in no small measure for its weakness. If a trade union develops inherent strength by enlarging its membership and funds, and works within its legitimate field of activities, it can demand recognition from employers. It need not beg for it or rely on the crutches provided by law. The State's responsibility should be restricted to provision of the machinery within which employers and employees can bargain. The simple old Trade Union law of 1926 is enough for this purpose.

Political influences on trade unions have been one of the greatest obstacles to their growth. The all-India workers' organisations owe their allegiance to political parties and naturally the activities of the unions affiliated to them are coloured by politics of these parties. Employers naturally favour the unions affiliated to the organisation which owes allegiance to the ruling party. It is not uncommon to find employers and their organisations giving recognition to unions of a particular party, irrespective of the strength of these unions. This collusion between employers and political unionism is carried on in the fields of recruitment and promotion. It appears from the Labour Minister's reply that an enquiry is being conducted on the question of recognition vis-a-vis membership. For the sake of justice and fair play, the enquiry should be entrusted to an impartial outside agency; it should not be conducted by an interested Government.

Problems of Pump Manufacturers

COMPLAINTS of manufacturers have a monotonous uniformity which can neither be quite accidental nor entirely due to the natural human failing to grumble. It is usually the associations of the smaller manufacturers who ventilate their grievances freely at their annual general meetings. Top rank industrialists also reserve theirs for the annual general meetings of the share holders of the companies which they control, but as they take up the more important issues directly with the authorities and as in these days of increasing Government control and interference, prudence demands a discreet silence on matters of vital concern to the company concerned, the Chairmen are not always as illuminating in their addresses as they could be. The associations, however, can be more forthright because the President speaking on behalf of a number of manufacturers, would not be accused of furthering particular interests. These speeches give an insight into what is actually happening in the industrial field which one cannot get from published reports, or from the official statistics relating to the industry concerned.

The address of Shri C N Pradhan at the annual general meeting of the Indian Pump Manufacturers' Association may be taken as a fair sample of the sort of problems which small manufacturers are facing today. The only snag is that it presents the picture from the view point of the manufacturer himself. It is a pity that it cannot be easily complemented by the consumers' or the Development Wings' version of the story. But here is how the pump manufacturers view the situation.

At the end of the First Five Year Plan, the installed capacity for manufacture of power driven centrifugal pumps was expected to reach 80,000 units, while demand was forecasted at around 1,00,000. The gap between demand and supply was to be met by tube well turbine pumps which were also to be manufactured within the country. All this was in the First Five Year Plan.

At the end of the five years, installed capacity nearly reached the target, being rated at 65,000 centrifugal pumps per annum, and capacity had also been installed for the production of 2,000 bore hole turbine pumps. Demand, however, did not come up to expectation. In fact, it did not even come up to half of the estimated figure, being only 40,000 per annum as against 1,00,000 forecasted. In view of this disappointing experience demand estimates have been drastically scaled down and it is now thought that even at the end of the Second Plan period, the demand for pumps would not exceed 86,000. Yet new units are coming up and the President of the Association complains that licences are being issued to fresh entrants while established manufacturers are burdened with unsold stocks.

Advance Planning of Purchases

BUT that is not the only trouble. Despite existence of considerable excess capacity suggested by the above figures, imports of pumps had been allowed at one stage during the First Plan, and even the current import policy does not take adequate note of the manufacturing capacity which has been developed within the country. The reason why imports had to be allowed was that purchases, of which the bulk is by the Government, had not been suitably phased to take full advantage of manufacturing capacity. Towards the end of the First Plan — development had to be rushed in the last two years and disbursements steeply staggered—300 bore hole pumps were needed in a hurry which the manufacturers were not in a position to supply, presumably within the stipulated time. Had purchases been more evenly distributed over time, manufacturing capacity could have been better utilised.

Keeping the existing manufacturing capacity in view, the Chairman suggests that imports of the following categories of pumps should be restricted:

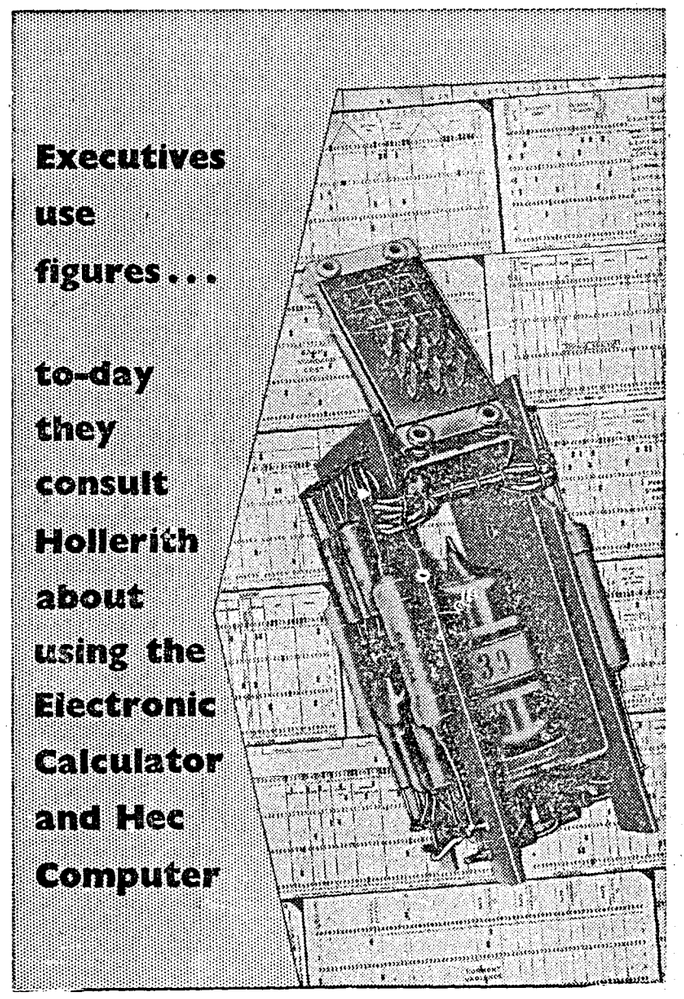
(1) Horizontal Centrifugal Pumps for clear water and also Sewage Pumps upto 14" delivery for the capacity of 2.5 lakh gallons per hour for the total head upto 200ft.

(2) Multi-stage Centrifugal Pumps up to 8" delivery for the capacity of 1 lakh gallons per hour and also pumps suitable for heads upto 300 ft.

(3) Bore Hole Pumps upto the capacity of 1 lakh gallons per hour for heads upto 300 ft and 2 lakh gallons per hour for heads upto 150 ft.

Then follows the usual list of complaints, headed by Government purchase policy. The demand of the Association viz that all Government purchases should be centralised through the Directorate General of Supplies and Disposals and that DGS & D contract terms should be offered to those manufacturers who are on the approved list. Advance planning of purchases with an eye to fuller utilisation of installed capacity is another legitimate demand of the industry.

The second in the list of grievances is the difficulty of getting raw materials and equipment—pig iron, cast iron scrap, hard coke, ball bearing and electric motors, the latter for the firms which manufacture pumps but not the motor with which pumps have to be coupled before they can be sold. In the case of imported materials like pig iron, ball bearings and electric motors, the demand is, in short, for free licensing of imports. This is in such striking contrast to the dem-



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and, for which a case is made out so convincingly, for restricting imports of pumps that it calls for particular attention. But this demand for banning imports is so general in every field of manufacture that one cannot help suspecting that however strong a case manufacturers of pumps may have, suppliers of the materials used by them, among others, may also have something to say, unless, of course, the Development Wing has been getting it all wrong in every case.

Unlike many other light engineering industries, however, power driven pumps do not appear to have much of an export market yet. The Association welcomes the steps taken by the Government to promote such exports, by arranging exhibitions for instance. It is also willing enough to co-operate, but makes the modest suggestion that as exhibitions are so frequent, participation by members will mean a large number of pumps being permanently kept on show and this will block up scarce capital. So should not the Government assist the industry and in particular those manufacturers who are keen on participating in exhibitions by buying up the pumps which are to be exhibited?

All in all, this is a revealing cross section of the industry. It is a pity that the Associations have not yet realised the value of publicity and do not widely publicise the full text of their addresses.

Letters to the Editor

Time and the Choice of Technique

I HAVE read with great interest Mrs Robinson's letter on 'Time and the Choice of Technique', which appeared in your issue of November 17. Since the letter begins with a reference to my article published in your issue of September 15. I, think it may be desirable to clarify the position I adopted in my article.

My standpoint was briefly this. Assuming gross investment and its rate of growth to be given, my problem was which technique or set of techniques to choose if we wanted to make the ratio of new investment to gross investment as high as possible. I used new investment rather than net investment because replacement was the more suitable category for my purpose than the so-called depreciation. The main purpose of raising the ratio of new investment to gross investment is precisely to introduce an element of acceleration in the process of growth. This is a factor which I consider to be well-substantiated by the recent experience of USSR. The main way of economising in replacement requirements is to choose more capital-intensive techniques, meaning thereby projects with longer life span. I, therefore, wrote "other things remaining the same, the choice of capital-intensive projects would then lead to an acceleration in the rate of growth of the economy."

Now, in case the gross investment cannot be regarded as a datum, there can be little doubt that the gain involved in increasing the life-span of the capital asset is no longer unambiguous, for we have to take into account the cost of greater durability. Such situations are likely to arise and they may be quite important, but they are surely different from the sort of situation I contemplated. The conclusion that I drew holds good in the first situation, and not in the second. But it was not my purpose to discuss the second situation. This line of reasoning seems to me to be valid. It does not, however, dispute in the least the validity of Mrs Robinson's argument which I find very suggestive and important.

Sukhamoy Chakravarty

Department of Economics,
Calcutta University,
November 28, 1956.

Hungarian Imbroglio

THE editorial on Hungary in your issue of November 10, has proved itself, in the long course of angry (!) burst-outs, as the only sane one among the editorials in the Indian press. It has very ably pointed out the reality in the affairs of Hungary by a fine discernment of the issues involved. But as it seems to me, it has been misunderstood in many quarters and even misread by many intellectuals, who have been guided much more by their hearts than heads in this case.

Basically the aggression in Egypt by Britain and France is different from Russian intervention in Hungary, as you have pointed out. First of all we must understand that the attack on Egypt owed its origin to a flimsy excuse—flimsy because Egypt had the right to nationalise the Suez Canal in spite of the commitments made previously. The question of internationalisation should not have arisen at all because Egypt was always ready to admit ships of every country provided they paid the tolls.

In the affair of Hungary, the intervention of Russia was at the invitation of the Hungarian Government (Kadar's) and wholesale massacre was never intended; for if they really wanted to do it, the Russians could have done it on a much greater scale. There are on record many instances, in which the U S A participated, in the form of direct and indirect help, on the plea of protecting democracy! I do not find any real justification in raising a cry to place Hungary on the same rank as Egypt as a victim of attack.

India was wise in not believing the propaganda of Free Europe and in treating the Hungarian upsurge as the domestic affair of Hungary and in emphasising that U N O is not a champion of any particular ideology.

To Professor Amlan Dutta, I would like to say that his description of the situation consequent upon both USA and USSR having in stock many Hydrogen bombs is not at all complete nor does it convey the whole truth. I think the situation can be described more appropriately as follows: "The near-impossibility of a global conflict may encourage a smaller nation to use provocative methods against a great power (in isolation!) so much so that when the big power shrugs its shoulders, the small power attracts the sympathy of all through propaganda."

Paresh Nath Chatterjee

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From the Chair

The Indian Iron and Steel Company Limited

Speech of the Chairman Mr T LeslieMartin

THE following is the full text of the speech of Mr T Leslie Martin, Chairman of The Indian Iron & Steel Company Limited, delivered at the Thirtyninth Annual General Meeting of the shareholders held on November 30, 1956:—

Gentlemen,

In my address to you last year I stated that it was extremely unlikely that the production and trading results of that year would be repeated and that the large increase in the revenue and consequent profits could only be regarded as a windfall. Happily, my prognostications have proved entirely wrong and very wide off the mark. From the Report and Accounts for the year 1955-1956, which have been in your hands for some days, you will have seen that the results of the previous year have actually been exceeded. Today I do not intend to make any forecast but will confine my remarks, in the main, to facts and will explain to you, briefly, the factors that have contributed to this happy position.

Production

The Company's total production of 7,06,986 tons of iron fell short of the figure of the previous year by less than 9,000 tons. The output, however, of your Burnpur Blast Furnaces which provide the hot iron for steel making fell from 5,17,899 tons to 4,73,172 tons. This was due to the fact that No 2 Furnace was off production for periodical relining. The loss of production on this account, however, proved to be much less than had originally been envisaged as, by improved re-lining technique, the work was completed in a very much shorter period than on any previous occasion.

With the change over of two of the Steel Melting Furnaces from Producer Gas Fuel to tar firing we were able, and are now in a position, to utilise a greater proportion of steel scrap in our furnaces than was formerly the case. As an offset to the inevitable drop in the availability of iron for steel making resulting from the closure and re-lining of No 2 Blast Furnace, an intensive drive for the procurement of steel scrap from local sources was launched and carried out with such success that it was possible to make good the anticipated deficit and even to surpass last year's production tonnage of ingot steel by some three thousand tons. A further benefit was received by reason of the fact that the Rolling Mills were able to produce a larger proportion of the output in the form of finished steel commanding a larger margin of profit than semi-finished steel such as billets, blooms and slabs.

The production of iron from your Kulti Blast Furnace was 233,814 tons as against 197,702 tons in 1954-55, since both Furnaces were in full production throughout the year. In addition to the benefit of the consequent increased availability in the sale of pig iron, full advantage was taken of a larger allotment of iron, sanctioned by Government, for use in the Kulti foundries. This enabled an increase in the production tonnage of Spun Pipes and General Castings of some sixteen thousand tons which, again, had a marked effect on the satisfactory trading for the year under review.

Profit

Taking these factors into account an increase in profits of some Rs 70,00,000|- has been realised for the year. From this amount we are required, in accordance with the terms of the Agreement entered into with Government (to which reference is made in your Director's Report) to set aside Rs 29,47,838|- to a Special Fund to be utilised solely for the purpose of our expansion programme.

As to the future, I can only say, in view of the excellent results for the year 1955-56, that despite the many difficulties encountered your Burnpur Works have worked to full capacity and that until this capacity is augmented by the extensions now in progress, which will gradually come into operation, no appreciable increase in output can justifiably be looked for. Also, it must be remembered that it is not unlikely we may have to contend with increasing difficulties in the operation of the existing plant owing to the disorganisation caused by the expansion works in progress. I would, therefore, ask you to bear this in mind when forecasting possible results over the next year or so.

In this connection I should like to take the opportunity to pay tribute to the very efficient manner in which the task of the Planning and Co-ordination of the extensions works is being carried out by your Consulting Engineers, the International Construction Co, Ltd, and to the spirit of co-operation between them and the Works Management which has enabled all difficulties encountered to be smoothed over with the minimum of inconvenience to either side.

Finance

So far as the financial figures for the year under review are concerned, there can, I think, be few points on which you will require further enlightenment. The Accounts as drawn up in conformity with the provisions of the new Companies Act 1956 give even fuller particulars than the previous very full disclosure it has always been the practice of your Board to make. There is, however, one item on which I might perhaps remark. You will notice that the Accounts show the transfer of a sum of Rs 7,00,000|- to General Development Reserve. You may feel some doubt on the necessity for such transfer, having regard to the very large amounts set aside on the other extensions reserves. I would, therefore, like to explain that the sum in question represents the approximate reduction in the normal taxation liability for the year by reason of the Development Rebate allowed by Government exempting from taxation 25% of the cost of the new plant and machinery installed. The consideration underlying this concession is that the saving in tax should be set aside for development purposes. We count to a large extent on the continuance of this rebate for financing both the 1953 and 1955 extensions and it is very desirable that this position should be recognised by the immediate institution of a General Development Reserve as a separate item of the reserves.

Dividends

In view of the substantial increase in the amount of profits earned, your Directors had natural-

ly wished to mark the position by some increased distribution on the Ordinary share capital. Every endeavour was accordingly made to obtain the approval of Government to the admission of the shareholders to an increased participation in the profits, but as reported in the Board's Circular Letter of the 1st October, 1956, Government have found themselves again unable to agree at this stage to an increase in the rate of dividend. Though the position is disappointing to us all and is one which your Directors greatly regret, as I advised you under similar circumstances last year, the orders of Government cannot be ignored nor their legality challenged without serious detriment to the interest of the Company. It is incumbent on us, therefore, to accept the decision of Government with good grace. To the extent that profits earned are retained in the business the finance of the expansions programme and the ultimate repayment of the loans that are being incurred is facilitated. Also, we may derive such consolation, as we may, for the present restriction of dividend from the assurance that has been given by Government in their letter dated 22nd September, 1956. It has been stated in that letter that the mobilisation of the available resources for the completion of the expansion programme is in the long term in the interests of the shareholders "as ultimately they will have their full share of the increased profits".

1953 Extensions

You will, I trust, have a full appreciation of the progress made with the 1953 extensions programme from the descriptive booklet that has been issued as a supplement to the Report of your Directors and will have noted that the programme is scheduled to be brought to completion by the end of 1958 in two stages.

Further Extensions

Particulars of the further expansion to an annual output capacity of 800,000 tons of saleable steel which at the request of Government, has been agreed to, have been given in the Board's Circular Letter of the 5th November, 1956. In my speech to you last year I explained that no decision as to the undertaking of this further expansion could be arrived at until the revised sales retention prices of steel, to be operative as from the 1st April, 1955, had been notified by Government and we had thereby been enabled to forecast with some reasonable degree of accuracy the future financial position of the Company. The revised retention prices were communicated to the Company in February, 1956, and were fixed at a satisfactory level. The further expansion was, therefore, approved by your Board and the necessary financial negotiations for securing the finance to cover the cost put in hand. As you are aware, this programme provides mainly for an increase in the finishing mills capacity. It is scheduled for completion under normal conditions early in the second half of 1959.

The outline of the general financial arrangements in this connection, which has been shown in the Board's Circular Letter, will be placed before you for formal consideration at the Extraordinary General Meeting to be held tomorrow. I will, therefore, not comment on this occasion other than to express our great appreciation of the full understanding and sympathetic consideration that has been shown by Government in the fixation of the current sales retention prices of steel and at all stages of the subsequent negotiations even though it did not prove possible for them to see eye to eye with your Board on the question of the price at which the proposed rights offer of additional Ordinary share capital should be made.

International Situation

All that I have said on your immediate and future prospects and the completion of both the extension schemes must be judged in the light of the rapid developments which are taking place in the entire international sphere. No one can tell what ultimate direction these may take but it would seem that world-wide impact on almost every national activity may result, which could seriously upset the implementation of all important schemes dependent upon sea transport, foreign exchange, the manufacture and delivery of imported plant and machinery together with the thousand and one other national requirements for industrial or other developments.

In conclusion I should like on your behalf to express our appreciation of the services rendered by your General Manager, Mr J McCracken, and by all the staff and workers whose able and willing combined efforts have made possible the very satisfactory results that have been achieved.

Note: This does not purport to be a report of the proceedings of the Annual General Meeting, which will be sent to shareholders in due course.

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From the London End

The Reckoning and the Crisis

THE day of reckoning has arrived. And in any such reckoning the political consequences unquestionably predominate for, as the 'Banker' put it, "these will in the long run largely determine the economic consequences". Here only the economic costs of the Anglo-French intervention in Egypt will be examined. It must, however, be recorded that contrary to every expression of public passion in Britain, the words of Lord Salisbury, Premier-designate in 1863, ring more true today than at any other time in British history. Referring to the German invasion of Schleswig-Holstein, he is reputed to have commented that "...few will be found to dispute that England occupies a position in the eyes of foreign powers which she has never occupied before during the memory of any man now living...the condition of things has lamentably changed". Today Britain's influence in the Middle East is virtually extinguished, the imperial foundations of her Commonwealth policy stand in ruins and the one condition for survival in Europe—the American alliance—has suffered a set back. The United Kingdom is no longer a free agent to pursue policies which it conceives to be in the interests of its "traditional power"—in a word, the country has awakened to the brutal fact that by itself it is a mite in the company of the Anglo-American colossi.

Crisis in its most Tangible Form

The impact of this awakening on the British people and on informed opinion has been one of shock and of deep resentment. As 'The Times' put it, the "House of Commons is now an unpredictable institution". The arch-bearers of the American alliance — the Conservatives — are divided on the current assessment of American aims and express this division in terms of unparalleled hostility. The Cabinet is not only divided; its members connive at perpetrating one of the most ghastly misrepresentations known since 1945 — of claiming that no collusion existed in the intervention in Egypt! This is not all. The Prime Minister, as is now publicly interpreted, was "sent off" so as to "get the country out of the mess". And in line with this, the name of the next Prime Minister is a matter of public discussion.

The crisis in the economy is more clearly appreciated only because it appears in one of its most tangible forms. In the month of November alone, gold and dollar reserves of the sterling area fell by $279 million—a fall without precedent since monthly statistics of gold and dollar movements have been published. This is by no means the only critical fact. The 'Manchester Guardian' has calculated that at least 6 million tons of oil will now be required every month from dollar sources until the Suez Canal is once again navigable. This will involve a dollar expenditure of $50 million per month. Taking into account the loss in dollar earnings of United Kingdom oil companies, and the rise in tanker freight rates, the monthly cost on oil (in terms of hard currency) may well reach $90 million or about £35 million. The Chancellor's measures to meet the crisis call for an all-round increase of fuel costs and it is estimated that this is likely to send up industrial costs by as much as 2 per cent. Apart from these unpleasant prospects, oil deliveries from dollar sources are unlikely to maintain the tempo of the current level of industrial production. The prospects are therefore grim.

As is to be expected, in the present situation it is right that everything should be done to "defend sterling". The size of the outflow of gold and dollars last month suggests that a major proportion of the outflow represented capital flights which are usually associated with a decline in international confidence. As shown in the table below, something like $252 million represents "other gold movements". This is equivalent to just under £100 million, and it is difficult to believe that movement of funds on so large a scale could take place in a single month, unless those holding sterling balances in London really believed that war was in the offing.

Flight of Capital

At the end of June 1956, residents of countries outside the sterling area held some £649 million as balances in London. About 90 per cent of these was held by residents of the non-dollar, non-sterling countries. It is thus certain that the flight of about £100 million of capital was effected largely through the unofficial markets for transferable sterling. And this is confirmed when account is taken of the depressed rate at which sterling was being sold on these unofficial markets. The demand for dollar securities in London and on the Continent is possibly another index of the state of confidence in sterling. There was a time last month when transactions in dollar securities in London carried a premium of over 12½ per cent. It has, however, been objected that these forms of capital flight cannot by themselves explain the magnitude of the gold and dollar loss. Many ask whether residents of the overseas sterling area were not able to engage in "switching" and "shunting" operations in past months and thus to exacerbate the outflow in gold and dollars?

This situation must demand a major policy appraisal on the part of the U K government with a view to restoring confidence. It was well, therefore, for Mr Macmillan to hint at the size of the hidden reserves of Britain: about £1,000 million in dollar securities and about £30 million in short-term U S Treasury bills. It was equally necessary for the U K to ask for loans from the I M F to which it is entitled. It was a mistake, however, to waive the interest payment on the American loan as it is liable to create the impression that

Sterling Area Gold and Dollar Movements During 1956

($ million)

	Nov.	Monthly Averages Dec	2nd Quarter	3rd Quarter	1st Quarter
American Aid ..	4	7	— 8	3	6
E P U Settlements ..	— 31	—28	—39	+14	—18
Other Gold Movements	—252	—63	+12	+19	+64
Change in Reserves ..	—279	—84	—35	+36	+52
Current Reserves ..	1965	2244	2328	2385	2277

Britain was tantamount to "scraping the barrel" and admitting thereby that the economic situation was desperately serious. The application for waiver of interest has contributed to a new loss in confidence and once again sterling exchange is limping at the lower support point of $2.78¼ = £1.

Impact on Exports Inevitable

The motor vehicle industry is possibly the most sensitive industrial indicator of the trend of economic activity in Britain. Even before the Suez adventure, output of motor vehicles was running at a level of about 10 per cent below that of 1955. Now, it is reported that over 100,000 workers in the industry are to be declared redundant or to be placed on short-time. The blame for it is now mainly put on the petrol and oil restrictions. It is increasingly felt that with consumption levels sufficiently controlled through the credit restrictions, the main weight of a reduction in aggregate output will now fall on exports. The "defence of sterling" requires the concerted effort of the entire sterling area. On the question whether this effort would be forthcoming or not, depends the crucial answer whether the existing exchange parity can be held or not. It is understood that Commonwealth consultations are to take place. In the meantime the switch to gold shares on the London stock exchange and the sharp upward movement of prices on London bullion market suggest that not a few people are thinking in terms of a possible devaluation of sterling. And the very thought of such an eventuality can accelerate the movement towards its realisation!

The Only Path Left Open

In a world of competing economies, Britain is really and truly weak. Britain's dependence on foreign oil is now seen to be vital and this has called forth from the more thinking sections of the British people a new reappraisal. If, as has been proved, Britain cannot "go it alone", what then was the point of a £1,500 million annual drain on the resources of the country through an armaments programme? Further, why the extended political commitments in almost every part of the world? The 'Financial Times' declared in a powerfully outspoken editorial:

> "In recent years we have tried to maintain a great power position in politics, the role of the world's banker and our interests as an industrial and trading power. If recent events have shown nothing else they have proved that we cannot any longer drive these horses in harness".

It was possibly with this in mind that the Chancellor in the House debate saw that the only path left open for Britain in our time was that of integration with Europe. The post-war settlement established the hierachy of economic and political power—Britain refused in its heart to accept that settlement and the changes wrought by it in the world distribution of power. Now the delusion has been brutally shaken. Indeed, "the condition of things has been lamentably changed" for Britain.



Book Review

Sino-Japanese Relations

The Japanese and Sun Yat-sen By Maurius B Jansen. Harvard University Press, Cambridge, Mass.

Reviewed by **W H Newell**

SINO-JAPANESE relations have never received the attention that they deserved in the understanding of the politics of East Asia. This 27th volume in the Harvard Historical Monographs is a major contribution to this understanding. It takes the form of drawing on Japanese sources for an understanding of Sino-Japanese relations between about 1890 and 1920. Many of these sources have not previously been known to any Japanese or Chinese historians. They include the files of the Tokyo Foreign Office relating to refugee revolutionaries which were captured by the Americans after the defeat of Japan. One cannot but be impressed with the Japanese secret police who kept such a minute check of every contact that Sun Yat Sen ever made in Japan. In some cases the secret files were diagrammed with a complete chain of command within the Chinese revolutionary forces derived from conversations Sun Yat Sen had with Chinese and Japanese visitors in his house in Tokyo. Even these conversations were overheard and carefully recorded!

Chinese Material Lack Balance

Mr Jansen is a Japanese scholar and the whole book is written entirely from the Japanese sources. Although he periodically quotes from Chinese sources also, his Chinese material lacks the right balance within the Chinese scene. For example, although he rightly stresses the great importance of the Chinese student movement within Japan, he fails to see that Sun Yat Sen, by his foreign upbringing and training, was culturally only on the fringe of the great cultural changes which were taking place within the Chinese educated Chinese student movement.

No reference is made to Lu Hsuin and his journal **New Life** although the famous leader Chang ping-lin (1868-1936) is mentioned and his **Min Pao**, which began publication in February, 1906. The activities of this group were the subject of an official complaint by the Manchu government to the Japanese government. As far as I know there is no authoritative book yet on this Chinese student movement in Japan, although the importance of such a study cannot be denied.

No Consistent Policy

From the point of view of the Japanese, however, the peculiar ambivalence of the Japanese authorities towards their great Chinese neighbour can easily be seen. Mr Jansen traces this ambivalence, with great skill, through the next twenty years of Japanese political history. His main thesis is that far from Japanese policy towards China being determined by purely imperialistic considerations, it showed marked vacillations. The indecision as to what policy to pursue towards China was the real reason why the Japanese gained far less out of China than might have been expected, if the Foreign Office had followed a consistent policy.

This indecision really arose from a fundamental misunderstanding of the nature of the Chinese revolution. Lacking an understanding of the whole, various Japanese pressure groups were able to force their views on the government in power, irrespective of whether their aims would really be attained by the means that they suggested. Sun Yat Sen was really only a pawn in the hands of the Japanese, at one time being welcomed as a real representative of a foreign power and, after the defeat of the Republican forces by Yuan Shih Kai in 1915, being almost placed under house arrest.

Historian's Puzzle

What has always puzzled the historian of this period of Sino-Japanese relationships is the consistent hope that Sun Yat Sen had for aid from Japan. Towards the end of his stay in Japan, he became more and more anti-western in sentiment, especially anti-British, yet he consistently made proposals to the Japanese which would have more effectively deprived the new Chinese republic of sovereignty than any that the west could propose. This was the case even after Japan's famous 21 demands to China.

One document which has now come to light in the Japanese Foreign Office files, proposed and drafted by Sun Yat Sen, has 11 articles. Some of the more important proposals in this draft treaty were that Japan and China should never make an agreement with a third power without consulting the other that all of China should use only Japanese style arms, that priority would always be given to Japanese advisers in the armed forces, that first preference should always be given to Japanese advisers in civil matters, that all capital for Chinese depelopment be first raised in Japan and that Japan should take an active part in determining what form China's new administration should take.

Fortunately this document was never made public and the opposition government of Ycan shihkai never realised just how far Sun Yat Sen had really compromised himself with the Japanese.

Secret of Sun's Strength

Jansen does not adequately explain why it was that Sun Yat Sen so consistently looked for aid to Japan. Various parts of Sun Yat Sen's writings and sayings have been adopted by Wang Ching Wei, Chiang Kai Shek and Mao Tse Tung as a charter for their action and all are to a certain extent within their rights in doing so. Yet it cannot be doubted that were Sun Yat Sen living to-day, he would not have been able to follow any of them. It is likely that the real strength of Sun Yat Sen over Chinese and Japanese alike lay in his charm of character rather than in his ideas. Accusations were at various times levelled against him, both by Japanese and Chinese, that his foreign style upbringing precluded him from ever leading a revolutionary China. Yet in 1907 one of his principal Japanese fund raisers had this to say of him,

> "A man like Sun will not be seen to-morrow, or in fifty or in a hundred years. Even in dreams you cannot imagine such a man. I had not dreamt of such a person until he appeared. Sun is the world's great revolutionary".

But Sun was not present either at

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the commencement of the 1911 revolution or at the third revolt in China. In one he was in Japan, in the other touring the United States and Britain for funds.

No Obelisk to Other Asiatics

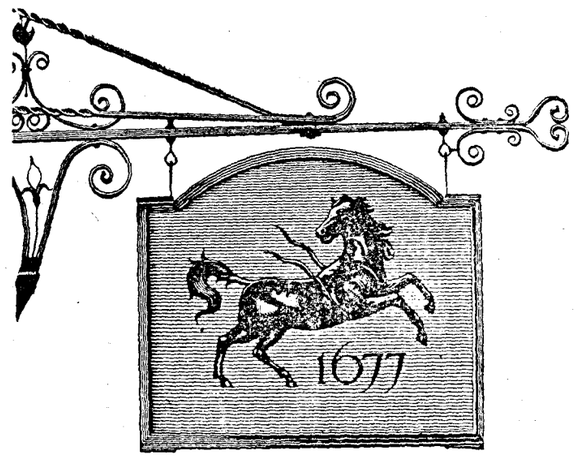
The real importance of this book to the historical scholar lies in its cold analysis of the relationship between Japan and China. At the time when Japan was suffering, along with China, the incursions of the western powers, the Japanese decided to become the equal of a western nation herself. She was so successful in this that she conceived herself as the natural leader of a Greater Asia, a British Empire with the Japanese in the role of Britain. When I first visited Singapore after the war, I climbed a high mound in the centre of Singapore island on which was an obelisk erected by the Japanese commemorating all those Japanese soldiers who had died in the conquest of Malaya. Beside this obelisk was a smaller one, commemorating all the Europeans who had died in the defence of Singapore, put up by the Japanese at the same time. There was no commemoration tablet of any sort for other dead Asiatics!

That Japan still conceives of herself in this role of an Asiatic nation equal to Europeans but superior to other Asiatics in western techniques is illustrated by some of her postwar films. One of the best of these, **The Refugee**, with Keiko Gishi in the leading star role, criticises Japan mercilessly for not being the true light of Asia and winning the recent war. The explanation why she was defeated, according to this film, lay in the fact that she had not adequately learnt the virtues of American democracy, that she had learnt only the American techniques of war but not the American democratic spirit which would result in victory in war.

Chinese Attitude to Japan

Jansen does not deal with what will probably become the more important issue in the future, viz the attitude of China towards the Japanese. It is not possible to discuss it in a book review. Yet in view of the recent speeches by the Chinese judges releasing the senior Japanese war criminals, one cannot but get the impression that there are major differences in the Chinese attitude towards western and Japanese imperialists.

The attitude of the Chinese in admiring Japanese achievements in the technical sphere conflicts with the traditional Chinese attitude that Japanese culture is merely a poor copy of the Chinese. That a pupil should excel his master and yet not acknowledge his debt is a basic thought at the back of the Chinese mind. Yet the modern Japanese, since the metamorphosis of Japan into an industrial nation, claims his technical ancestry from the west. He despises a master who while claiming superiority fails to succeed in so disciplining himself that success is certain. Chinese success in this direction would be a grave threat to Japanese leadership in Asia. The problems still lie ahead.



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The Kaldor Report

Taya Zinkin

MANY have seen in the latest Finance Bill the Kaldor Report casting its ominous shadow before. This is only a half truth. The passion with which Mr Kaldor advocates one part of Shri Krishnamachari's proposals, the capital gains tax, is equalled by the vigour with which he destroys the arguments for another part, the differential taxation on dividends according to the return they represent on a highly arbitrarily defined paid-up capital.

This difference between Mr Kaldor and Shri Krishnamachari is not surprising. Mr Kaldor need consider only equity and economics. Shri Krishnamachari has to consider also inflation, the belief of so many Congressmen that nobody should pay a dividend above 6 per cent, and the desire of the public that the rich should be soaked if the poor are to be taxed.

Nevertheless, it would be helpful if between now and the next Budget —the usual annual one, it is to be hoped Shri Krishnamachari will declare no more interims—the finance Minister would read Mr Kaldor with great care, for Mr Kaldor's Report places an authoritative finger upon the key problem facing the tax structure of a 'socialist pattern of society'. How is equality to be combined with incentive?

More particularly, how can men of property be taxed sufficiently to bring about some measure of equality without destroying their desire to invest and at the same time so overtaxing those whose high incomes come from their own exertions that their desire to work is not seriously reduced? In a society most of which is still to be left to private enterprise, it is very important that private companies and individuals should save and invest sufficiently, and also that their choice of investment should not be distorted by discrimination in the tax system against risk. Moreover, as society becomes more complex, it becomes increasingly dependent on the efforts of a limited number of people whose skills are at present in short supply: scientists, chartered accountants, senior civil servants and so on. If these people have to face very high marginal rates of tax, there is the risk that they may decide to be paid partly in increased leisure, as they already are in, say, France.

Mr Kaldor meets his double problem ingeniously. His key proposal is not any of his extra taxes, but a limitation of an existing tax. He would place the maximum direct taxation on incomes at 45 per cent. This would mean that the marginal rate would never be so high that it would be worth substituting leisure for work; it would also greatly reduce the discrimination against risk-taking enterprise of the present system, where the individual bears the consequences of failure but the State may take nearly all the rewards of success. And it makes it possible for Mr Kaldor to create a tax-system which encourages savings without encouraging inequality, and taxes more heavily the man with property than the man without.

Mr Kaldor encourages saving without making inequality more obvious by his expenditure tax. He recognises, and partially nullifies, the advantages of the man with property over the man who has only his brain and his hands, by his capital gains tax, his gift tax, his death duties and his tax on wealth. These together mean that the property-owner would pay a large premium for the cushion of security his property gives him. Indeed, only the most unremitting and successful entrepreneurs could hope to keep their property intact for any length of time.

It is not necessary here to go into the details of Mr Kaldor's recommendations. He makes a very good case for their practicability but it is for the Central Board of Revenue to say whether the tax machine could in practice carry them out. He gives, and argues for, particular rates, but it is for the politicians to say whether those are the rates Parliament and the public would accept. What can be said here is that Mr Kaldor's scheme is logical and coherent, though in some respects, the treatment of losses and business expenses, for example, is rather weighted against the taxpayer.

Certainly Mr Kaldor's scheme, if it will work, would achieve his objectives. The expenditure tax, by replacing super tax, would greatly increase the incentive to save, and would make it much easier for the growing private business to grow in the traditional way, by ploughing back profits. The capital gains tax, though undoubtedly difficult to administer, would tax what is probably now the main source of conspicuous consumption. The tax on wealth would reduce the inequality which results from treating high incomes from property and high incomes from work in the same way, without being so severe as to drive people from investment into hoarding. The levelling out of all company taxation at the one As. 7 rate would prevent the distortions resulting from the present somewhat arbitrary distinctions. Severe penalties and regular prosecutions for tax defaulters on American lines would result in a sharp decrease in tax evasion, though, if these powers were not to be abused, they would make even more necessary another of Mr Kaldor's recommendations, raising the pay and status of the Income Tax Department.

Mr Kaldor has produced a logical and attractive scheme. The danger is that Government will take all his extra taxes and forget that the key, the very centre-piece, of his whole system, is the 45 per cent maximum for income tax and supertax. Without that, Mr Kaldor's taxes would merely break the economy's back.

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More on Capital Gains Tax

A Half-way House

(Contributed)

WHY has the Finance Minister introduced the new tax on capital gains? His arguments in its defence fall under three heads. First, the greater needs of development programme make it imperative that new sources should be tapped; second, capital gains aggravate inequalities; and third, there is no case in equity for "regarding capital gains as a species of income not liable to taxation".

The Taxation Enquiry Commission were aware of all the above arguments but were not persuaded to recommend "for the time being the imposition of a special tax on capital gains". The Commission felt that the reasons which were advanced in April, 1949, for the suspension of the capital gains tax still held good, and that "in particular, the need for promoting a better climate for investment is stronger today than before, with the importance that industrial development is expected to assume in the next Five Year Plan". The Commission did, however, add that "if, owing to the accelerated tempo of development or otherwise, we enter an era of continuously rising prices and profits and of capital values; in that event, capital gains may become an eminently suitable subject for taxation and should be brought within the tax net".

Partial Acceptance of Kaldor

No doubt, inflationary pressures have started showing their ugly head over the past few months, but one wonders if it could be said that this marks the beginning of "an era of continuously rising prices". The easing of the international situation and a better crop next season might well create nearly the same conditions of ease as during the year 1954. This is perhaps the reason why the Finance Minister does not invoke the authority of the Taxation Enquiry Commission in defence of his proposal.

What appears to be the case is that the present Finance Minister thinks that the grounds on which the Commission argued against a capital gains tax, for the time being, are not adequate. Here one notices the identity of views between Mr Nicholas Kaldor and the Finance Minister. In his report to the Government, Kaldor argued very forcefully for the resuscitation of the proviso of the Indian Income Tax Act relating to the taxation of capital gains which has been in abeyance for the last seven or eight years. Briefly, Kaldor's argument was that the exclusion of capital gains from taxation was grossly inequitous, and that "the tax ought to be reintroduced as soon as possible, and quite irrespective of the immediate prospects of rising or falling prices, or of the immediate expectation of the yield". As regards the plea that the taxation of capital gains impinged on economic incentives, Kaldor's answer that to exclude capital gains from taxation was a dishonest means of offsetting the highly disincentive effect of the income tax applying at very high marginal rates.

"It is far better", he said, "to forgo the appearance of high progressiveness in the schedule of taxation than to choose a definition of "income" for the tax base which is neither consistent, nor impartial, nor unambiguous in its application to different tax payers".

The Finance Minister has accepted Kaldor's arguments, and as advised by him, has re-activated the relevant proviso in the Indian Income Tax Act. He has not, however, taken any action to bring down the high marginal rates of income-tax!

This is presumably because (a) in the short run at least the decline in receipts from the income-tax is not likely to be set off by the new revenue from the tax on capital gains; and (b) such a step may appear to reduce the progressive character of the tax system. These are good enough reasons for the Finance Minister to move cautiously in the matter. His present action in putting a tax on capital gains may be just one of the many other steps that he has under consideration. That is perhaps the reason why he has not gone wholehog for Kaldor's tax proposals. Even in regard to capital gains, Kaldor had suggested that the present proviso in the Act be so amended that all capital gains should come under the tax net sooner or later, and that the existing ceiling rate of income-tax be raised from 4 annas to 7 annas in the rupee, with capital gains being treated as income for the purpose of income tax. In the Finance Bill before the Parliament, however, there still remains a very important category of capital gains which shall continue to be exempted. The reference here is to those gains in capital value which are not realised through sale but which are transferred untaxed to one's beneficiaries in gifts or in inheritance. Also, the ceiling rate has been retained at the level of 4 annas in the rupee i.e. the maximum rate of tax applying to capital gains will be 25 per cent as compared to the maximum rate of 92.5 per cent for regular income.

Present Finance Bill Inadequate

If the Finance Minister is going to be content with the present Finance Bill, one wonders if it would accomplish anything for him. It will mean hardly any improvement in terms of equity because a very large part (if one goes by the experience in the USA, this may be any thing between 66 and 75 per cent) of the capital gains will remain untaxed. Also, the contribution to the exchequer is not likely to be very large, firstly because of the exemption of such a large portion of the capital gains accruing in the economy, secondly because the rate of tax has been fixed so low, and thirdly because there is a possibility that a number of capital gains which are at the moment being treated as regular income and charged as such may manage to pass off as capital gains and therefore escape high rates of super-tax, thus causing loss to the exchequer under receipts from the taxes on regular income. Moreover, no indication has so far been given about the steps which the authorities propose to take to ensure that even the chargeable gains are correctly declared to the tax officers.

As it is, the new tax on capital gains is a half-way measure. A lot still remains to be done if the intention is to tax capital gains effectively and in the right fashion. And then, it needs to be dovetailed with the other reforms so urgently needed in the Indian system of Direct Taxation.



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Perspectives in Wage Policy

WITH the Indian National Trade Union Congress, the leading labour organization in the country, putting forward a demand for 25 per cent increase in wages, the question of wage policy bids fair to be at the forefront of the problems which the country has to face at the outset of the Second Five Year Plan. It is one of the vital questions which, on account of the partisan feelings which it arouses, has hardly been examined in a dispassionate manner so far. Any attempt to study the issues involved clearly and in an objective manner and to indicate the direction in which a solution to the conflicting view points of the workers and the employers could be found should naturally prove of incalculable benefit.

The National Institute of Labour Management has, therefore, rendered a service by bringing out a small booklet on wage policy by Shri R G Gokhale, the Labour Officer of the Bombay Millowners' Association.* The author touches upon the different aspects of the problem of devising a suitable policy for the remuneration of labour and sums up in brief what he considers to be the fundamental principles on which such a policy should be based. Labour economics has largely been a neglected subject in the academic field and very few persons in the country today combine an intimate practical knowledge of the problems of labour in industry with an academic and scholarly bent of mind. Freely drawing upon his rich experience and wide knowledge, Shri Gokhale has compressed in only 40 pages the pros and cons of the different issues which have become associated with the question of the formulation of a proper wage policy for the country during the last few years.

One would readily agree with the author that the wage structure in the country to day, which comprises basic rates and dearness allowance, the latter accounting for a preponderant share, should be constructed de novo. Following the concept of the minimum wage as laid down by the Fair Wages Committee in 1949, if a new wage structure based on the current habits of consumption, the prevailing level of prices and the present size of the average working class family is formulated, it will automatically solve the thorny problem of consolidating dearness allowance with wages. It will also do away with the multiplicity of scales on which dearness allowance is paid to workers in different industries in different regions. While reconstructing the wage structure on a new basis, the demand for a 25 per cent increase in wages could also be examined.

The principles for determining the new wage scales which have been advanced by Shri Gokhale, however, run counter to this bold stand and some of them lack a logical basis. His suggestion that a definite relationship should be maintained between industrial wage level and the level of national income and that the disparity between these two should as far as possible be avoided, presents the problem of wage determination in a wrong perspective. No wonder that on the basis of a national income of Rs 1,120 per family of four he seems to consider the total annual income of Rs 1,760, direct and indirect, of a Bombay cotton textile worker to be far above the mark. Notwithstanding the fact that the Fair Wages Committee has mentioned per capita national income as one of the relevant factors in determining the minimum wage, particularly in a country where a vast proportion of the population is under-employed, it is hardly of any significance. The Fair Wages Committee has not explained how a purely value concept like that of per capita national income, which is only worthy of publication in the statistical abstracts of the different countries, can have a bearing on industrial wages.

Further, it has been contended that the disparity between the wages of agriculture, plantation and industrial labour should be progressively reduced. That the difference between agricultural and industrial wages in other countries is much less than it is in India today has been advanced as an argument in support of this contention. In the case of economically developed countries, as a result of the process of levelling up, disparities between the incomes of various classes of wage earners naturally tend to diminish. In an under-developed country, on the other hand, where industrial development is the spearhead of the attack on under-employment and poverty, industrial wages must of necessity maintain a long lead over agricultural wages. In course of time, as industry develops and absorbs a large number of the agricultural

* Wage Policy in Outline—by R G Gokhale: National Institute of Labour Management, Bombay. Pp. 40. Price: Annas 12.

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population, the impact would be felt on agricultural wages as well. But that stage is still some way off. In any event the disparity should not be removed by keeping down industrial wages. Besides, a comparison between the money wages of agricultural workers and industrial workers has very little meaning. The real value of a rupee is much higher in the rural areas than in the urban industrial centres.

This is not the only disparity which bothers Shri Gokhale; he appears to be obsessed with disparity in wage structures in general —inter-industry and inter-regional. He recommends that wage structure in a particular industry should be in balance with the general wage level in the country and that there should be parity between the wage structures of different industries. It is not quite clear what he has in mind. Does he wish to suggest that the wage structure of a cotton mill in Coimbatore should be the same as that in a cotton mill in Ahmedabad or that in a steel works in Bihar? The Fair Wages Committee allows for variations on account of regional differences and productivity. Capacity of the different industries to pay is another factor making for divergence in wage scales. So long as these factors operate, wage scales are bound to show disparities between industry and industry in the different regions. There is nothing unhealthy about them.

If the fear of disparities—disparity between the average national income per family and the average earnings of an industrial worker, disparity between the earnings of industrial workers and agricultural labourers and disparities in the earnings of workers in different industries in different regions—under which Shri Gokhale seems to labour is left out of account, the principles he lays down for the determination of wages are perfectly valid. Gross inequalities of income between the whole class of manual workers on the one hand and the small community of landlords, businessmen and people in the various professions on the other is one of the major social problems in the country today. Compared to these, inequalities between different categories of labour are insignificant. During the process of economic development some of these disparities are bound to be accentuated but not all of them can be removed even under ideal conditions.

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SISTAS SB 2

Some Economic Aspects of Large-Scale Farming

(Continued from previous issue and concluded)

A N Sharma

ALL the farms in the present study employ paid labourers, both permanent and temporary. No farm is worked by only permanent or only temporary labour. No large farm can keep all the required labour permanently or do without some of them; nor can it depend wholly on temporary labour.

Pattern of Labour Employed

Reliable data for permanent labour were available for all the farms, but data for temporary labour could not be obtained as detailed accounts are not kept. However, it has roughly been estimated that of the total labour on these farms about 40 per cent is permanent and the remaining 60 percent temporary.

Table VIII gives the number of the permanent labourers and the man-days for temporary labourers on different farms during 1954-55.

Table VIII—Farm Labour

Case No.	Size of Farm (acres)	No. of permanent labourers.	Labour requirement man days Total (000)
1	200	13	3.5
2	80	8	2.6
3	200	10	3.0
4	79	6	1.0
5	60	7	1.5
6	240	15	5.0
7	80	5	1.8
8	80	5	2.5
9	120	7	3.0
10	210	20	3.5
11	200	15	3.0
12	76.4	12	2.0

*Excluding garden area.

Table IX shows the index of crop intensity, total labour engaged and the utilization of labour (permanent and temporary) in different size-groups of farms.

The number of permanent labourers kept on each farm varies according to the size: 10.8 in Group I, 11.3 in Group II and 17.5 in the Group III. But in proportion to the area there is no difference in the case of different groups and the number per 100 acres of the cultivated area is about 8. A slightly smaller figure in the last two columns in the case of Group II is due to the greater degree of mechanization. The variation in the requirements for temporary labour is also negligible, particularly when measured in terms of man-days required per 100 acres of the total cropped area. This further confirms the previous findings regarding the cropping pattern in the different size-groups.

Of the total requirements for temporary labour in a year, nearly 70 percent are employed in the rabi season, and about 30 percent in the kharif season. Only jowar bajra and maize, which do not require much labour, are grown in the kharif season. In the rabi season, nearly 60 percent of the labour are utilized in March and April for harvesting, threshing, etc, and 30 percent in ploughing and sowing in October and November. The remaining 10 percent are utilized in minor operations throughout the cropping season. Of the total requirements for the kharif season about 40 percent are engaged in July in sowing and 40 per cent in October in harvesting.

There are three peak periods of demand for farm labour in July, October/November, and March/April. The maximum demand is, however, during March/April.

The owner-worker relationship is cordial on most of the farms. The only exception is in farm 6 which is a limited concern. The owners never come to see their farm which is controlled by a manager. The labourers do not seem interested in making the farm successful. More cordial relations between owners and labourers were found on farms 2, 3, 9, and 12 where it was difficult to distinguish between labourer and the family members of the owners. They are treated sympathetically and are given their wages in advance, in cash or grains, according to the need of the workers. On the whole, conflicts between employers and employees are rare, and not as lasting as in industries. The tie between the two parties is not purely economic, but also social.

Supervision by Owners

Supervision is of utmost importance in large farms. In farm No 1 the owner had lost about Rs 5000/- in 1954-55 because the labourers stole a large portion of the produce. Similarly in farm Nos 4 and 6, where the owners never went to see their farms, they are running at a loss. Though farm No 8 is making a profit, the owner reported that the actual profit was much more than what he received as a part of the produce is stolen away every year.

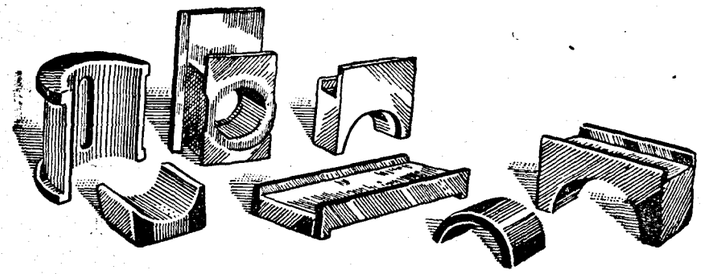
Though supervision of farms is the main responsibility of these farmers, and they know that it is very important, even so they are unable to carry it out properly. Of these farmers, Nos 4, 5 and 6 are willing to sell their farms as they are interested little in it. They have invested their money only to maintain possession of the land. But this is not true of all of them. There are some (Nos 1, 2, 3, 7 and 12) who devote all their time to their farms and want to be successful farmers. But on the whole these farms are not being supervised as adequately and as well as the job requires.

Table IX—Crop Intensity and Labour

Size group (acres)	Index of crop intensity*	Total labour engaged: No of permanent labourers kept: All farms	Total labour engaged: No of permanent labourers kept: Per farm	Total temporary labour (man-days) (thousands)	Labour utilization per 100 acres of total cultivated area: Permanent nos	Labour utilization per 100 acres of total cultivated area: Temporary (man-days yearly) (thousands)
50 -100	110.12	65	10.8	2503	8.2	2.2
100-200	107.10	45	11.3	1812	7.0	1.9
200-300	104.00	35	17.5	1875	8.3	2.1

* The method of calculating the index of crop intensity has been explained in the previous article.

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Availability of Labour

The demand for labour is rather flexible, i e, there are seasons when demand is slack, hence labour supply is plentiful, and at other times labour becomes scarce because demand is very great. In the former case it becomes a problem for labourers to get work while in the latter case it becomes a problem for owners to get labourers to finish the work in time.

Wage Rates—Wage rates are highly elastic. Rates are low in the slack season (August, December, May and June) and high in the peak season (July, January, March and April).

Thefts—Labourers are generally dishonest, particularly the daily labourers, and it becomes a problem for the owners to stop thefts.

Slackers—If labourers are not supervised properly they will not work. This is the habit of all workers and this is the common experience of all farms.

No Wage Differentials—Efficiency is generally not considered in determining wage rates between skilled and unskilled labour. Also most of the work is team work. Hence there is little incentive for hard or better work.

Hours of Work

Hours of work vary from season to season and from crop to crop. All the work has to be done in sunlight, but invariably in the early cool hours of the morning. Even moonlit nights are utilized for ardous work. Such work is not properly done when hired labour has to be depended upon.

FARM EQUIPMENT

In western countries, tractor ploughing has dispensed with the woodden plough and the draught animal. The combined drill performs both the operations of sowing the seeds and putting the fertilizers simultaneously while the combined harvester has simplified the work of reaping and threshing into a joint process and rendered obsolete the use of the sickle, pitchfork and scoops level. A potato harvester digs, gathers, grades, sacks, weighs, and delivers the potato to a waiting truck with an estimated saving of 50 dollars a day or more over the old way of handling the crop. In modern agriculture machines are being increasingly employed in one way or another in almost all farming operations ranging from breaking up the soil to the marketing and sale of farm produce. This is made possible largely by the extension of electricity in the countryside, manufacture of suitable agricultural machinery and the dispersion of knowledge and instruction in technical and rural engineering at agricultural schools.

In India, this system of mechanized and large scale cultivation is not going to be the general pattern of agriculture. This has been indicated in the various policy statements and discussions on the Second Five Year Plan.

Extent of Mechanisation

The agricultural operations which are performed in farming can be classified as follows:

1. Ploughing, 2. Manuring, 3. Sowing, 4. Weeding, 5. Watching, 6. Irrigation, 7. Harvesting, 8. Thrashing, 9. Winnowing, and 10. Transporting. Ploughing is done wholly mechanically on all the mechanized farms (farm Nos 1, 3, 6, 7, 8, 10 and 11). All these farms have tractors and their accessories. It has been beneficial to them because it saves time and money. Manuring is generally done by labourers and animals but in some crops and on some farms (Nos 1 and 3) it is done by machines. Only in one farm (case No 1) sowing is done by mechanical seed drills, otherwise it is usually done by the "Nai" attached behind the plough, and dragged by the bullocks. Only on farm No 1 irrigation sets are used to draw water. These are the only operations done mechanically. The rest are done by human or bullock labour. Thus the extent of mechanisation in the case of these 12 large farms is very limited.

Investment in Machinery

Table X shows the amount of investment in machinery, including all types of machines, implements and tools which have been used on these farms.

We find that the investment per acre of net cultivated area is Rs 123-8-5. The range of variation, however, is very great from Rs 4-7-10 to Rs 425-0-10. It was found to be the highest on farm 1 being Rs 425-0-10. It is a case of an almost fully mechanised farm. In case Nos 7 and 8 it was about Rs 160-0-0. In other cases it was quite low, as they were operated by bullock labour. By arranging the investment on equipment and machinery in relation to different size groups we get the picture as shown in the Table below. The highest investment is found to be in the groupII (100-200 acres). This is because one highly mechanised farm falls in this group. If we exclude that farm then the average comes to Rs 64|- only. In the other two groups it was Rs 88|15|10 in case group I and Rs 100|4|7 in case group III. The two cases in group III (numbers 6 and 10 are of partial mechanisation). On the whole it is difficult to suggest any relation between the size of farms and the degree of investment on equipment

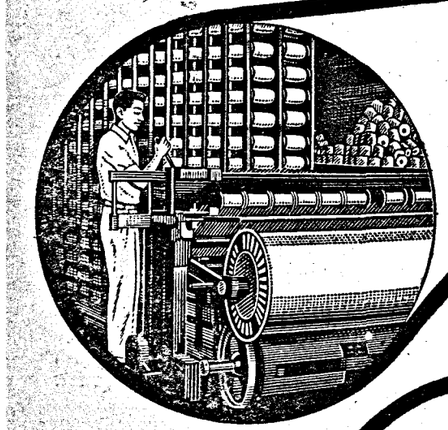
Table X—Investment in Farm Machinery

Case nos	Size of the farms (Size in acres)	Total investment in equipment and machines investment in Rs.	Investment per acre of net cultivated area
1	200	84,710-0-0	425- 0-10
2	80	1,124-0-0	14- 0-10
3	200	18,750-0-0	93-12- 0
4	79	1,230-0-0	15- 1- 9
5	60	442-0-0	7-15-10
6	240	28,850-0-0	31-13- 0
7	80	12,850-0-0	160-10- 0
8	80	13,445-0-0	161- 1- 0
9	120	539-0-0	4- 7-10
10	210	16,500-0-0	66- 0- 0
11	200	14,020-0-0	70- 1- 6
12	76.4	13,956-0-0	18- 5- 6
Total	1,625	203,638-0-0	123- 8- 5

Table Showing Size of Farm and Investment on Equipment

Case groups (acres)	Case nos	Total investment (Rs)	Investment acre (Rs)
50—100	6	40,489 0 0	88 15 10
100—200	4	1,18,019 0 0	164 14 7
200—300	2	45,130 0 0	100 4 7
		2,03,638 0 0	123 8 5

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and machinery on the basis of this study. Relatively higher degree of mechanisation in the case of the second group explains the less amount of labour engaged in this group as shown in the table.

In some individual cases farmers have taken to mechanisation because of the labour problem, non-availability and habit of whiling away time. For the country as a whole these arguments do not stand since they aggravate the unemployment problem. As a remedy for such problems of the farmers it will not be safe to suggest mechanization. Under such circumstances labour supply is to be regulated, and mechanization should be considered in relation to the problems of finance, and organization of the unit of operation in agriculture.

Care in the Use of Machinery

Agricultural machines must be taken care of properly and repaired systematically if they are to work efficiently and last long enough to render service at low cost. Investigations into the life of agricultural machines indicate that there is little relation between the life of agricultural machines and the number of days they are used annually. In a well designed agricultural machine all the parts subject to wear could be either adjusted or replaced, and in majority of cases the wearing parts form a small part of the whole machine. It is recognized, however, that certain agricultural machines have so many wearing parts that when they get badly worn, the replacement would be more costly than the purchase of a new machine. "It was reported on Kr Surendra Singh farm (case No 11) that his tractor remained idle for the last four or five years because the broken part was not available here, and was repaired only when that part was imported by the tractor company (Ferguson)". The disc harrow, in which many parts are subject to wear is an example of such machinery.

The maintenance of agricultural machines involve three functions.

1. Protection from the weather by housing,

2. Protection of parts subject to decay by paint or by a protective coating, and

3. Repairing by adjustment, sharpening and replacement of parts.

Farmers are quite universally criticized for failure to house machinery and thus protect them from rain and sun. Investigations which have been made to determine the influence of housing indicate that losses from exposure are not so great as is often contended. However, the life of a machine is generally prolonged by proper housing. A machine left exposed during the idle season requires more time for starting, particularly if certain parts have been rusted. On most of the farms (except in case Nos 1 and 3) the machines are kept under trees. There are no proper houses for them. As a result they give a bad appearance, do not last long and therefore, prove costly.

Painting of agricultural machines protects them and improves their appearance. Paint protects woodden parts from moisture and decay and metal parts from rusting and corrosion. A good base paint with linseed oil is very satisfactory. Such paint is not so durable although the appearance is generally preferred. Bright colours, red, blue, green and yellow are conventional (this advice is given by Rallis & Co. Sole agent for Massy-Harris Tractors and Machinery). Such practices are not followed on any of the farms studied by us.

In order that agricultural machines may be in first class condition for work it is necessary to protect certain parts from rust. This is particularly true of the parts of tillage tools which are required to scour in the soil. The usual method of protection of such parts between seasons of use is to coat them with grease, ordinary axle grease being commonly used. Some farm owners (case Nos 1 and 3) have found the practice of spraying machinery with oil an effective way of protection.

Experience of Mechanisation

Mechanisation lowers cost of production, increases output per head of worker, and economises on labour.

Tractors plough fields deeply (8" to 12") so they invert the soil more and if sufficient irrigation and manures are not be applied to the land it becomes more susceptible to soil errosion. The yield instead of increasing goes on diminshing. So these types of tractors are not suitable to our conditions.

Machines require either petrol or diesel oil. These are not always available in the villages. Sometimes when the machines use up the fuel the whole work has to stop, and must be postponed to some other day. Such delays sometimes cause heavy losses.

Sometimes it so happens that the machine goes out of order because trained expert operators are not available in villages. Hence either expert mechanics are called from other places or the machines are taken to cities. Both these take time. And time is a very valuable factor in agriculture. It was reported by all farmers using modern machinery that machines going out of order frequently and not being repaired in time led to considerable losses and delay in agricultural operations.

Machines are often not used to the fullest extent. For example, tractors after ploughing often remain more or less idle. On the whole the experience of these farmers with their machines is not very happy. The reasons are the unsuitability of models, non-availability of trained operators, difficulties and delay in repairs, high cost, etc. Most of them are not maintained properly and will not last long, and, therefore, will prove rather costly on the whole. But it should not be concluded from this that machines have no, or should have no, place in our agriculture. However, long research regarding their use has to be done; considerable engineering improvements have to be made; and problems of fuel, repairs and of technical labour have to be solved before they can be serviceable even on a large-scale farm. Apart from these considerations the extent of their use in our agriculture has to be further examined in the light of the general problem of providing employment and the organization and the size of the operative unit in agriculture.

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Volume VIII—Nos. 14, 15, 27; 28, 29, 31; 32 and 33.



Federation Meeting

The Federation of Electricity Undertakings of India

Speech of the President Mr K G Milne

THE following is the full text of the speech of Mr K G Milne, President of the Federation of Electricity Undertakings of India at its Twelfth Ordinary General Meeting held on December 12, 1956:—

Gentlemen,

The thought upper-most in all our minds today is the progress which is being made in Parliament at this time with amendments to the Electricity (Supply) Act, 1948. Now at last the fruit which has been growing for the last six years upon the legislative tree appears ready to be picked. We have tended it through all this time with anxious care. Many journeys have been undertaken and many have been the letters and discussions between us and Government representatives as to what should be done for the best. Investors too will be eagerly watching to see whether, in the midst of their sore preoccupation with new and crushing loads of general taxation, they may yet once again find some solace here with us.

Investors' Apprehensions

By and large investors have not much liked the look of us during the last few years and have progressively been diverting their attention in other directions. Investors were worried lest Government might finally decide towards the general nationalisation of the Electric Supply Industry, or that they might re-enact terms of compensation upon acquisition which might be of a confiscatory nature. They have been worried too that the maximum rate of return allowed to our Industry was incommensurate with the risks involved and the opportunities afforded for investment in other counters. There had furthermore been signs of undue interference by State Governments and by Electricity Boards, with the day to day working of Undertakings, and in particular with their rate making policies.

What therefore can I tell you, and investors, about the ripe legislative fruit which is about to be picked? Is it fair and luscious and such that investors may be encouraged to come forward once again to enable our Industry to maintain its rightful place at the base of all advancement of the living standards of the people? Or is it corrupt and maggoty and an object of despair?

The New Formula

From all I am able to gather—and a great deal has actually been happening during the last week—I am glad to be able to tell you that I believe the Electricity (Supply) Amendment Bill, 1956, as it emerges from Parliament in the next few days is likely to meet most of the points which our Federation had desired. It is true that the new Standard Rate of permissible return which is proposed to be granted cannot be regarded as a matter of any great excitement. On the other hand a return, after allowing for taxation, of 5-1|2 per cent upon the Capital Base of an Electric Supply Undertaking is not in my opinion a return which should be lightly regarded, or cast aside as completely unworthy.

While it will be for the various undertakings within our membership to apply the new formula to their own financial structures in each case, I am under the impression that even allowing for the fact that certain previously available advantages under the law are being withdrawn, the final return to investors is likely to be somewhat improved under the new dispensation.

Link With Bank Rate

Besides the return to the Electric Supply Industry will now be linked with the Reserve Bank Rate. True this is not a very scientific basis for calculating the return upon an industrial investment, but at least I for one do not at present foresee any great likelihood of the Reserve Bank Rate being reduced, and even if it were so, the reduction must then affect the value of all other investments equally. Contrariwise, it is not every Industry which will be in a position, should the Bank Rate be raised, to follow it upwards with an enlarged return as will be the case with the Electric Supply Industry in the future. This is an element of the new situation which investors would I think do well to consider carefully.

The Amended Act will, as I understand it, provide also for our Industry to retain the tax savings resulting from the Development Rebate given by the Taxation Authorities as a concession to assist Companies to expand their business. Previously in the case of this Industry these tax savings were misaccruing to consumers. This new provision will not enable Electricity concerns to earn any more upon their investors' money, apart from 1|2 of one per cent as a sort of handling fee on the amount of the resulting Development Reserve, nor will the Development Reserve itself be permitted to add to the ultimate property of the investor. Nevertheless it should help the Industry in some measure in its task of raising the additional Rs 70 or 80 crores which it will require to complete its programme during the Second Five-Year Plan.

Deferred Taxation Reserve

Here I must mention a maggot which I understand has just fallen out of our allegoric fruit, but which unfortunately will take with it a part of the fruit itself. I refer in fact to a permission to create a Deferred Taxation reserve. I am not going into all the details here as to why a Deferred Taxation reserve was necessary in the case of our Industry; I have been into it in almost every speech I have made bearing upon this Industry's affairs for years. The point I am going to make here is that the Government were finally favourably disposed towards allowing the Industry to do something about bringing this Reserve into being, but as the proposed permissive clause emerged from Select Committee it was in a form which could have done tremendous harm to units of our Industry. It was pointed out to Government that in our opinion the clause needed considerable redrafting to attain the precise objects in view. Since however time did not permit a full and proper consideration of the various points involved before the Lok Sabha came to vote on the Bill, it has been proposed to drop the clause. This how-

ever does not mean to say that the Government will not be prepared ever to reopen the question. Indeed I am advised that Government will be only too willing to make sure that justice is ultimately done in this matter.

Harmonius Co-existence

In the context of investors' fears about general nationalisation of this Industry or confiscatory terms of acquisition, it appears evident to me that the Central Government has now no such intentions. The whole scheme of the Electricity (Supply) Act is directed towards harmonious co-existence of Electric Supply Undertakings owned by the State and operated by Electricity Boards on the one hand, and Electric Supply Undertakings owned and operated by constituents of this Federation on the other. Indeed the reports are that the Central Government has been much distressed at the attitude of certain States of the Union who are unwilling to set up Electricity Boards to co-ordinate electrical development in their areas and who have spoken instead of local measures of nationalisation.

It is, I firmly believe, the policy of the Centre to discourage such tendencies and to insist, with the fullest support of all constituents of this Federation, upon the desirability of setting up State Electricity Boards in all the States of the Union so as fully to implement the policy for which the Electricity (Supply) Act was enacted. This policy is declared to be rationalisation, and certainly did not and does not include nationalisation.

The Central Government has made no attempt, nor do I believe it intends to make any attempt, to alter the general terms for acquisition of Electricity Supply Undertakings, which remain as they were set out in the Electricity Act 1910; namely fair market value of assets at the time of expiration of the relevant Licenses.

A matter of particular alarm to investors during the last year was an attempt made by some State Governments to declare that dividends should be limited to 3 per cent in certain circumstances, except with the State's sanction. I am glad to be able to say that the new amendments are taking care of this, and should make it quite clear, in case there was ever any real doubt that State Governments have no powers to interfere with dividends.

Rating Committees

I will only touch on one other amendment, also of major importance. This will ensure that State Governments, or Electricity Boards as the case may be, will in future have no powers to impose Rating Committees on Electricity Undertakings unless there has first been established a breach of the Electricity (Supply) Act regulations in regard to their financial obligations. Furthermore, if there is any dispute about whether or not there has been such a breach it must be referred to arbitration of the Authority before any Rating Committee can function. This amendment will do away with one of the greatest obstructions to financial viability in the case of Electrical Undertakings whose position required increases in rates. Now such Undertakings are to be enabled to increase their rates in accordance with law and without any improper interference. Of course, if it is afterwards shown that they acted incorrectly, restitution will naturally have to be made to consumers, but that is very unlikely to happen.

Taken all in all I, therefore, think we may say that we are pleased with the outcome of our six years' effort; hard and worrying as this has been. We will, of course, not relinquish our endeavours to obtain a finally fair settlement in regard to the major outstanding point of Deferred Taxation, but meantime I am hopeful that the principal law governing the well-being of the Electric Supply Industry may be said to have been cleared of its major obstacles.

Of course only the investors themselves can tell us, and the Government of India, whether the return which the amended law is now proposing to give will be sufficient to attract their money. If it is not, then it will inevitably mean that the Government of India must think again; for our Industry can under no circumstances be allowed to stagnate if the country is to continue to go forward.

Demand for Electricity

I fear that a great deal too much emphasis is being placed upon taxation for the sake of financing the Public Sector. Probably few will be prepared to accept what I say. We are accustomed now to being unheard in such matters. I will only suggest with the remote hope that there may be those who are willing to agree, that we would do well to watch with great heed the rate of growth of demand for electricity in the country. This figure of demand for Electricity is the index of progress here as elsewhere.

It costs on the average between Rs 4,000 and Rs 10,000 invested in other plant and productive machinery to make use of 1 Kilowatt (just over 1 Horse Power) of electrical power. If all the people who have been planning to use their money in development are still able to do so then the demand for electricity will continue to grow. But if this money is diverted into the pockets of the State to too great an extent, the rising curve for demand for electricity must begin to fall. I pray that the country's plans may be so laid as to avoid so fateful a reversal of trend, and its dismal implications for the future of the people.

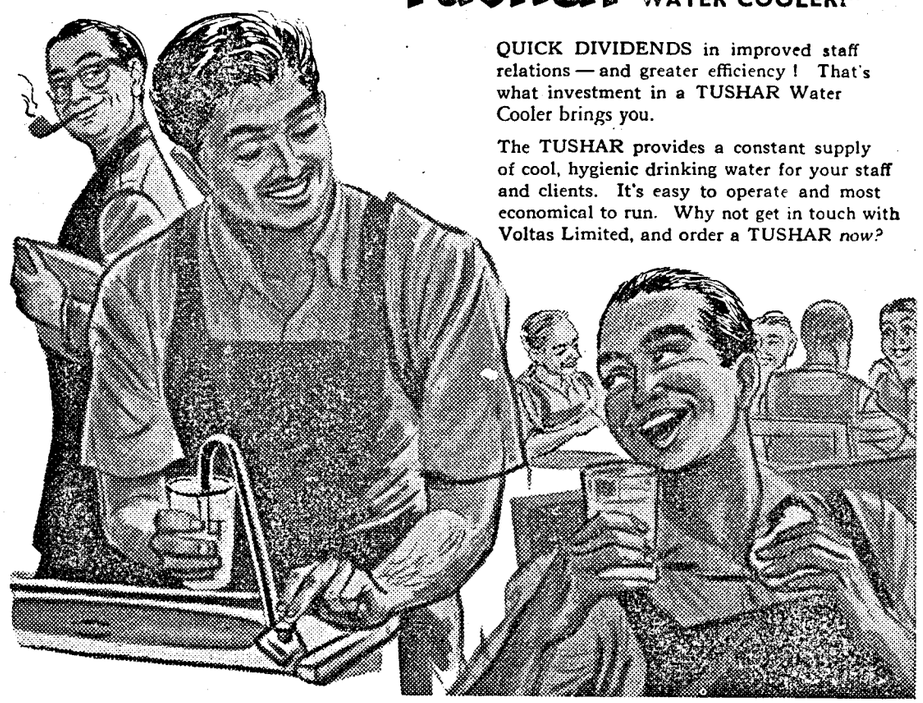
Between God and Mamon

Before I conclude I must refer briefly to a few other matters of individual moment. The Bombay High Court has ruled, in suits before it during the year, that the levy of "additional income tax" on dividends was ultra vires, and the cases have been appealed to the Supreme Court. Meantime there has not been any further progress in determining the legality of denial of dividend gross-up for tax relief purposes where a company has no income tax profit; and thus there continues this satanic reward to those who have done their duty to their countrymen by expanding fastest! To these problems, both stemming from the different depreciation allowances of the Electricity (Supply) Act and of the Income Tax Act, there may now be added another in the latest requirement that the tax allowances be deposited with Government before they can be used for capital purposes. Constituents of the Federation not being allowed by the Act even to earn all the tax allowances they do get as soon as they are earned, are thus in danger of again being caught, as it were between God and Mamon. Which Act one may associate with God and which with Mamon in this context may perhaps best be left to the imagination! The Federation has of course strongly represented the special position of this Industry to the Finance Ministry, and hopes for responsive action.

This Industry is dependent upon a large volume of consumer goodwill; perhaps more than any other industry, and towards this end the Federation has given great attention and will continue to do so. Apart from our Industry's own problems such as regulation and control we must, for the good of the country, make it electricity conscious and so that the benefits of this civilizing influence will enlarge as years go by.

Note: This does not purport to be a record of the proceedings of the Annual General Meeting which will be sent separately to Members.

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A Study of Street Beggars

THIS is perhaps the first systematic socio-economic survey* of a neglected stratum of Indian society. The Director of the Survey, Professor Iyengar, says in the introduction that "recently, such surveys were conducted in Madras, Bombay, and Delhi. In spite of repeated requests, literature and data with regard to these surveys could not be had". Considering these initial handicaps, the 'ubiquitous paucity of funds' — notwithstanding the generous donation of H E H The Nizam's Charitable Trust — and the intrinsic difficulties of applying recognised investigational techniques to such intractable material, the present survey must be given due credit as a commendable attempt. It covers such diverse aspects of the beggar problem as the causes and techniques of begging, health conditions, economic status, social life, and immigration. By far the most interesting feature of the survey is the series of case studies of beggars, which give flesh and blood as it were to the bare bones of the statistical sections. These studies, which account for 21 out of the 2419 samples examined in the course of the survey, "go some way in throwing light on certain aspects of street beggar life, which could not possibly be treated adequately in the Report proper".

According to the Report, the number of street beggars in the Hyderabad-Secunderabad City Area is roughly estimated at about 5,000. The survey covered 2,419 street samples out of whom 1,259 were males and 1,160 females. The response of the beggars was generally satisfactory and only 48 refused to answer questions absolutely while 37 refused to undergo medical examination out of fear. The technique of investigation had of course to be adopted to the convenience of street beggars. The socio-economic and health investigations were conducted concurrently and the "beggars were offered some jowar or some cash as a compensation for loss in alms during detention for examination"! The timing of the enquiries was also suitably regulated with a view to maximum response and coverage; for instance, mid-day in market centres and mornings and evenings in durgahs and temples. The enquiry was conducted at 51 centres — an average of 40.1 cases per centre — with no judicial powers or police assistance.

The main findings of the survey are interesting. In regard to the communal distribution of beggars — though communal feelings were conspicuously absent among beggars as well as donors — it was found that Muslims were predominant, accounting for 1,048 out of the 2,419 samples. This is ascribed to the economic dislocation following the Police Action, the abolition of jagirs, the disbandment of the regular and irregular armed forces, and also to the fact that Muslim charities are relatively liberal. Among scheduled castes, hereditary beggars were prominent.

The principal factors in beggary were mental and physical infirmity (644), old age (509), heredity (508), inadequate income of family (350) and unemployment (138). Immigrant beggars (903) mostly came from within the Hyderabad State. Immigration was mostly due to the vexations of village money lenders and the prospects of better alms and medical treatment in the city.

The Report also makes several suggestions towards solving, or at least mitigating, the beggar problem e g through establishment of relief and corrective institutions to be financed partly by a graduated Poor Tax at 2½ — 10 per cent on property and professions by local authorities. The Report poses the question whether street beggars should not be "provided, at the minimum, the standard of life of convicted and sentenced prisoners"?

The Report is written in a lively style and with a shrewd eye on the paradoxes of contemporary social life. There are a number of photographs with arresting captions. Among the memorable case studies are those of "Mahbub Ali" whose opening gambit "I have seen you at Sir Akbar Hydari's house" takes in many a unsuspecting motorist at the petrol pump, and the Arab pensioner who downs his entire monthly pension of Rs 15 in a single day's ganja session!

*Report on a Socio-Economic and Health Survey of Street Beggars in Hyderabad — Secunderabad City Area. Issued by S Kesava Iyengar. The Indian Institute of Economics, Hyderabad (Deccan) Pp 172. Price Rs 6.

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Around Calcutta Markets

Irregularly Lower Trend

Wednesday, Evening

RECOVERY in equities after the slump, as a sequel to the recent tax proposals, was symbolic of the resilience of stock markets. That recovery has not been maintained. This aspect is discussed later. But it is necessary to appreciate the reasons for the earlier recovery to gauge the immediate market trend. There is nothing much in the argument that many companies will pay the increased taxes rather than lower dividend payments. This is not the main reason behind the recovery after the slump, although some speculators may have exploited some such argument.

Technical factors helped the recovery. There has been some covering by "shorts". This raises a question which has yet to be widely realised. Increased super-tax on dividends, tax on capital gains and compulsory deposit of industrial funds are the three main proposals. Industry is mainly concerned with the first and third measures, though the capital gains tax will also affect it. Speculators are mainly concerned with the capital gains tax, while rentiers are worried about the higher dividend taxes.

Marketability

Of all these measures, the capital gains tax has been widely conceded in principle. Speculators are worried, but not unduly, about it. If equities fall further, it will be because investors will not lend support to stock markets except at lower levels. Professional operators are not unaware of this. That equities may settle down at lower levels, does not necessarily mean that stock markets will be stagnant at a fixed, lower level.

Whether or not stock markets have any function, is a question which is not under reference here. But even those who question the utility of stock markets will concede that stock exchanges do facilitate marketability of stocks and shares. Price fluctuations are incidental consequences of this essential attribute of stock markets. This elementary fact is known to speculators. Equities may touch lower levels. But the new taxes do not preclude fluctuations in equities at lower levels.

Futures Markets

Fortunes are made not only in futures markets. During wars, or in periods of planned development in undeveloped countries, values appreciate. Such increment of values is manifested in various forms. Industry, property-owners, traders— all are likely to gain as the economy expands under the impetus of the Plan. But to the layman, the capital gains tax is associated with appreciation in values in futures markets, and taxation of such capital gains. Be that as it may, this does not necessarily involve fixed, lower levels for equities.

This is where the professional operator enters the picture. He knows that he will have to pay more on his capital gains. This is an impediment, but not an absolute deterrent to appreciation in equity values. It was on some such reasoning that equities made an attempt to move up after the initial slump due to tax-selling. Ups and downs in equities will continue. So will speculative activity. In the process, capital gains will accrue, which will be taxed. That is all that the capital gains tax means so far as futures markets are concerned.

Two Bear Factors

Two factors were responsible for the resumed downward trend in equities. From the Bill introduced in the Lok Sabha, it is evident that the Government is determined to streamline the working of banks. This Bill has been widely interpreted as a prelude to nationalisation of banks. This is a hasty assumption. It is, on the contrary, a move to regularise the working of banks so that circumstances do not arise, as in life insurance, which may necessitate nationalisation.

Those who are familiar with the working of stock markets will not be surprised at Wednesday's behaviour of equities. Stock markets resumed the downward trend as it became known that the Government had appointed a committee to investigate the affairs of a group of companies. That New Delhi is determined to force the private sector to behave, is evident. But there is nothing to suggest that the decision to institute investigation of a group of companies is aimed at the private sector as such.

Income-tax

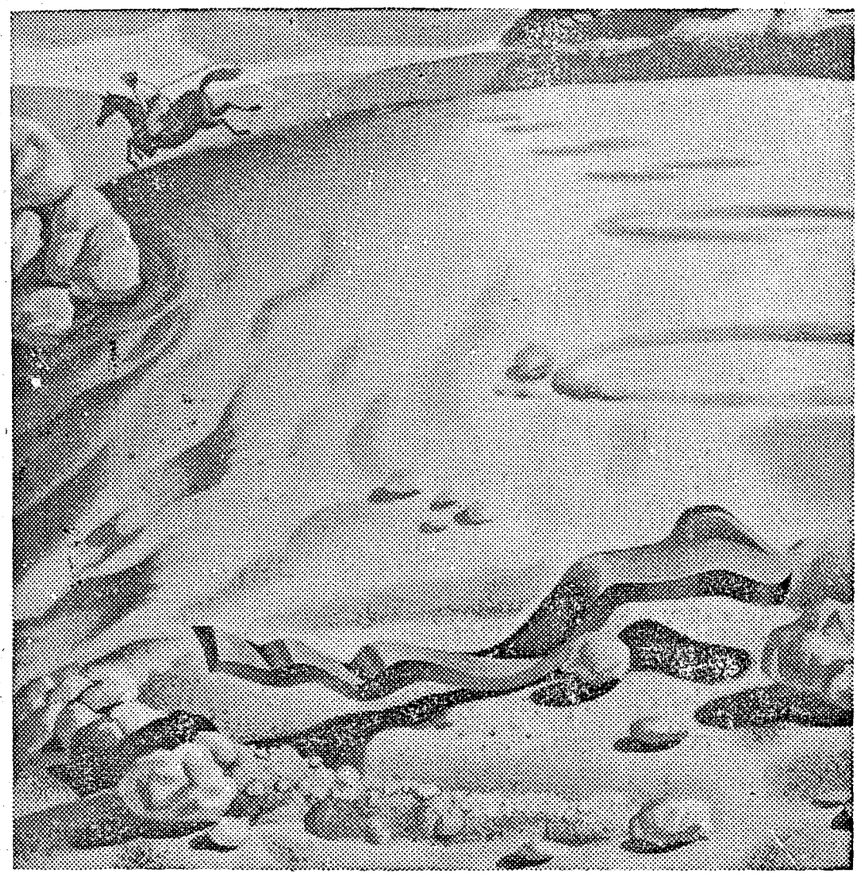
When stock markets recover from the shocks dealt by the capital gains tax and the higher super-tax on dividends, the shape of things to come will become clearer. Though TTK was discreet in his silence about the main point raised by the President of the Associated Chambers, there are many who are inclined to the view that New Delhi is a convert to the suggestion made by Mr Jenkins. This will follow as a corollary to the Kaldor plan of tax reforms. It involves a scaling-down of the rate for personal income-tax. By May next, when the budget is presented, the standard rate of personal income-tax may be lowered.

After some time, as this realisation grows, the stock market sentiment is likely to improve. A lower rate for personal income-tax, or a reduction in direct taxation of incomes beyond a limit, is likely to have some beneficial effect on equities, as rentiers will have to pay less on dividends even though such incomes will continue to be taxed at the maximum rate. Lower personal income-taxes will have some inducement to save, and should augment individual savings. In the long run, industry will benefit.

Irregular

An irregularly lower trend in speculative scrips, since the introduction of the Bill aimed at greater control of banks, is only to be expected. This Bill has also had indirect effects on the shares of those companies which are known or supposed to rely heavily on bank finance. It has also affected speculative activity in stock markets. There is some reason to believe that the discouraging behaviour of some groups of engineering shares is indirectly due to this Banking Bill.

Improvement in Tea shares has proved short-lived, though weekly auction prices continue to be satisfactory. There was a sudden revival of enquiries for Jute shares on dividend considerations, but the demand petered out as suddenly as it emerged. Activity in stock markets remains poor.



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Around Bombay Markets

All Eyes on Bonus Issue

Thursday, Morning

IT is true that some relaxations have been made in the supplementary budget. But these are for middle income groups and failed to enthuse Dalal Street. Actually, the market refused to be coaxed into a steady trend and continued to show signs of nervous liquidation all round. However, as the tax on bonus shares has not been raised with the dividend tax, a spate of bonus issues is expected in the coming weeks and Century has led by announcing 1½ shares for every share held. There is a widespread feeling in market circles that all companies will explore the possibilities of capitalising their reserves and issue bonus shares to effect a reduction in the incidence of the dividend tax in the long run.

To the general bearish trend, the demand for higher wages approved at the Labour Conference in Ahmedabad contributed not a little. The Minister for Labour and the Minister for Planning have given their support to INTUC's demand for higher wages in the seven major industries. To this Shri Homi Modi, President of the Employers' Federation of India, has taken strong exception, as the Ministers' reported support to the wage demand is "bound to create a legitimate apprehension in the minds of industrialists that the scales are weighed against them".

An exception to the general trend was Shivrajpur, which maintained a very firm tone following keen influential support towards the end of the week. The inspiration for it was provided by the possibility of a bonus issue by the Company in view of the very high dividend the Company is paying on its paid-up capital.

The new issue of Hindustan Lever received very encouraging response from investors, the issue being over-subscribed on the very first day of the opening. Subscription is said to have exceeded seven times the amount called for. The question of allotment of shares will now be taken on hand in joint consultation with the authorities of the Bombay Stock Exchange since the shares are to be quoted on the exchange. It is understood that the management of the company will favour allotment in lots of twenty five shares. The shares are currently quoting around Rs 19-8.

Cotton

No Imports of US Cotton Yet

THE visit of the Chinese Premier to Bombay has given rise to rumours that the Government of India may grant a further export quota to enable raw cotton exports to China. Like Oliver Twist, the market keeps on asking for more! Sentiment throughout the week was mainly influenced by these reports.

Meanwhile, a mild sensation has been provided by the success of the experiment conducted in South Malabar for the cultivation of "Andrews" cotton, a type of Sea Island cotton, the monopoly of the production of which is held by West Indies. The significance of this successful experiment cannot be overemphasised.

Sea Island cotton is spinnable upto 150s counts and is a well-known specie of extra long staple cotton. It was reported that "Andrews" gave a per-acre yield of 1,614 lbs of 'kapas' at Pattambi in South Malabar and had been adjudged suitable for spinning 70s count in small scale spinning trials. The cultivation of this variety may bring the grower a net profit of about Rs 500 per acre, it is further stated as compared to hardly Rs 100 from other varieties. Needless to say this experiment will surely lead to more intensive investigation and a wider area will be put under this cotton so that in due course India may become self-sufficient in extra long staple cotton. The scheme gains added significance in view of the difficulty of obtaining Egyptian cotton since the blockade of Suez.

Some concern is expressed in importing circles here because no licence has been issued so far for the import of U S cotton, applications for which were submitted over a fortnight ago. It took quite some time for the procedural details to be finalised after the trade agreement had been signed between India and U S A. Even after the publication of these details, it has not been possible for the authorities to issue licences. Importers and mills have protested against this abnormal delay and have drawn the attention of the Government to the freight increase which is to become effective from January 15, 1957. If licences are issued sufficiently early, they mey yet be able to take advantage of the prevailing lower freight rates as also of the relatively lower price level in America.

Oilseeds

Brazil Oil Dampens Prices

WHILE castor futures tended to rule lower from the high level of prices during the last two weeks and more, groundnuts were distinctly firm. Sentiment in castor was adversely affected by liquidation on fairly large scale. Enquiries continued to flow from America and the U K but at lower prices. It was reported that Brazil was offering castor oil to America and hence American quotations tended to be lower.

There was sustained demand for groundnut from millers and crushers on hopes of an early announcement of an export quota for groundnut oil which influenced sentiment in both ready and futures.

Groundnut February which opened at Rs 144-4 gradually improved and shot up towards the end of the week on Calcutta support to a new peak level of Rs 153-8.

Linseed and cottonseed tended to be steady. There was speculative support early in the week in both linseed and cottonseed.

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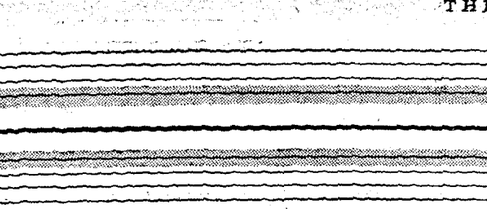
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CURRENT STATISTICS

BANKING RETURNS

Rs Crores

Reserve Bank	Latest Week†	Week Ago	Month Ago	Year Ago
1. Note circulation	1464.08	1438.54	1452.96	1360.86
2. Rupee Coin	123.38	125.27	119.94	108.14
3. *Deposits*				
a) Central Government's	52.36	49.99	63.00	54.18
b) Banks'	51.46	51.07	52.47	57.93
c) Other Governments'	14.04	15.94	20.06	5.99
d) Others'	14.17	13.37	13.21	15.67
4. Foreign Securities	447.30	457.24	462.21	647.06
5. Balances held abroad	91.01	79.29	98.17	69.55
6. Rupee Securities	785.35	765.47	760.50	563.51
7. Investments	60.19	59.61	74.29	50.52
8. Loans and advances to Governments	5.20	2.96	0.54	3.79
Scheduled Banks				
1. Demand liabilities (net)	659.22	634.69	625.87	604.23
2. Time Liabilities	458.91	458.52	456.34	423.33
3. Cash on hand	35.89	35.89	38.09	34.11
4. Borrowings from Reserve Bank	54.67	57.41	68.84	10.62
of which against Usance Bills	43.34	43.34	43.43	6.70
5. Advances and Bills discounted	713.50	710.86	716.26	554.47
of which State Bank's	129.11	127.43	130.72	95.11
6. Invst. in Govt. Sec.	365.46	365.50	367.32	394.45
of which State Bank's	106.60	106.62	107.10	119.17
Cheque Clearance	161.97	152.34	141.43	146.52

†*For Reserve Bank and Cheque* Clearance week ended 7-12-56. Scheduled Banks week ended 30-11-56.

Bombay Money Rates	7-12-56	30-11-56	9-11-56	9-12-55.
Inter-Bank Call Rate	3½	3½	3½	2⅞
3 months deposits	3¼	3¼	3½	3
6 months deposits	3¼	3¼	3½	3

Bombay Bullion — In Rupees and Annas

	13-12-56	Week Ago	Month Ago	Year Ago
Gold (per fine tola)				
Spot	105-4¼	105-7	105-4	94-15
Forward	105-2	105-8	105-2½	95-5
Silver (per 100 tolas)				
Spot	173-7	174-1	173-5	173-0
Forward	173-7	174-10	174-0	173-9

JUTE STATISTICS

(1956-57)

	Oct.	Sept.	Aug.	July '56 to Oct. '56
Production ('000 tons)				
Hessian	34.7	35.5	35.4	139.9
Sacking	40.5	43.8	43.2	185.4
Others	5.2	5.2	6.0	23.3
TOTAL	80.4	84.5	89.6	348.6
Total production in the Corresponding months of:				
1955-56	78.8	87.4	81.4	331.7
1954-55	75.1	79.0	78.2	313.0
Stocks at the end of the month ('000 tons)				
Hessian	30.9	29.4	28.2	—
Sacking	77.2	88.6	88.6	—
Others	8.6	7.2	6.7	—
TOTAL	116.7	125.2	123.5	—
Total Stocks at the end of the Corresponding months of:				
1955-56	62.3	69.7	79.2	—
1954-55	69.4	67.9	70.7	—
Despatches:† ('000 tons)				
Hessian	34.0	34.4	45.9	147.6
Sacking	51.5	43.3	54.0	193.4
Others	3.0	4.2	5.7	19.2
TOTAL	88.5	81.9	105.6	360.2
Total despatches in the Corresponding months of:				
1955-56	86.8	95.8	82.7	357.0
1954-55	72.7	80.7	88.7	329.0
Raw jute consumption: (lakh bales of 400 lbs each)				
1956-57	4.89	4.93	5.06	19.87
1955-56	4.61	5.12	4.62	18.99
IJMA Mills' purchases of raw jute ('000 bales)				
Pakistani	38	48	88	2,12
In corresponding periods of:				
1955-56	5,58	1,10	1,69	10,17
1954-55	1,02	80	1,17	3,84
Indian	5,09	5,03	4,93	18,46
In corresponding periods of:				
1955-56	5,58	4,06	2,65	15,13
1954-55	4,72	3,74	3,61	14,99

† Despatches include exports and sales for internal consumption

Source : Indian Jute Mills Association

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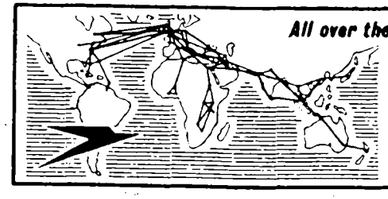
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Washington and The Neutrals

IT would be optimistic to expect any basic change in either American or Indian foreign policy as a result of talks between Pandit Nehru and President Eisenhower. But it would be reasonable to hope for a greater understanding between the two countries as a sequel to discussions between the two statesmen. Such an understanding will have to be based on the changing world set-up since the Geneva Summit Conference. Washington's reported invitation to President Tito emphasizes President Eisenhower's awareness of the developing international situation. It is a welcome sign of the times that neutralism is no longer suspect in Washington. This is evident from the Indian Prime Minister's visit to America and the anticipated invitation to President Tito for talks with President Eisenhower on world affairs.

President Tito and Prime Minister Nehru not only embody the essence of neutralism. They are undisputed leaders in two key positions in the world. In the fight for an even world balance of power, Asia and Eastern Europe occupy crucial positions. It is, therefore inevitable that both Washington and Moscow will be anxious to cultivate friendship of these two key statesmen. Both sides of the "cold war" have reached an understanding not to start an atomic war. But the struggle for world domination has not ceased. Hungary and the Anglo-French aggression in Egypt have created additional complications. America's NATO allies are hoping that President Eisenhower will succeed in convincing both the Indian Prime Minister and the Yugoslav President of the need for as critical an approach to Russia as to West. In any such attempt, President Eisenhower will be preaching to converts. Equi-distantialism is implicit in neutralism.

There are other equally urgent world issues which demand greater understanding and collaboration among Washington, Belgrade and New Delhi. Even without recent developments in Hungary and Egypt, such tripartite co-operation could be of help in easing the prevailing world tension. Trouble has been simmering in west Asia for more than a year. Cairo's decision to nationalise the Suez Canal Company and the consequent Anglo-French aggression in Egypt have intensified the tension in west Asia. Far east Asia continues to be a potential threat to world peace. Developments in Hungary have focused the world's attention to Eastern Europe. For a solution of issues in both Europe and Asia, it is necessary to ensure greater understanding between America, India and Yugoslavia. India can function as a bridge between west Asia's aggressive nationalism and West, as well as between Communist China and West. Yugoslavia is in a position to maintain the balance in Eastern Europe. Together, President Tito and Prime Minister Nehru can suitably co-operate with President Eisenhower to ease the tension between East and West.

For a proper appreciation of the need for collaboration among America and neutral nations like India and Yugoslavia, it is necessary to assess certain recent developments. There have been attempts by Britain and France to justify their aggression in Egypt on the ground of progressive Russian encroachment in west Asia. Such explanations have not convinced the world, though some Western Powers, including America, have expressed fears about the extension of the Russian sphere

of influence in the whole of Asia. Pandit Nehru has expressed his opinion that such apprehensions are exaggerated. Both the Indian Prime Minister and President Tito are known to have exercised a restraining influence on President Nasser. Cairo will certainly reject *the 18-nation plan for the future* control of the Suez Canal. But, there are indications that, at the instance of India, Yugoslavia and the Soviet Union, Egypt will accept a reasonable arrangement for co-operation with a representative users' association for the operation of the Canal.

On the Canal issue, there is not likely to be any fundamental *disagreement between India and* America. There is another recent world development which is a matter for concern to both countries. Britain and France resent America's policy to the Canal and to west Asia as an affront to the Atlantic Alliance. Recent shifts in America's foreign policy is being exploited by some of her Western allies for consolidating unity in Western Europe. This raises *the controversial* theory about a tacit agreement between America and the Soviet Union to withdraw from Europe in order to *concentrate* their energies on Asia. As Europe is receding into the background, Afro-Asia is emerging as a major world factor. Western Europe, including Britain, is as much suspicious of the growing influence of Afro-Asia as of the two major world powers, America and the Soviet Union. To counteract both these growing world factors, there is a *move towards closer* political and economic alliance between Britain and the European members of NATO. Such a politically and economically united Western Europe is to be encouraged as a bargaining force against both the giants, as well as to perpetuate its sphere of influence in Asia and Africa. To consolidate Western Europe and the *Atlantic Alliance*, new supra-national political assemblies and institutions have been proposed. For the economic benefit of such a homogeneous western Europe, colonial areas in Africa are to be expoited through a development fund to be created by the powers concerned.

Under the joint Anglo-French leadership, the proposed consolidation of Western Europe will serve two purposes. It will be used as a counter-balancing force against both America and the Soviet Union, as well as a sop to America to lend support to it in her policy of containing Communism. There are many aspects to this proposal for a united Western Europe. But India and other Afro-Asian countries will be intrigued over the plan for joint economic exploitation of the remaining colonial areas by Western European powers. It is to the ultimate interest of Afro-Asia, including India, that Pandit Nehru will discuss with President Eisenhower all the aspects of this new shift in the policy of Western European powers. Even as New Delhi's friendly relations with Cairo and Moscow enable India to function as a bridge between East and West, her link with the Commonwealth and amicable relations with France provide her the opportunity to discuss the new political trends in Western Europe with its two leading powers. Developments since the Geneva Summit Conference underline the simultaneous need for fortifying the United Nations and for greater understanding and co-operation between India and America.

Greetings

We wish all our readers and patrons a Happy Christmas and a Bright and Prosperous New Year.

This is the last Number of the current year. There will be no issue of The Economic Weekly on December 29 on account of Christmas Holidays.

The next issue Volume IX No 1 will be out on January 5, 1957.

Jute—Prince of Pakistan or Quisling?

SINCE Partition the East Pakistan Government has staged a succession of moves either to prevent a leakage of foreign exchange from the export of raw jute or to provide its growers with a better return for their labours than they were getting. Of course, even that Government would admit that solicitude for the grower was but sproadic, not sustained. One of the important forces with which the Government had to contend was to prevent smuggling across the East—West Bengal frontier. This was no easy work, particularly when many of its own nationals co-operated in this black trade, without which, of course, the trade would have withered away. Other measures taken to improve the jute economy and/or to improve the State finances were the institution of minimum export prices and the levy of export duties. Without an adequate trained personnel, to enforce minimum prices proved a tricky task when Government had to contend against interests in the trade with hoary connections with this commodity.

As a technical factor aimed at giving the East Pakistan Government greater control over the raw jute trade, the export of kutcha bales was banned some time ago. These were largely exported to India, and this ban has helped in no small way in enforcing price and quality controls. It is through such measures that the ubiquitous Jute Board has been attempting to gain control over the raw jute trade simultaneously with providing the basis for a quick development of the manufacturing industry. The total ban of all export from India to South Africa provided Pakistan with a *tailor-made market* there for her gunnies; foreign competition in South Africa was non-existent, except for the small quantities of Indian goods which found their way there through a circuitous route, evading the law at numerous points.

In any case, however, the development of the mill industry in East Pakistan is inexorable. The golden fibre is at its door-step, and through export duties and minimum price regulations Government has further widened the gap between the price that the Pakistan mill has to pay for its raw jute and the price that mills elsewhere must pay beyond the usual cost of transport, etc. Despite high initial capital expenditure and the handicaps like shortage of power and trained labour, the competitive position of Pakistan jute goods is very strong. Add to these advantages a fully protected and expanding internal market.

But something must have gone wrong somewhere. East Pakistan has now announced its decision to set up a Jute Marketing Corporation, with an authorised capital of Rs. 8 crores, to carry out controlled marketing operations from the beginning of the next jute season, that is, July, 1957. According to the Chief Minister, this Corporation will bring into existence a Government sponsored trading agency free from the cumbersome Government procedures and in a position to function in a real business-like manner. This, he hopes, would ensure a fair price to the jute growers and bring stability in the jute market. We may mention in passing that in recent times the Pakistan grower has indeed been faring very well. With growing internal and foreign demand, and fluctuations in Indian policy with regard to the operating capacity of our mills, in the interior markets of Pakistan raw jute has averaged Rs. 26 a maund in this season. This is, by all known standards, way above what it costs the grower to put a maund of jute on the market. However, Government may just be providing against a recurrence of the post-Korean slump.

To come back to the Corporation, of its authorised capital of Rs 8 crores, only one-half is proposed to be issued. Government will contribute Rs. 2 crores of this, and the balance of Rs. 2 crores will be raised from the public in shares of Rs 10 each. Perhaps to prevent a concentration of holdings, public subscriptions will be limited to a maximum of Rs. 500 for individuals, and Rs. 1,000 for organisations and firms. Rs. 2 crores is a large sum to be raised in such driblets, particularly when it has been announced that the Corporation will not be a profit-making concern whatever that might mean.

How far it will influence the jute economy is still rather vague. The smallness of the capital in relation to the size of the East Pakistan jute crop—roughly valued at Rs 60 to 70 crores at the village level—may not be a serious limiting factor. The Corporation would not at any one time hold more than a fraction of the crop, and, with Government as a shareholder, the State Bank of Pakistan or commercial banks may supplement its resources. Also it is wise to go slow and feel one's way before enlarging commitments.

The Corporation is to set up 20 large buying centres in the Province to buy jute direct from the growers, and is to have the monopoly of buying within 5 miles of the border of the Province. (Full reports are not available, but a figure of 200 centres is also mentioned in some despatches). The transactions of the Corporation will be on the basis of minimum prices to be determined by Government for the season in relation to the export minimum prices which Karachi will fix in consultation with Dacca. This, of course, is alright. But what happens when such minimum prices need to be reduced? Will this Corporation oust from the field the private agencies to whom the growers today sell their crop, very often against a prior loan which virtually mortgages the crop to such agencies? If Indian experience is any guide, marketing and credit must go hand in hand for either to succeed. As for godowns to store what the Corporation will buy, Government will presumably requisition them, including bailing presses, if need be.

But the big question mark is with regard to exports. In recent years East Pakistan has exported some 5.6 mn. bales annually, one-quarter going to India. Is the Corporation to have a monopoly of such exports? Not that such a step is strictly necessary, but the course of events, and the need to avoid losses due to changes in the minimum prices may drive the Government to it. In that case the major consumers of Pakistan jute may have to think anew their own purchasing policy vis-a-vis a monopoly seller. These are all vital matters, and one can only hope that in the working of the Corporation, jute will not step down from its princely pedestal to become a quisling.



METAL NEEDS PROTECTION

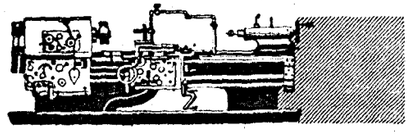


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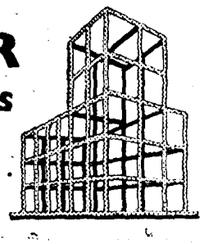




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Weekly Notes

Russian Aid for Steel

Our Delhi Correspondent Writes :

THE Soviet team of experts on heavy industry which recently toured India is understood to have made a recommendation which, if implemented, would make perhaps the most significant contribution towards the industrialisation of the country during the Third Five Year Plan period and thereafter. It has suggested the establishment of a heavy machine building plant to fabricate units for steel production. To be located in Bokaro, the plant will have the capacity for casting, forging and machining 100,000 tons of steel annually—a capacity just sufficient to give the country every year one steel plant with a million ton potential. The project will cost Rs 168 crores and the Russians appear to be willing to finance it. If steel production is the key to industrialisation, the Soviet experts are eager to help us acquire it.

Opinion on the project is however, divided among the Government's top policy-makers. Shri Govind Vallabh Pant, Shri T T Krishnamachari and Shri Morarjee Desai would like to put in a more modest effort. They are understood to be in favour of a plant half the recommended size. Shortage of finance is one reason. The need to minimise strain on limited transport capacity is another. Presumably the feeling that India should not commit herself too heavily with the Soviet Union also hovers in the minds of the "Big Three" of Nehru Cabinet.

Another view however is that India should accept the project report and immediately initiate negotiations to ensure Soviet aid on the required scale. By the end of the Second Plan, it is argued, India would have 5 steel plants. Another steel plant at Bokaro and a seventh steel plant in the south is being contemplated. The replacement needs of all these plants could total up to the equivalent of half a new plant. Thus the project would produce enough equipment for a new steel plant every two years. Considering that China is already geared for producing 12 million tons of steel, India, by implementing this project, would be merely making a modest move towards self-sufficiency. Transport of nearly 200,000 tons of equipment and raw materials to the site of the project in the heart of the steel belt should not present any problem in the context of 180 million tons of goods traffic that the railways would be expected to carry at the end of the Second Plan. Besides the opportunity to take advantage of the Soviet generosity may not recur. Nor will the eventual expansion of a smaller plant to the size contemplated now would be as technically or economically sound and practicable proposition in these days of mounting costs and rapidly changing techniques. A final decision is likely to await the return of the Prime Minister.

How is the Soviet loan of Rs 60 crores likely to be utilised? Details have yet to be worked out. Preliminary plans indicate that the foreign exchange component of the Rs 23 crore fertilizer plant in Trombay will be financed from the Soviet loan. The plant will have an output of 75,000 tons of nitrogen. A new fertilizer plant in Bhilai is contemplated at a cost of Rs 18 crores. The Sindri fertilizer project has an expansion programme costing Rs 10 crores. Besides some of the equipment for the heavy electrical equipment plant in Bhopal might be financed from the Soviet loan. The Bhopal project is being implemented under an agreement with the Associated Electrical Industries. How the British firm will collaborate with the Soviet Union is likely to present an interesting set of problems.

Developing Our Tourist Industry

TOURISM is big business in Switzerland and France. India has yet to develop it and the Union Ministry of Transport is concerned about this matter. The Second Plan has estimated an average annual income of Rs. 11.20 crores for the five years 1956-60, the targets for individual years being: 1956: Rs 8.75 crores, 1957: Rs 10.06 crores, 1958: Rs 11.57 crores, 1959: 13.3 crores and 1960: Rs 15.31 crores. The number of tourists who visit India has increased from 20,000 in 1951 to 43,600 in 1955. In 1955 tourist expenditure was Rs 10.1 crores, as compared with Rs 7.7 crores in 1951. Since the Second Plan had estimated no more than Rs 8.75 crores in 1956, this target was already exceeded in 1955!

The Second Five Year Plan has allotted Rs 4.23 crores for developing tourism, of which 187 lakhs will be spent by the Centre, 151 lakhs by the States and Rs 85 lakhs from central funds which will be made available for promotion of tourism in Jammu and Kashmir.

The schemes include new rest houses and expansion of existing ones, gardens, canteens, pavillions and cloak rooms at sites, development of spas, game sanctuaries, provision of transport, car parks etc. The expenditure earmarked by the Central Government on these schemes total Rs 90 lakhs. Another Rs 40 lakhs will go in publicity—folders, documentary films etc—and about 10 lakhs for Tourist Bureaus. The States will spend their amounts on similar schemes. But here the slant is on home tourism. Special rest houses and restaurants etc will also be run for low income groups.

The Estimates Committee of the Lok Sabha on Tourism, finds this amount liberal, in view of the limited financial resources available for the Second Plan. Regarding the proposal to set up a Corporation to promote and regulate tourism, the Committee agreed on the desirability of such a Corporation when the industry had fully developed, but as it had not yet reached that stage, it has recommended a Board of Managing Directors be set up instead. This Board will consist of four to five members, including representatives of the Department of Archaelogy, and the Ministries of Information and Broadcasting and Transport. At least one of the members should have experience of financial matters. The Chairman should be directly responsible to the Minister for Transport, and should not be subject to the control of the Secretariat of the Minister.

The Report of the Estimates Committee contains the findings of a sample survey of the pattern of tourism in India, conducted by the Tourist Division. It covered 1067 tourists who were interrogated in Delhi. Here are some of the results of the survey:—

i) 53.5 per cent of these tourists were from the U S. Pakistan and UK, technically second and third, contributed only 7.5 per cent and 4.5 per cent respectively to the total.

ii) The average duration of stay of a tourist in India was 28.52 days. Tourists from the U S and Canada stayed for an average of twenty days only.

iii) As many as 82.1 per cent of the tourists arrived by air. Of the rest, 8.7 per cent came by sea and 9.2 per cent by land.

iv) Average daily expenditure of a tourist was Rs 62, of which over one-half, Rs 34, were spent on boarding and lodging. (The Committee remarks, rather curiously, that the latter figure is on the high side).

v) The favourite items of souvenirs purchased were curios, textiles, and various handicrafts, eg ivory goods, and gold and silver ware.

According to the survey hotel accommodation was, generally speaking, satisfactory. Complaints relating to bad food and want of cleanliness were mainly directed against certain hotels in Calcutta, Banares, Agra and the circuit house at Jaipur.

Extension Service in Coal

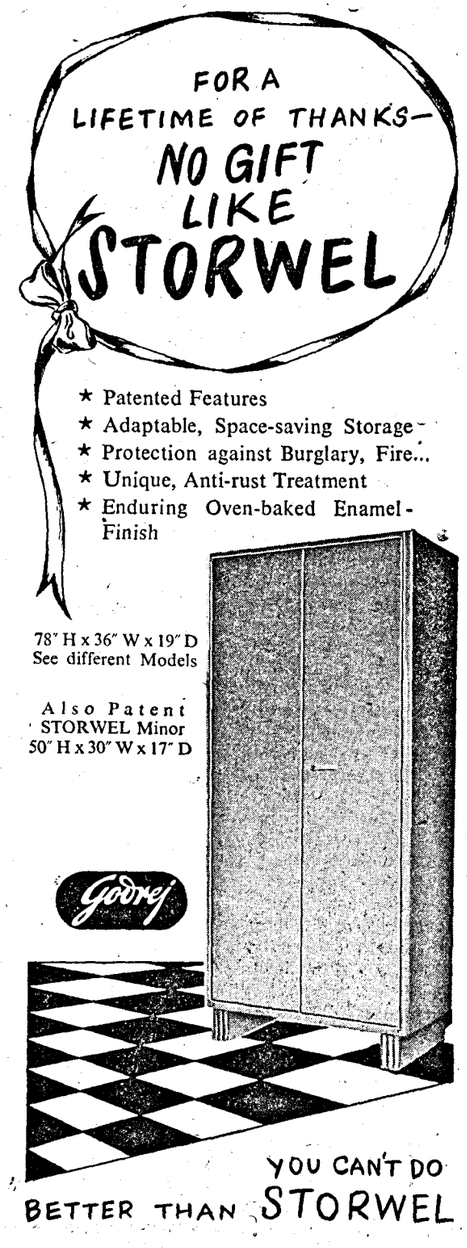
THERE must be few people who could vie with Shri Darab Driver in his intimate grasp of the multifarious problems of the coal industry—in its production, transport, and utilisation aspects. His Presidential Speech at the Annual General Meetings of the Coal Consumers Association of India is always eagerly read. He is constantly throwing out new ideas, and new combinations of old ideas, and what is equally important, urging Government and the industry to adopt the latest technical advances achieved in the laboratory crucible. This voluntary extension service deserves our thanks, as well as sustained application to see how many of these ideas and developments can be applied in the constant economic battle—to make our limited resources which have alternative uses to go the longest way.

Shri Driver enumerates four extraneous circumstances helping the Coal Plan of the country.

(a) 50 miles south of Sui in Pakistan perhaps one of the largest deposits of natural gas in the world has just been discovered. It is not beyond the capacity of the diplomats of the two countries, hopes Shri Driver, to arrive at an agreement by which Pakistan could export this gas to Saurashtra and the industrial belt in and around Ahmedabad to pay for her imports of about a million tons of coal from India annually.

(b) Researches at the Fuel Research Institute at Dhanbad appear to hold out distinct promise that by suitable blending of coal from the Raniganj and Jharia a reasonably satisfactory quality of metallurgical coal can be produced, which will remove an important bottleneck in the way of the expansion of our steel production.

(c) Studies conducted in Europe by our technical men indicate the potentialities of special boilers to use high ash content coal which would become available either directly from the Korba fields, or as a product of coal-washing which is being planned on a large scale for



feeding the steel plants with coal of uniform ash content.

(d) If the Assam Oil Company refinery is located near Calcutta the use of its fuel oil and gases will gradually reduce the consumption in Calcutta of the Dishergarh type of Raniganj coal which would be required for purposes of blending.

Shri Driver has drawn pointed attention to the qualitative content of the extra 22 mn tons of coal proposed to be raised annually in 1961. If the new fields to be developed yield inferior coal, the allocation of the additional production that has now been made as between the different areas may have to be changed. With regard that very serious matter namely transport, Shri Driver feels that the fact that the Railways have been allocated a smaller sum in the Plan than was demanded may not be very significant. Planning Commission has assured the Railways that this allocation would be revised from year to year according to the circumstances. Also Shri Driver is candid, and says "we fear there will be many retarding factors affecting the Plan."

Electrification the Remedy

HE places considerable emphasis on electrification of certain routes, and goes as far as to say that "speedier electrification on many important railway lines is the only ultimate solution of the inability of rail transport to meet the rising demands". The electric locomotive scores over the steam engine in many respects—its efficiency is 13 to 20 per cent as against 4 to 6 per cent of the steam engine; coal required to produce net electric power to move the same amount of traffic is only one-quarter of the coal required in steam traction; electric engine can work 20 to 22 hours a day against 10 to 15 hours by a steam locomotive, and can do an average mileage of 1 lakh against 29,000 miles of a goods steam engine; electric locomotive costs twice as much as a steam engine but gives 2½ times the work of the latter; it requires less maintenance personnel; it has better acceleration and gives better speed and therefore better turn round of wagons which means less equipment of rolling stock for a given volume of traffic than with steam traction. He gives two revealing figures, which put the coping stone to these arguments—in 1954-55 the railways paid Rs 16.5 crores and Rs 20.55 crores for coal used by them and freight on such coal respectively.

Addressing the coal consumers in particular, Shri Driver was more than candid when he said "the Second Plan will be a purgatory of suffering for the consumers and they should be prepared beforehand". They are today paying for qualities of coal which they often do not get. Railways are perhaps the worst sufferer. With the increase in the proportion of open cast coal in the total risings of the country, unless very definite measures are taken the dust content of coal will tend to rise. The recent Award of the Coal Tribunal which increased the prices of coal by Rs 3 per ton is only the first of a series, and the Award indicated that the Tribunal thought that higher coal prices would tend to make consumers economy and efficiency minded. More than half the State collieries are working at a loss, and when the new collieries in Korba, Karanpura and other places, are opened up the loss in the public sector will probably increase and the normal reaction would be to raise coal prices to enable collieries in the public sector to balance their losses.

Japan's Seeming Political Balance

SINCE Mr Ichiro Hatoyama's return from his mission to Moscow, it has been evident that some groups in his coalition Cabinet are dissatisfied with his leadership. But the appointment of Mr Tanzan Ishibashi as his successor indicates that the retiring Prime Minister's political opponents have not succeeded in gaining control of the coalition Cabinet. It is not without significance that the nominee of Mr Kono, the "strong man" in the Hatoyama Cabinet, has not been chosen as the Premier. There have been reports that the political elements who are hostile to the Russo-Japanese agreement, recently negotiated by Mr Hatoyama, have been trying to consolidate their position under the leadership of Mr Yoshida. He is also reported to have the support of Big Business. Even so, it has not been possible yet for Mr Yoshida to reemerge as the leader. Nor has Mr Shigetmitsu, the Foreign Minister and the leader of the Progressives in the Liberal-Democrat coalition, succeeded in his bid for power.

Mr Ishibashi's appointment as Prime Minister of the coalition Cabinet would seem to indicate that Japan would continue the present foreign policy for yet a while. Japan's admission to the United Nations was a foregone conclusion since the Russo-Japanese agreement. But there are many issues still in dispute between Japan and Russia. There is dissatisfaction in Japan about Russia's attitude on the strategic islands in the southern Kuriles. On the other hand some political elements have strong reservations about American bases in Japan and Okinawa. There are economic issues which may aggravate political troubles. Japan's export drive to southeast Asia remains an explosive issue. Under the Russo-Japanese agreement, Russia has promised increased trade relations between the two countries. This is one possible way for Japan to bypass the prevailing restrictions on trade with the Chinese mainland. Each and all of these political or economic issues may disturb Japan's seeming political balance.

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Letters to the Editor

Capital Gains Tax

SHRI B K SINGH's article on the subject in your issue of December 8, though informative, suffers from one important defect. It is practically silent about the defects of the proposals regarding capital gains tax made by the Finance Minister on 30-11-56. In these proposals the Finance Minister has followed Prof Kaldor's principle of taxing capital gains at the ordinary income tax rate. But his recommendation to lower the marginal (seven annas in the rupee) rate has not been accepted. This is a grave defect of the Krishnamachari proposals. For this will have a very adverse repercussion on the private sector. Prof Kaldor himself in his Report has pointed out that, "if capital gains are treated in the same way as other forms of income, which means taxing them at the rate of 90 per cent, the economic effects will undoubtedly be serious". In fact, the disincentive effects of taxation depends on marginal rates of taxation and if these are kept down to reasonable levels, there will be no inducement to resort to tax evasion and dishonesty.

Kaldor's proposals are still under consideration of the Government and hence perhaps the Finance Minister does not like to lower the marginal rates of taxation of income without giving effect to his other proposals. For this may lead to a fall in revenue. These are the likely justifications of Shri Krishnamachari.

Now pending implementation of Kaldor's integrated scheme (or other fresh schemes), some sort of solution has to be devised. We may now follow the American model. In America, the rate of long term capital gains tax never exceeded 25 per cent whereas the highest tax rate on ordinary income is 82 per cent. This provides an inducement to persons in the highest income brackets to obtain income as long term capital gains. Thus in U S A wealthier persons can obtain their income in this form only if they make investments which appreciate substantially in value. Normally I would not support this sort of policy on fiscal grounds, but in the present case this seems to me a correct remedy. The difference between the income tax rate and capital gains tax rate, however, should not be more than 15 per cent (say 90 per cent and 75 per cent). In the long period, it is possible to evade tax by converting ordinary incomes to capital gains. But in a temporary arrangement (like the one suggested here) it will be very difficult to do so.

Suresh Prasad Niyogi

12A/4, Indra Roy Road,
Bhowanipore,
Calcutta—25.
December 18, 1956.

Consumption Goods Multiplier

PROFESSOR VAKIL and Dr Brahmananda assert that they are the originators of the concept of the consumption goods multiplier. Prof Dasgupta who claims to be a careful reader of Nurkse as well as the authors of the consumption goods multiplier, asserts that the 'authors' approach the problem from a wrong end as compared to the more sensible approach of Nurkse. The following passages from Nurkse, which I quote without comments, will show how unfounded both these assertions are.

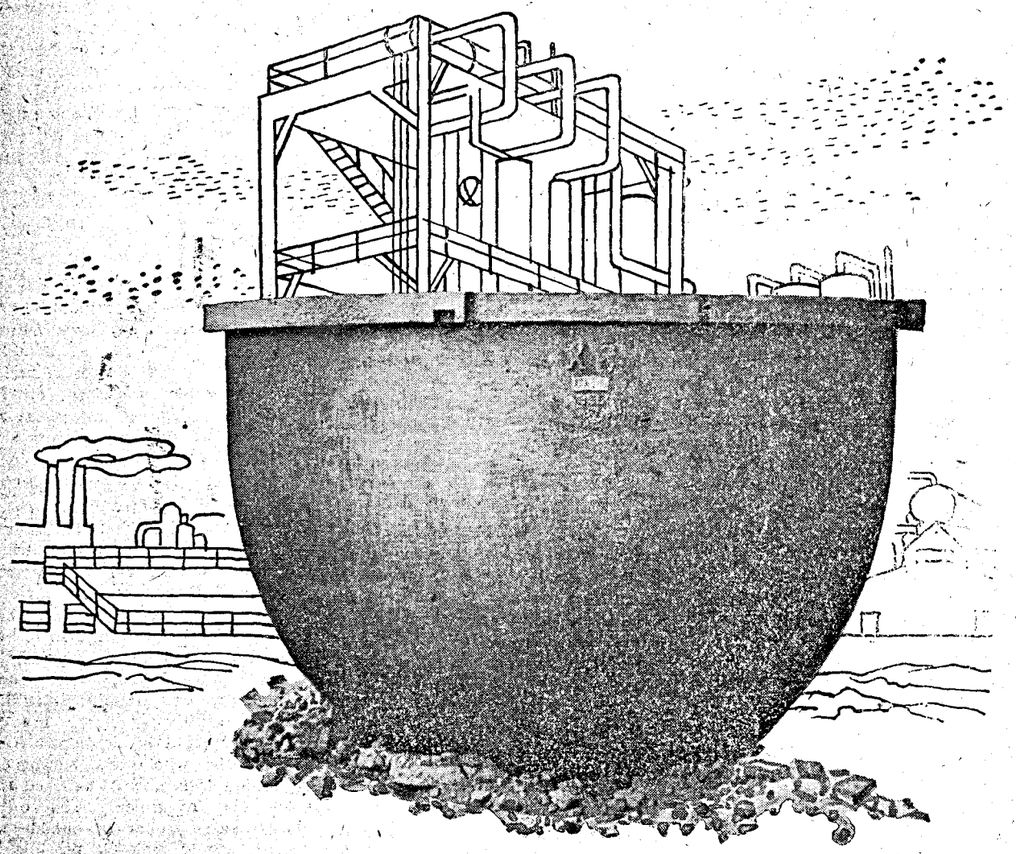
"In these circumstances the formation of capital through the use of surplus labour is self-financing only if the mobilization of the concealed saving potential is 100 per cent successful. If it is less than completely successful, the scheme seems to break down; the amount of saving or in real terms the subsistence fund available to support the workers engaged on real capital accumulation, proves insufficient. Let us suppose the leakage arises from the peasants who remain on the land consuming more of their own food crops. If their dependents, the investment workers, do not get enough to eat on their new jobs, they will run back to the farms to resume their previous existence and to absorb on the spot the food produced there. It seems to be a question of all or nothing. Either the whole of the food surplus that becomes available on the land through the withdrawal of the surplus labourers is mopped up to feed them in their new occupations, or nothing can be done at all.

"On reflection, however, it will be seen that the surplus labour can still be employed for capital formation if some complementary saving can be secured from outside the system, to close the deficiency of saving that may arise within it. Some complementary saving might become available from domestic sources, and there is the possibility of capital imports. So it may not have to be all or nothing. Even if there is a leakage in the subsistence fund, provided only that it can be covered by means of resources obtained from outside the system, it will be possible to mobilize the whole or a part of the disguised unemployment for the purpose of capital formation. The degree of mobilization possible will depend on the amount of complementary saving available and on the relative size of the leakage.

"Suppose, for example, that 20 million dollars is the annual value of the subsistence fund that should theoretically become available when the surplus workers leave the farms. Suppose further that the unavoidable leakages, due to somewhat higher consumption and also to the cost of transporting food from the farms to the capital projects add up to 10 million dollars. In this case, if 10 million dollars of investible funds could be obtained from outside, the whole food surplus of 20 million dollars could be freed and used for investment. In other words, every dollar of outside resources would make it possible to realize two dollars' worth of the saving potential associated with disguised unemployment. **In this way the funds from the outside can exercise a magnifying effect on the total rate of capital formation. Evidently a multiplier concept of a certain kind becomes applicable here, though we should hesitate to multiply the multipliers that have appeared in economic literature.** (Emphasis mine) We should only remember that the outside funds just mentioned can be, but do not have to be, of foreign origin; they can come, as already explained, from domestic saving, voluntary or involuntary. They are resources that originate outside the subsistence fund concealed in the state of disguised unemployment."

—Ragnar Nurkse, Problem of Capital Formation in Underdeveloped Countries (pp 39-40) Oxford, 1953.

A Curious Reader



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Implications of the Compulsory Company Reserves Deposits Scheme

A C Chhatrapati

THE most surprising part of the 'surprise' supplementary budget proposals of Shri T T Krishnamachari is the proposal requiring Companies to deposit prescribed percentages of their past accumulated reserves and current retained profits and depreciation reserves with the Reserve Bank of India. There is no precedent to this measure which will have far reaching repercussions on company finances as well as on the liquidity of the banking system which is the depository of the liquid funds of companies.

The Second Five Year Plan is admittedly ambitious. Its fulfilment will demand fullest possible mobilisation and effective direction of the use of the country's resources. This task is particularly difficult in India with a democratic form of Government and a mixed economy. The Government of India have started in earnest to mobilise the domestic resources of the country. Within limits imposed by the political and economic conditions taxation and deficit financing have been resorted to. Campaigns for sale of National Savings Certificates and loans, compulsory introduction of provident funds, nationalisation of life insurance and the largest commercial bank, The Imperial Bank of India, have been steps to encourage private savings and control their use largely for the public sector. The State budgetary controls are expected to ensure that these resources are used for the fulfilment of the Plan.

Company Reserves Deposit Scheme

So far as the private sector is concerned, administrative measures have been used to prevent the use of resources in directions not conducive to the fulfilment of the Plan. The Industries (Development & Regulation) Act and the Control on Capital Issues provide the tools for this purpose. Government has also been in a position to influence the directions in which commercial bank deposits can be used through the Reserve Bank of India. The only remaining form of organised savings is the ploughing back of profits by Joint Stock Companies. So far Government could only prevent their use for expansion of the of the industries controlled under the Industries (Development & Regulation) Act if so desired for purposes of the Plan. There was no way to ensure that these reserves would be definitely used for the purposes of the Plan. The object of the company reserves deposit scheme introduced in the new Finance Bill is to obtain a control on these reserves and direct their use for purposes of the Plan.

The new Finance Bill seeks to restrict large distributions of dividends through penal rates of supertax on larger dividends. The corporate savings are, therefore, expected to increase and thus larger resources would be available for the Plan.

The new Finance Bill will deprive the companies of the benefit of deduction from income of depreciation, development rebate and of losses on sold or discarded property for income-tax purposes unless they deposit with the Reserve Bank of India by 30th June each year an amount made up of the following:

(1) 25% of the accumulated profits and reserves to the extent they are not represented by fixed assets in business; and

(2) 75% of the amount by which retained profits, i e, profits less taxes and dividends plus depreciation and development rebate exceeds Rs 1 lakh.

The Finance Minister has announced that initially only 50% of the annual retained profits and depreciation will be required to be deposited in the Reserve Bank. He has also assured that the Rules will provide for refunds of the deposits to companies for ways and means, repayment of loans, rationalisation and expansion of their activities and investment in new approved projects. Further, banks will not be required to put any deposit.

Company Finance

Before analysing the implications of the compulsory deposit scheme, it may be useful to consider the general ways in which company finances are raised and managed. A company starting an industry will raise capital by ordinary shares, preference shares, debentures and long term loans from Industrial Finance Institutions, in any one or more ways, to finance the initial cost of fixed assets and the estimated minimum initial working capital.

The amount of working capital to be raised by equity or other form of long term loans will depend on the nature of the Industry, expected rate of output initially and the availability of short term finance from banks and raw materials on credit from suppliers. No company provides its full requirements of working capital in the form of equity or long term loans because it will be wasteful and expensive. It would also adversely affect the financial status of the company by showing a poor ratio of return on employed capital. Once the company is a going concern, it is the task of management to find ways and means for maintaining and expanding its activities. Additions to and replacements of equipment and building, changes in the inventory of raw materials and finished goods, extension of credit to clients, repayment of loans require funds or affect receipts and disbursements. Since profits are only part of receipts, they are very often absorbed in business by these day-to-day decisions of management.

The accountant keeps a record of these changes and at the end of a financial period prepares a profit and loss account and balance-sheet. The board of directors meet to decide the disposal of the surplus revealed by the profit and loss account. Their decisions regarding provision of depreciation and reserves are independent of the ways and means position of the company because the surplus earned on the liability side of the balance sheet is already accounted for by changes in fixed assets, stores, accounts receivable, investments and cash on the assets side. The fact that reserves do not necessarily represent accrual of liquid resources can also be effectively brought out by the changes in a balance sheet effected by the decisions of the directors to revalue fixed assets or bring goodwill on the books as an asset. Such decisions will increase

reserves on the liability side without bringing additional resources to the disposal of the company.

Radically Different Concepts

The deposit scheme is tied up with the income-tax liability of the companies. A deposit liability will therefore be determined on the basis of accumulated reserves and retained profits and depreciation allowances reflected in the company finances assessed for income-tax purposes. Now the commercial accounting concepts and income-tax concepts differ radically. Under the Income-tax Act both income and expenses are determined according to the law. They are therefore statutory fictions. To illustrate, a company purchasing machinery with a useful life of 20 years will provide depreciation at 5 to 10% depending upon its profits. Under the Income-tax Act the company will be allowed a deduction every year of normal depreciation at 10% of the written down value of the machinery, additional depreciation equal to normal depreciation in the first five years, extra depreciation at 50% of the normal depreciation for each of the second and third shifts worked and finally a development rebate of 25% of the original cost of the machinery. No company provides such depreciation allowances in its published accounts. Therefore depreciation reserves and accumulated profits from the accounting standpoint and the income-tax standpoint will differ widely especially in the early periods of installation of new machinery. For this reason the balance-sheets of companies which have installed new plant and machinery are not a good guide for determinig their deposit liability. For long established industries, however, the company balances can be used for estimating their deposit liability.

As stated above, the accumulated reserves of a company have already been put to a constructive use in providing some fixed assets and working capital. At a time when industries are working at full or near full capacity, transport difficulties and market fluctuations make larger working capital necessary; when the commercial banks provide working capital only to approved industries and when bank credit is fully extended; the reserves deposit scheme requiring withdrawal of liquid funds from companies must adversely affect production. The Finance Minister has assured that these deposits will be refunded to meet working capital requirements. However, the rigid legal requirement of first depositing and then seeking a refund would disrupt the working of many companies which have insufficient liquid resources.

Effects of the Deposit Scheme

The effect of the deposit scheme will vary according to the nature of the activity of the company. Trading companies use their reserves only as working capital. Their investment in fixed assets is relatively small. Therefore, instead of being deprived of a large part of the working capital, they would prefer to pay income-tax on their depreciation allowances. Similarly managing agency companies which have invested their reserves in shares of the companies they manage will have to forgo deduction of depreciation from income rather than liquidate their investments and lose control over managed companies. The processing industries like sugar and vanaspati whose requirements of working capital are far larger than the investment in fixed capital might also be forced to pay income-tax on their depreciation allowances rather than be deprived of their working capital accumulated through reserves. This would be particularly so where the fixed bloc has been largely written off in the past.

The decisions whether to part with their requisite funds or forgo deduction of depreciation allowances will largely depend upon the manner in which the rules regarding refund of deposits are managed. In order to assess the effect of the deposit scheme on company finances and the liquidity of the banking system, we may assume that all companies will agree to deposit with the Reserve Bank the prescribed percentages of their past and current reserves. For this purpose I have analysed the consolidated financial position of the 771 public companies as reported in the Reserve Bank Bulletin of August, September and November 1956. The relevant figures for the financial years ending in 1953-54 and 1954-55 (July-June) are reproduced alongside.

It will be observed that if the deposit scheme were made applicable to the above companies on the basis of their financial position in 1954-55, they would have been required to deposit a maximum sum of Rs 72,13 lakhs on past reserves and Rs 23,65 lakhs in respect of depreciation and retained profits of 1954-55. These companies had only Rs 70,17 lakhs in cash and Rs 71,32 lakhs in investments including Government securities. The deposit requirement would have obviously wiped out the liquid resources of these companies. The above estimates must be taken as maximum because the incidence of deposit liability depends on gross fixed assets, paid-up capital and reserves of individual companies and the aggregate of these figures of various companies does not necessarily represent the actual position of their deposit liability. This may be illustrated by a small example of two companies their financial positions being as shown in Table II, below.

Since the major industries in India have been long established and their reserves used for development, the actual deposit liability position will not differ significantly from the figures based on the consolidated financial position of these companies. This is brought out by the following Table of the deposit liability of 148 pubic companies estimated on the basis of their latest individual balance-sheets. (See Table III, p 1500)

Magnitude of Deposit Liability

It will be observed that the estimated deposit liability on past reserves of these 148 public companies with a total paid-up capital of Rs 14,124 lakhs comes to about Rs 3,010 lakhs. Their deposit liability on the basis of consolidated figures comes to Rs 3,073 lakhs.

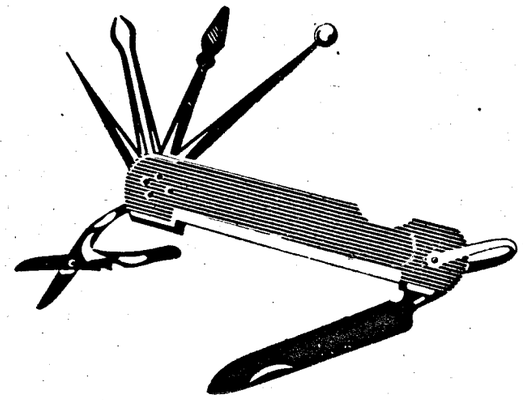
Table I—Showing Consolidated Financial Position of 711 Public Companies and their Deposit Liability

(Rs lakhs)

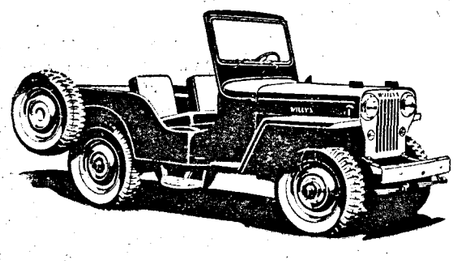
	1953-54	1954-55
Total Fixed Assets	677,18	740,59
Paid-up capital	368,60	379,12
	308.58	361,47
Fixed assets represented by depreciation and reserves		
Actual depreciation	324,42	352,22
Reserves	272,67	292,18
	597.09	644,40
Surplus depreciation and reserve for compulsory deposit	288.51	282,93
Deposit of 25% -	72,13	70,73
Additional deposit of 50% of depreciation and profits in 1954-55 cash	64,96	70,17

Table II — Illustrating the Financial Position of Two Companies

	Paid-up capital	Gross bloc	Depreciation Reserve		Deposit liability
	(Rs lakhs)				
A ..	10	50	30	20	2.5
B ..	100	80	5	5	2.5
Total ..	110	130	35	25	10



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On the basis of the Reserve Bank's survey figures, the total deposit liability of 10,059 public companies with paid-up capital of Rs 65,600 lakhs in 1954-55 would work out to about Rs 122 crores. On the basis of my survey of the latest balance-sheets of 148 companies the deposit liability of 9,954 public companies in 1955-56 with paid-up capital of Rs 68,400 lakhs would work out to Rs 146 crores. As the coverage of the two surveys is not identical, these figures are not comparable. They may, however, be taken as indicative of the magnitude of the deposit liability involved in respect of past reserves of the public companies.

The liquid reserves position of the 148 companies as revealed by their balance-sheets suggests that approximately 35% of the companies will have to borrow funds to meet their deposit liability. As some liquid funds are absolutely necessary, they will also be required to borrow further or liquidate their investments and other realisable current assets to provide such funds. Of the remaining companies 30% will have their cash resources reduced by 50 to 100% in meeting the deposit liability. Thus nearly two-thirds of the companies will not be able to meet their deposit liability without resort to borrowing or reducing their working captal and possibly productive activity.

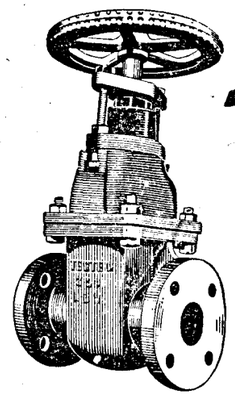
Financial Position and Deposit Liability of 148 Companies
(Rs lakhs)

		Gross Bloc	Paid-up capital	Depre ciation	Reserves	Deposit liability
Cotton textile ..	71	133,13	53,73	83,24	62,25	16,05
Jute ..	18	28,44	11,40	16,81	8,62	2,07
Paper ..	7	20,62	10,17	9,02	7,53	1,54
Sugar ..	19	17,21	7,27	10,48	6,27	1,75
Misc. ..	33	86,40	58,67	37,62	25,65	8,69
Total	148	285,80	141,24	157,17	110,32	30,10

Strain on Liquid Funds

The companies are required to keep their liquid funds with banks. The transfer of funds from commercial banks to the Reserve Bank in the form of deposits of company reserves will naturally affect bank's liquidity. At present the scheduled banks' deposits with the Reserve Bank amount to only Rs 50 crores, out of which they must maintain a statutory balance of Rs 40 crores against their deposits and time liabilities. Unless the Reserve Bank comes to the rescue of the banking system through very liberal rediscounting facilities, advances and open market operations, the large-scale transfer of funds from banks to the Reserve Bank in the middle of next year will cause a serious banking crisis. The curtailment of bank advances will also adversely affect the companies which have to borrow funds for their working capital requirements. Government is of course in a position to avoid such a situation by giving liberal permssion to the companes to continue to use their reserves for financing working capital.

To sum up, the company reserves deposit scheme, though conceived with a noble object of mobilising corporate savings for purposes of the Plan, may have grave repercussions on production, and the liquidity of the banking system if implemented in a bureaucratic manner. Had this scheme been restricted to future corporate savings, there would have been no such serious repercussions. But the demand that companies should withdraw one-fourth of their past reserves, which are already invested in working capital for their own business or in others through the banking system, for depositing with the Reserve Bank, is likely to cause serious difficulties. It also creates an administrative problem of approving the uses of reserves of nearly 30,000 companies. To pass judgment on the need for retaining the reserves within business by these companies for widely varying reasons requires understanding and imagination which would be difficult to achieve in a decentralised administration. Centralisation would bring inevitable delays in decisions with grave repercussions, at least the first time. From the statistics of company finances reproduced earlier it seems unlikely that Government would be able to direct substantial resources to purposes other than those for which they are already being used without disrupting the working of the companies and creating a banking crisis.



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Association Meeting

The Indian Chemical Manufacturers Association

Presidential Address of Lala Charat Ram

THE following is the Presidential address of Lala Charat Ram at the Sixteenth Annual General Meeting of the Indian Chemical Manufacturers Association, Calcutta:—

Hon'ble Shri Manubhai Shah, Friends & Fellow Delegates,

It is my privilege to welcome you, Sir, in our midst today. Your presence at our Annual Session is an honour done to us, and an indication of the confidence which our Association enjoys with you and your Ministry. I hope that we shall continue to earn this confidence in the years to come, and that the inauguration of the Annual Session of the Indian Chemical Manufacturers Association by the Minister for Heavy Industries will be a precedent to be continued. As constituents of a growing industry, in the process of a vast expansion, we look to you and your Ministry for guidance and help in solving our many problems.

I would like to take this opportunity of offering our felicitations to Shri Morarji Bhai Desai on the assumption of the portfolios of Commerce & Industry by him. Under the stewardship of so distinguished a statesman, and so able and impartial an administrator, the Ministry of Commerce & Industry will be a most effective and vital instrument, in shaping the industrial and commercial policies of India in a period of great changes.

General Review

The period under review has witnessed events of considerable importance. The States Reorganisation proposals, which earlier in the year, looked like a real danger to our unity as a country, have by patient handling, been implemented in accordance with the democratic will of the community, which is a tribute to the mature genius of our elder statesmen. The year has seen the successful close of the First Plan and a bold initiation of the Second Plan. The Index of Industrial Production moved up from 100 in 1951 to 126 in 1956. The chemical industries, according to the Planning Commission, exceeded their First Plan target of investment of Rs 26 crores by a crore of rupees, a creditable record when it is recalled that the total industrial investment, in both public and private sectors taken together, was 10 per cent short of the target of Rs 327 crores.

The country's economy has recorded a great upsurge in consumption levels all along the line. We welcome this trend, for levels of consumption in India have been low, and creation of new demand is the essence of developmental planning. A continuous watch on the situation however is essential, to ensure that uncontrolled demand does not lead to runaway inflation, and to conserve the foreign exchange resources of the country. Food and cloth between them account for no less than 70 per cent of consumer expenditure, and it is the supply and price positions of precisely these two commodities, which have caused a great deal of anxiety to us all during the year. In this connection, while the emphasis on "Industry" in the Second Plan is to be welcomed, but increased agricultural production must be regarded as pivotal to the entire Plan. We associate ourselves whole-heartedly with the Prime Minister's view that food production during the Plan period must go up by 35 to 40 per cent, if the Plan is not to be endangered. In the matter of cloth we have been awakened to the danger of following a doctrinaire approach, for the basic point is not so much as to who produces the goods, but the achievement of much needed larger supplies. We congratulate the Government on their boldness in reviewing their earlier decisions in the matter, so that the people are not starved of their basic requirements in catering to ideological demands.

During the year, the Industrial Policy Resolution of April 1948 was revised and the spheres of activity for the public and private sectors were re-defined. To my colleagues I would say, that just as we recommend to the Government, not to base their policies on purely a doctrinaire approach we need to guard ourselves against purely a doctrinaire opposition to Government policies. The scope for our initiative and enterprise is still great within the 'limited' fields allotted to us by the new Industrial Policy Resolution. We would do well to stop petty controversies on such issues, and to build boldly into the future, to so organise our industry on firm foundations, that we build up an unassailable case for further expansion of our activity. The 1956 Resolution undoubtedly charts a fresh course, permitting freedom to the private sector, but obviously with checks and balances. It offers a new opportunity to private enterprise to justify its existence in a socialistic State, and its future will depend upon its performance during the years ahead. Changes made by the Government in its declared policies on such important matters as of "Land Ceilings," and of "Limitations on the output of textile industry" are an indication to me, that the Government is basically wedded to the welfare of the people, and to raising their living standards, rather than to any inflexible methods to be followed in the attainment of these objectives.

Chemical industries have an important place in the efforts of the community to attain a balanced and diversified indusrial growth within the frame-work of general economic planning. This role has become vital with our moving into the second of our Five Year Plans. A measure of the challenge posed to the chemical industries is offered by the investment outlay of Rs 125 crores in the Second Plan against the First Plan target of Rs 26 crores. It is obvious that the rate and quantum of progress desired will strain every resource of the industry. Our organisational and financial skills will have to evolve into more sizable strengths. The creation of a trained work-force, and an adequate technical cadre, will have to go hand in hand with a rapid and early expansion of the research facilities. The effectiveness of our marketing policies will have to be reassessed, and labour-management relations will have to be organised on the basis of policies that are flexible and growth-oriented. As a realist, and also as an optimist if I may add, I am confident that the chemical industries will respond adequately to the spirit of challenge and the determination to progress, around which the Second Plan is

built. The performance of the chemical industries during the First Plan period, is reassuring in this context. During this period the chemical industries achieved considerable diversification. Products manufactured for the first time in India make a long list: Calcium Carbide, Hydrogen Peroxide, Rare Earth Compounds, Titanium Dioxide, Rayon Grade Caustic Soda, Ammonium Chloride, Benzene Hexa-Chloride, Penicillin, D.D.T., Isonicotinyl Hydrazid, Sulphur-Black, Azo dyes and so on. The broadening of the base was accompanied by an impressive general growth, in output and installed capacity. For a few products the data is given below, and incidentally it brings out that growth in capacity sometimes outpaced the level of demand as reflected in possible levels of output. (See Table below).

In pointing out the achievements of the First Plan period, we must not forget the fact, that the present achievements only provide a base for the much larger effort necessary, if our industrial structure is to have an adequate base of chemical products to draw on. I do not wish to burden you today with all the too well known proposals for the chemical industries in the Second Plan. By 1960-61 a better balance inter se, and a manifold increase in capacity and output of different types of chemicals will have been achieved. In the very nature of things, many of the targets can only be tentative, the production of each being interdependent on so many other targets which are continuously being reviewed and revised. The upward revision of food production targets, for instance, would step up the targets for fertilisers greatly; likewise, if it is eventually decided to work out a cloth supply policy on the basis of 20 yards per capita, an upward revision in the targets for dye-stuffs, caustic soda etc, will be imperative. The basic strength of the Second Plan is in its flexibility and we are confident that the chemical industry in the private sector will meet the demands made on it, in keeping with its record.

Dye-Stuffs and Intermediates Industry

Proposals in regard to the dye-stuffs and the intermediates industry have recently been elaborated by the Government. I record here our appreciation of the policy which the Government have decided to follow in finalising the programmes for manufacture by the N.I.D.C., only after taking into account the present or proposed schemes of individual dye-stuffs manufacturers. I would only add that if some of the manufacturers desire to produce some of the primary intermediates proposed initially for the N.I.D.C.'s activity, they should be encouraged to go ahead. Some of these have already been tried on a scale sufficient for their own consumption by some of the manufacturers, and it would be advantageous to ask these to go ahead and develop further. In regard to the target itself of 10,000 tons of finished dyes by 1965, this seems to be on the conservative side, while an item like Azo dyes, on the other hand, may not be consumed at all to the extent visualised owing to the changing preference for fast colours.

Another matter which somewhat affects the development of this new industry is the matter of import restrictions. It would appear that strict import restrictions are applied only after a manufacturing unit has accumulated substantial stocks. Apart from financial implications, this situation for a new industry is obviously a great handicap, and retards the rate of development. It is necessary of course for the Government to ascertain by a complete inspection that the plant is in good shape and has the capacity to meet the country's requirements and it should be satisfied by this type of investigation rather than by demanding accumulation of physical stocks.

Pharmaceutical Industry

In regard to the programme in the Second Plan for the pharmaceutical industry, I would like to mention that there is need for closer co-operation between the plans of the State and the industry. There is today a feeling in the industry, that State plans for the manufacture of pharmaceuticals are being formulated without the industry being taken into confidence. To the extent that this feeling is justified, it has not been fair to the industry, as the pharmaceutical manufacturers have struggled against heavy odds in the past to meet nearly 70 per cent of the country's expanded demand for medicines and drugs, even during the period of the last war when no imports were forthcoming. The industry has contributed substantially to the development in many lines of manufacture which are presently under the review of Government. I may also mention that the attention paid to antibiotics, sulpha drugs, anti-dysentry and anti-T.B. drugs by Government has obscured the progress made in many other directions by Indian industry, such as sera and vaccines, surgical dressings, anaesthetics, alkaloids, chemotherapeutic drugs, colloidal preparations and glandular products, and the question of consolidating these gains by giving more attention to the difficulties of the industry has been relegated to the background. I regret to mention that the recommendations made by the Pharmaceutical Enquiry Committee which surveyed in proper perspective the development of the existing branches of the industry have not been given adequate attention by Government. Apart from this, attention has to be paid to the question of considerable unnecessary competition from Government Medical Stores Depots, the prevailing vexatious excise regulations, and the alarming rate of patent registrations by foreign manufacturers in India. I would like to stress here that the existing

Table Showing Growth in Installed Capacity and Output of Some Chemicals

		1950-51		1955-56		1960-61
		Capacity	Output	Capacity	Output	Target: Capacity
1. Nitrogenous Fertilisers (as fixed nitrogen)	Tons	16,000	9,000	85,000	77,000	380,000
2. Phosphatic Fertilizers (as P_2O_5)	"	21,000	9,000	35,000	20,000	120,000
3. Sulphuric Acid	"	150,000	99,000	242,000	170,000	500,000
4. Soda Ash	"	54,000	45,000	90,000	80,000	253,000
5. Caustic Soda	"	19,000	11,000	44,000	36,000	150,000
6. D.D.T.	"	—	—	700	172	2,800
7. Dye-stuffs and Intermediates m. lbs.		—	—	6.6	4.0	27.0
8. Penicillin (m. mega units)		—	—	12.5	6.6	40.0

free sector of the pharmaceutical industry has problems in relation to its consolidation and further progress which need to receive the Government's attention and that in regard to expansions for the future, the industry may be taken into close confidence.

Super Phosphate Industry

A special reference to this industry is deserved for reasons of its important position in the country's agricultural economy. Industrially too, the Superphosphate Industry is recognised as a base, on which a large scale sulphuric acid production is always built up which enables cheap sulphuric acid availability for the economical development of almost all chemical industries. Production of super phosphate is dependent exclusively on the extent of its consumption. Unfortunately, nitrogenous fertilisers are still considered a cure-all for all our agricultural problems; little is it realised, that the surest way to make our soils arid, in course of time, is to feed them continuously with disproportionate doses of nitrogen. It is like feeding a human-being exclusively with fats or protein instead of with a balanced diet. We could usefully learn in this matter from the experience of countries having high agricultural productivity, where almost without exception, the ratio of nitrogen to P_2O_5 is 100:115 as against India's 100:30. Developing an effective system of subsidy as in the U.K., readjustment of railway freights on the same levels as for manures, and more liberal granting of taqavi loans, are some of the measures which could prove of use in attaining an appropriate consumption of super phosphates. The Second Plan target for the industry of 7,20,000 tons as compared to the production of 1,00,000 tons in 1955-56 is a recognition of this vital need, but if this target is to remain not only a target, as was the case in the First Plan, a directed and purposive effort cannot be avoided.

Need for Increase in Plant Capacities

The problem of ensuring economic plant capacities in the chemical industry, is something Sir, which I wish to place before you. Low demand on the one hand, and an excessive number of small-sized plants working at sub-normal capacities on the other, have been a feature of the chemical industry. This could be explained in the past, when there was no control on industrial growth, but there remains the surprising fact that even now licences continue to be granted to plants of sizes, which would be unthinkable for the chemical industry in any other country. We are all too familiar with sulphuric acid plants of 5|10 tons a day capacity, and similarly small plants for chlorine, super phosphate, soda-ash etc. As the Planning Commission have themselves pointed out, it will be healthier for the industry directly concerned, as well as for the general economy, to avoid unit sizes that are fore-doomed to uneconomic existence. I hope that there is no feeling in any quarter of keeping plant capacities low in the chemical industry based on the cottage industry concept. Small sized chemical plants are expensive in their orginal cost, continuously expensive in the cost of their output, and a permanent liability to the country. I venture to suggest, that as in the rest of the Plan, a bold approach is needed in this matter, and the conception of economic size of plants for the chemical industry should be stepped up considerably, even though for some years there is some idle capacity in our developing economy.

Foreign Exchange Resources

It may not be far wrong, if one were to say that the size of our Second Plan will be largely determined by our ability to provide adequate foreign exchange resources It has become today, according to me, a primary duty of us industrialists, to give a new slant to our development plans for specifically augmenting the country's foreign exchange resources, by canalising the development of industry into:—

(a) Products which will reduce imports, and

(b) Products which will increase exports.

The country has still to spend crores of rupees every year on the import of chemical products, including drugs and pharmaceuticals, and this drain appears to grow with the pace of development. The chemical industry has to realise, that as exchange savers, although not immediately as exchange earners of any importance, their contribution to the success of the Plan can be significant. A time must soon come, when the performance of industries is to be judged, not only in terms of levels of output, but whether they are to any extent improvident users of foreign exchange, and to what an extent they contribute to the foreign exchange earnings of the country.

In this connection, our increasing reliance on sulphur needs special mention. From 37,000 tons in 1951-52, imports of sulphur rose to well over 80,000 tons in 1955-56 and will rise drastically over the next five years. A concerted vigorous drive, including specially directed research, to replace sulphur by other substitutable products, must in my opinion form a useful supplement to the basic long-term solutions that can only emerge from intensive geological investigations on pyrites and other sulphur-bearing ores.

The use of hydrochloric acid, to replace sulphuric acid wherever possible, even though with difficulty, must receive persistent attention, as this would be a double saver of foreign exchange viz., in sulphur and caustic soda simultaneously. The manufacture of dicalcium phosphate has the potentialities of using up 60,000 tons chlorine additionally, even if 20 per cent of the toal consumption of phosphatic fertilisers be in this category. This would save us foreign exchange of 70,000 tons of caustic soda per year and vast quantities of sulphur.

As the foreign exchange position gets tighter, there is need, I feel, for paying attention once again to the recovery of sulphur from Smelter Gases at Ghatsila, a scheme which was proposed in the First Five Year Plan also.

One assistance, Sir, which the Government can give to the chemical industry in the matter of helping its development on the lines indicated above, is with regard to the classification of chemicals in the imports list. At present the classification is only in broad categories. It is suggested that the list be prepared in much greater detail, giving as many separate items as possible, duly categorised. Undoubtedly this will entail some additional work, but this must be considered as one of the small helps which will assist the industry in selecting items to be developed and also save valuable foreign exchange.

The services of Development Councils could be utilised much more in the matter of the problem of foreign exchange than is being done uptil now. They should be given special direction to focus their attention intensively in development plans of those industries which would save or earn foreign exchange.

Plant fabrication is another industry which could save large amounts of foreign exchange, and this consideration alone would merit special consideration for developing it, quite apart from many other advantages. Considerable development has already taken place in this field. The Indian manufacturer no longer looks upon the manufacture of chemical plants as an awe-inspiring proposition. Plants for all unit operations, e g, evaporation, distillation, filteration, chilling, digestion, vacuum and pressure equipments etc., are now being made in the country. Complete plants for hydrogenation, caustic soda, sulphuric acid, distilleries etc, need not be imported from abroad in any case. Further Government assistance however is needed for this industry. I wish particularly to bring to your notice the singular anomaly under which a full plant imported is subjected to a duty at 5¼%, but if some imported components are required to complete an otherwise indigenously fabricated plant, a duty of 37% is payable. This almost discriminatory import duty against the development of indigenous plant fabrication industry is a damper on its growth, and we would urge particular attention to this matter.

Transport and Port Facilities

I am a little hesitant in making a reference to the problem of transport, as I hesitate to cover a much traversed ground. For the chemical industry, the basic problem is of coal movement, even though the total coal requirement is negligible as compared to other industries. Undoubtedly every industry claims a privileged treatment for itself, but measure of priorities has to be changed with the requirements of time, and today "Foreign Exchange earning/saving goods" need to have priorities over many other considerations. The products of the chemical industry need a priority on this basis alone, and we are confident that study of this aspect of the chemical industry would justify an up-grading of priorities for the movement of coal for it.

We are glad that the Government is alive now to the need for marshalling all forms of transport, and considers road transport as a vital link in supplementing the resources of the railways. Much time and wagon space could be saved Sir, if there was a restriction on short distance haulage of goods, where the ratio of idle time to the moving time of wagons is very high. There would be hardly any hardship if road transport took over the short haulage of goods, say upto distances of 100 miles. It is expected that this would offer considerable relief and howsoever little initially, it should be welcome in the present situation.

The country's vulnerability in its development plans owing to tightness at port facilities is now being gradually realised. Continuous congestion, delays, and threats of strike at ports, are a regular feature now, and the country pays for this shortage in the shape of increased expenses to shippers waiting to clear their cargo. Development of ports has to be speeded up even from long range defence point of view. I wish here to make a special reference to the port of Kandla, work on which has been in progress for several years now, and with but a little more concentrated attention the Port could be got into commission fully, relieving the congestion in Bombay and cutting out at the same time a wasteful strain on railway transport of about 300 miles for North Indian traffic. On this Sir, as in several other matters, we would be making a separate detailed representation to you in due course.

I should like now to mention a few facts about our Association. The Indian Chemical Manufacturers Association has completed almost a decade of its existence and is today the most representative organisation of the Chemical Industry in India. With a membership of nearly a hundred chemical concerns throughout the country, it is fully representative of the pharmaceutical, acids, alkalis, dye-stuffs and fine chemicals industries in the country. We operate through specialised divisions for various groups of industries, conducted by independent chairmen. We have also started this year a nucleus of a statistical service for our members, as also the publication of the "Chemical Industry News," a monthly journal of the I.C.M.A. This publication is intended to serve as a source of reference and information to our members and others interested in current problems of production, import, export etc., of chemical products.

Before I close, I wish to express on this occasion, our thanks for the co-operation, which our Association has received throughout the year, from your Ministry, and in particular from the Chief Industrial Adviser and the Industrial Adviser (Chemicals). We are grateful to the Government for the initiation and extension of protection granted to many of our industries. The industry has been fully conscious of its attendant responsibilities, and as successive reports of the Tariff Commission will bear out, it has in most cases endeavoured to fulfill the obligations imposed on it by the enquiries of the Commission. The Government have accepted the principle of advance protection which enables a prospective manufacturer to ask for protection before actual start of operations. In our industry where new lines of manufacture are complicated, this assurance of advance protection is particularly welcome. I hope that in the results that the chemical industries will show, the confidence would have been found to have been deserved in full measure.

I have referred at some length to a few of the problems of our industry. These have been mentioned not in the shape of complaints but as suggestions, which if considered and implemented would strengthen the base of this industry. The Annual Meeting of our Association is an occasion for us to express our views on the problems facing this industry. I would like to convey to you, our hope and faith in the great economic endeavour on which we have launched this year and I assure you of our whole-hearted co-operation in the building up of the economic sinews of the country.

Finally, I wish to express my deep sense of gratitude to the members of the Association, my colleagues on the Committee and the Secretary of the Association and his staff, but for whose valued co-operation and assistance it would not have possible for me to discharge my duties as President of the Association.

Gentlemen, I thank you for responding to our invitation, and for giving me a patient hearing. I thank you, Sir, again most heartily, and request you to inaugurate the Sixteenth Annual General Meeting of our Association.

From the London End

Crisis in Another Quarter

IT is clear that the South African Government has taken advantage of the international situation. It has used this occasion for staging another but more dangerous Reichstag Trial, and it hopes to accomplish this at a time when attention is absorbed elsewhere. The dramatic arrest of over 150 people on the prime charge of high treason must, however, be understood as nothing less than an indication of the crisis that has come to characterize race relations in that unhappy country. It has always been known that South Africa was sitting, indeed dangerously poised, on what can be termed as the time-bomb of tension. The mass arrests now suggest that the country has reached the point of racial explosion.

"Economic Murder"

The arrests are in tune with developments in the last two years. It is the culmination of a series of legislative Acts and state measures which by all canons of assessment make South Africa the most undemocratic and repressive state in the world. The Group Areas Act—a piece of legislation which could only have been conceived by a people who have lost all sense of reality and above all decency—is now being implemented. The Act aims at dividing the whole country into racial zones with little reference to the existing areas of settlement. The basic aim of the Act is to reserve for the 2½ million white minority all the developed and richest parts of the country. In the Johannesburg suburb of Sophiatown the forceful removal of 80,000 Africans has been completed. Now the small Indian community is being subjected to this law. They are being forced to give up their dwellings, their trading interests and, indeed, the very basis of their livelihood and it is little wonder that the Congresses of the African and Indian people should condemn this law as nothing short of "economic murder."

In the field of political repression, the all-European Parliament has given the Government arbitrary powers of arrest, of suspending the normal machinery of justice, of bans and of deportations, of press censorship and of control over imports of foreign literature. It has enabled the Government to withhold passports at will, to restrict internal travel and to violate the privacy and property of those who are suspected of opposing the doctrine of racial segregation. All this is designed to control and reduce the effective voice of 11½ million non-Europeans. The most inhuman of all the pieces of recent legislation is the Bantu Education Act. This has been officially described as aiming to inculcate in the African child that he is "innately inferior" and must "serve a life of service to the European."

The Freedom Charter

These laws are only a part of the background to the present arrests. The Strijdom Government fears the positive and overwhelming influence which the non-European Congress movement possesses over the mass of the non-white peoples. A review of the names of those that have been arrested in South Africa suggests that it was the organisation and convening of the massive Congress of the people which the Strijdom Government fears most. The Congress of the People was held in June 1956. It was convened jointly by the African National Congress and the South African Indian Congress, as well as a number of other organisations of the non-European people and liberal-minded Europeans. Some 4,000 delegates attended the Congress in spite of police intimidation and other official acts aimed at making it difficult for the Congress to be held.

The Congress was the most truly national convention ever held in South Africa. No group or opinion was debarred: no citizen was refused the right to vote or to be a delegate. Having regard to the considerable difficulties under which the Congress took place, it must be considered as a feat of organisation on the part of the sponsoring bodies. And from this historic gathering there emerged a statement of democratic faith which could only have been written and agreed upon by people of sincere conviction and of the highest principles. The statement was termed "The Freedom Charter" and it declared that:

"We, the People of South Africa, declare for all our country and the world to know:

that South Africa belongs to all who live in it, black and white, and that no Government can justly claim authority unless it is based on the will of all the people; that our people have been robbed of their birth right to land, liberty and peace by a Government founded on injustice and inequality;

that our country will never be prosperous or free until all our people live in brotherhood, enjoying equal rights and opportunities;

that only a democratic state, based on the will of all the people, can secure to all their birthright without distinction of colour, race, sex or belief;

"And therefore we, the People of South Africa, black and white together—equals, countrymen and brothers—adopt this Freedom Charter. And we pledge ourselves to strive together sparing neither strength nor courage, until the democratic changes here set out have been won."

The delegates pledged themselves (and these were inscribed in the Charter) to struggle for the equality of all national groups in the country, for equality before law, demanded that the doors of learning and culture be opened to all, that the country's wealth and land be available to all and, pledged for peace and friendship among the peoples of the country. For all this, the delegates declared that they would fight "until we have won our liberty".

The fact that this Conference had claimed to be more representative than the all-white Parliament is ostensibly the basis of the charge of high treason. And by overwhelming belief and understanding a charge of this order and conceived on the basis as the adoption of the Freedom Charter must be both absurd and impossible. A review of the definition of high treason as is outlined in South African legislation, however, makes it wellnigh possible for those arrested to

be found guilty of this serious charge for which the penalty is death.

The situation warrants some speculation as to the type of trial which the arrested persons will face. Recently the South African Government appointed Judges to the Bench of the Supreme Court who are known more for their political attachments to the doctrine of Apartheid than for their knowledge of administering and interpreting the law. The "packing" of the Courts just precedes the treason trial now taking place in that country.

The arrested persons face two further possible charges. The first is framed under the provision of the Suppression of Communism Act which gives a blanket definition of Communism and all acts committed within that definition are subject to a maximum imprisonment of ten years. Communism to the South African Government includes enlightened liberalism as well as any doctrine which stands in strict opposition to the social policies of Apartheid or racial segregation. The other charge to be preferred against the arrested arises from the Riotous Assemblies Act. This Act specifies certain penalties against persons found to instil ill-will among the races. The tenability of this charge can be judged by the sentiments on racial unity expressed in the Freedom Charter (and quoted above).

The Congress of the People represents the real, and, because of the absence of franchise rights for the non-Europeans, the extra-Parliamentary opposition to the racial designs of the existing Government. The fact that so serious an attack should now be made on this opposition by the Government justifies the claim that South African race relations have reached a point of sharp crisis. And like all reactionary governments, the South African regime has resorted to undemocratic methods and policies to kill the opposition instead of coming to terms with it. In accordance with this policy, the South African Government has severed its connections with the United Nations. It has, however, always recognised the movement of international opinion and has, therefore, chosen the present situation for its actions.

The illiberal trend in South Africa could, however, still be held back by a vigilant and enlightened world opinion.



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Federal Grants-in-Aid and Article 275

M L Bhatia

GRANTS-IN-AID, as the name suggests, are payments made by a Federal or Central government to the federating units or State governments, either according to the provisions of the constitution or by legislative decision. Grants-in-aid have been used as a balancing factor in all political systems, in one form or another, to correct the maladjustments arising from the allocation of important and relatively elastic sources of revenue to the Central Government and entrusting welfare functions to the Units. This mechanism of adjusting resources to functions is used after all other balancing factors have been commissioned. Its specific objectives have greatly varied, like removing inter-regional disparities in resources, encouraging units to improve particular services, achieving certain national objectives and exercising some measure of Central control. The evolution has been toward sharper definition of objectives, closer attention to conditions and relative State fiscal capacity and more extensive administrative supervision.

Increasing Grants-in-aid

The Federal grants-in-aid are an important aspect of government finance guaranteed by the Constitution of India. The first statutory provision for grants-in-aid was made under Sections 142 and 150 of the Government of India Act, 1935. Federal grants amounted to Rs 3.12 crores in 1937-38, Rs 2.75 crores in 1942-43 and Rs 19.18 crores in 1946-47. Of the total revenues of Provincial Governments such grants formed 3.5 per cent in 1937-38 and 8 per cent in 1946-47. The absolute as well as relative increase in grants was due to the inclusion of developmental grants in the system of grants-in-aid in 1946-47. These grants were for general purpose. Even when specific grants were given, the details of administration and itemisation of schemes of expenditure were left to the discretion of the Provincial Governments.

After the Partition in 1947, the financial provisions of the Government of India Act, 1935, continued to operate subject to the Distribution of Revenue Order of March 17, 1948. The Federal grants-in-aid amounted to Rs 32.42 crores in 1947-48 (7½ months), Rs 38.26 crores in 1948-49, Rs 42.24 crores in 1949-50 and Rs 23.49 crores in 1950-51. In 1950-51 the grants sharply declined on account of a steep fall in development grants. Since then the State Governments are being given grants under Articles 273, 275, 278 and 282 of the Republican Constitution. The grants under these Articles amounted to Rs 33.89 crores in 1951-52, Rs 36.04 crores in 1952-53, Rs 45.30 crores in 1953-54, Rs 51.39 crores in 1954-55, Rs 97.65 crores in 1955-56 (Revised Estimates) and Rs 121.99 crores in 1956-57 (Budget Estimates).

Of the total revenues of the Part A and Part B States they formed 7.4 per cent in 1951-52 and 10.7 per cent in 1954-55. This percentage is likely to be 24 in 1956-57. In addition, grants were also given to the Part C States, mainly to meet revenue deficits. They are likely to amount to Rs 7.30 crores in 1955-56 and Rs 7.94 crores in 1956-57. Lump sum grants have been given to Jammu and Kashmir State, about Rs 4 crores and Rs 3.75 crores in 1955-56 and 1956-57. Thus, total Federal grants are likely to amount to Rs 133.68 crores in 1956-57.

These trends in Federal aid show that, if no new aids are adopted and the present obligations and policies are carried out, there will be substantial increases in these grants-in-aid. In view of the acceptance by Government of the goal of a socialistic pattern of society in India there is every possibility that the Central aids will increase considerably to improve the living standards of the masses in the relatively underdeveloped States of the Union.

"Article 275"

Grants-in-aid have been provided in the Indian Constitution under its various Articles. Space does not permit a detailed study of all these Articles. Therefore only one important Article, i.e., Article 275, is discussed below. This Article is intended to be permanent and is also, partially, in the purview of the Finance Commission (Article 280). An attempt has been made below to examine critically the Federal aid (under Article 275) policies, the significant trends, and the defects indicated by experience, to see what changes are needed.

Article 275 provides for the payment of such sums as Parliament may by law provide as grants-in-aid to such States as Parliament may determine to be in need of assistance. Different sums can be fixed for different States. These grants are to be of the nature of capital and recurring sums as may be necessary to enable that State to meet the costs of such schemes of development as may be undertaken by it with the approval of the Government of India for the purpose of promoting the welfare of the Scheduled Tribes in that State or raising the level of administration of the Scheduled Areas therein to that of the administration of the rest of the areas of that State.

In respect of Assam the second Proviso requires the payment of grants, capital and recurring, equivalent to the average excess of expenditure over the revenues during the two years immediately preceding the commencement of this Constitution in respect of the administration of the Tribal Areas specified in Part A of the table in paragraph 20 of the Sixth Schedule, and the cost of such schemes of development as may be undertaken by that State with the approval of the Government of India for the purpose of raising the level of administration of these areas to that of the administration of the rest of the areas of that State. The amounts of such grants are to be determined by an order of the President until provision is made by Parliament. After a Finance Commission has been constituted, the grants will be made by the President on the recommendations of the Finance Commission.

Balanced Inter-State Development

Under Article 275, grants-in-aid are to be given to States as are in need of financial assistance, and these grants can vary and be discriminatory in nature. Grants are primarily intended to correct inter-State disparities in financial resources and to co-ordinate the maintenance and expansion of the welfare schemes of the State Governments on a uniform national level. The general power of providing grants is left to Parliament, but the Constitution lays down the specific grants in the provisos to Article 275. The first proviso relates to the grants necessary for the wel-

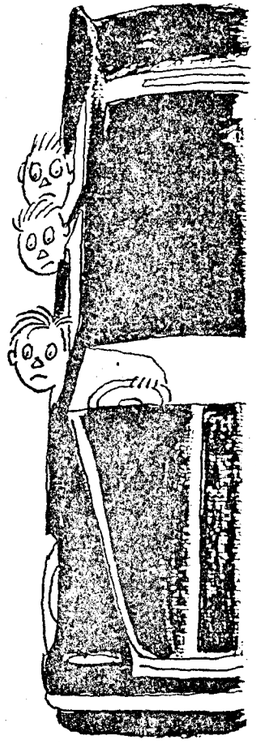
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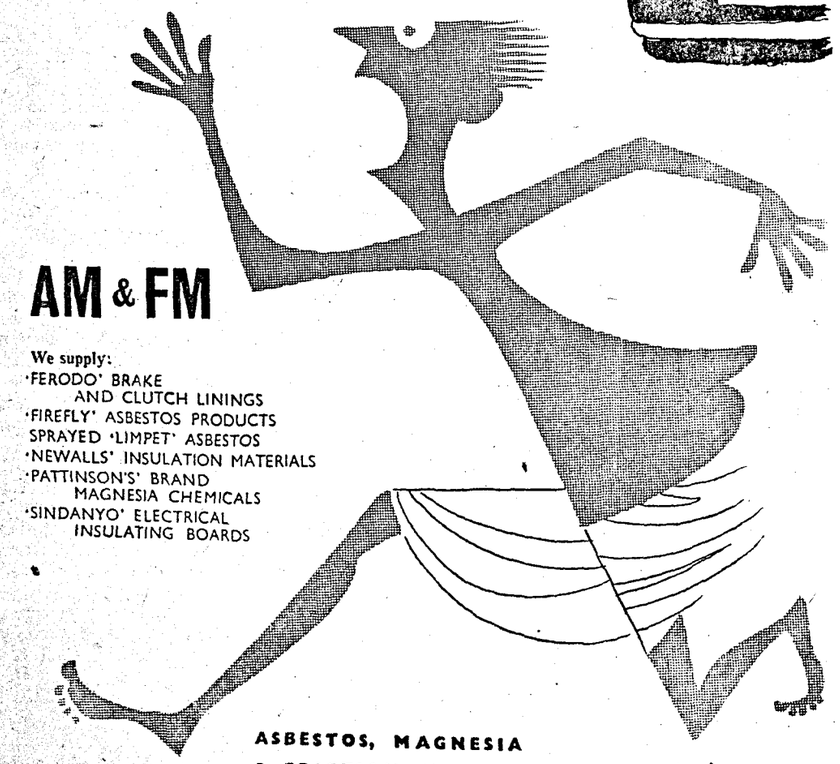
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fare of Scheduled Tribes and for raising the standard of administration of Scheduled Areas. The second proviso relates to the grants to the Government of Assam for the development of the State Tribal areas.

Centre's Financial Control

From these provisions it can be inferred that grants under this Article can be both general and specific. But there is much emphasis on specific grants viz., education, medical and health, unemployment relief, old age assistance, highways construction, child and maternity welfare, etc. These grants may be unconditional—giving full freedom to the State Governments in respect of the use of the grant. They may also be conditional—imposing upon the State Governments the maintenance of minimum standards of efficiency, advance approval of State plans and budgets, prescribing particular modes of recruitment of personnel, and providing for inspection and audit.

The grants under this Article are to be given if the schemes have been undertaken by a State with the approval of the Government of India. No doubt Government of India cannot compel a State Government to accept Central aid. But once a grant has been accepted the conditions imposed by the Centre must be observed. To the extent to which conditions are imposed by the Centre upon a State Government, the latter relinquishes its powers from fields in which it had supreme authority. Thus, these grants can be an important instrument for central financial control. Since the States do not have adequate resources to meet the obligations imposed upon them by the Constitution, they must not only accept Central aid freely but also clamour for it. The constitutional provisions have so much constrained the States to seek Central aid that they may scarcely realise that they have surrendered their powers to manage their affairs in their own way.

First Finance Commission

The grants given to the States under the Substantive Provision of Article 275(1) amounted to Rs 70 lakhs in 1951-52 and Rs 5.18 crores in 1952-53. This large increase followed the acceptance by the Centre of the recommendations of the first Finance Commission. The grants under this Article, before recommendations of the Finance Commission became operative, were being given to Assam and Orissa. On the recommendation of the Finance Commission, incorporated in the Constitution (Distribution of Revenues) Order, 1953, the following States were given grants: Assam Rs 1 crore, Mysore Rs 40 lakhs, Orissa Rs 75 lakhs, Punjab Rs 1.25 crores. Saurashtra Rs 40 lakhs, Travancore-Cochin Rs 45 lakhs and West Bengal Rs 80 lakhs.

The Commission professes to have recommended these grants after considering the needs of all the States by certain standards and criteria which were applied without any discrimination. The Commission gave sufficient emphasis to the magnitude of backwardness of the States and to various other problems, viz., West Bengal was bearing additional strain due to the influx of refugees from East Pakistan; progress in Orissa had stagnated and it had an accession of a relatively large backward territory in its merged areas; Saurashtra had a large area and sparse population; Punjab had the influx of refugees and the problem of maintaining law and order; Assam had special difficulties resulting from Partition and a relatively large under-developed area; and Mysore and Travancore-Cochin had limited resources. The grants recommended by the Commission under the Substantive portion of Article 275(1) amounted to Rs 5.05 crores.

Some Shortcomings

The Commission could not formulate precisely the needs of individual States. In 1952, the first Five-Year Plan has been finalised, and each State was allocated certain investment programmes. There was not much difficulty in assessing the fiscal requirements of the States from the point of view of development programmes covering both the revenue and capital side of the budget. The Commission ignored another very important aspect of fiscal need that it did not keep in view, factors like famine and other natural calamities, which are a recurring feature in India. As a technical body the Commission could have formulated some flexible formula by which the backward States, which are relatively more exposed to the vagaries of natural calamities, could had been benefitted. Moreover, the Commission recommended the grants largely on the basis of the financial position of the States as disclosed by their actual revenue and expenditure, with only minor corrections. It may be pointed out that it would be difficult, if not impossible, to ascertain the real fiscal needs of the States from their published budgets on Revenue Account. The budgets of the State Governments are, somewhat complex documents and are not easily intelligible. They conceal more than they reveal. The presentation of the budget varies from State to State. Some items of expenditure included under Revenue Account in one State may be seen under Capital Account in another. The Commission did not take care to make these documents comparable. Since grants were given to the States on the basis of comparative fiscal needs, without making the budgetary position comparable and without taking into consideration the capital budget, the recommendations of the Commission were to that extent anomalous.

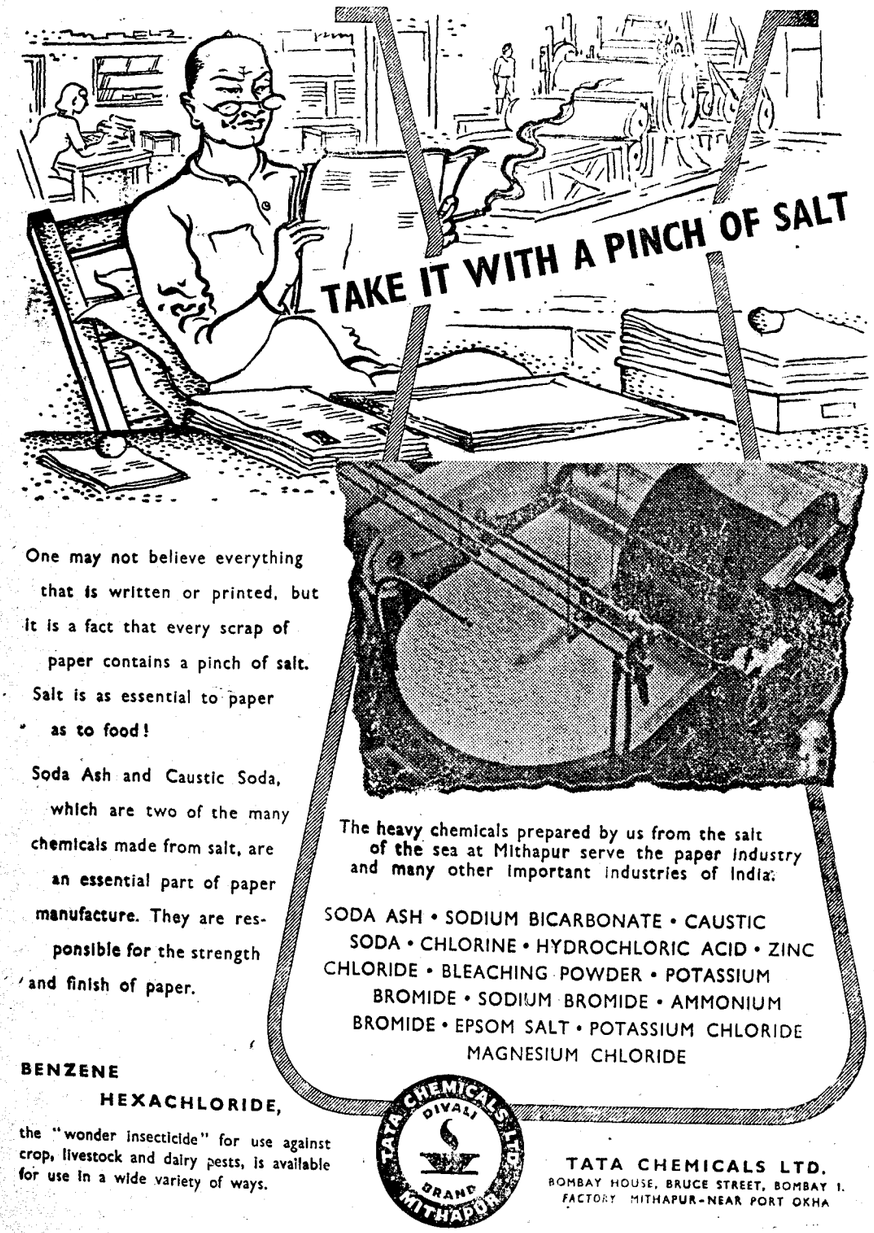
Grants for Primary Education

The Commission also recommended specific grants for the promotion of primary education. In order to measure the financial needs of different States for primary education, the Commission collected the percentage of children between the ages of 6 and 11 who were actually attending schools. On the basis of the population of the State, the number of children in this age group, and children in this age group attending school, the Commission found that the percentage of children attending schools varied sharply, from 10.6 per cent in Rajasthan and PEPSU to 98.8 per cent in Travancore-Cochin.

The Commission made a modest beginning, and recommended that the eight States, where a large leeway had to be made up, should be given grants to advance the cause of primary education. It recommended that in each of the next four years sums rising from Rs 150 lakhs in 1953-54 to Rs 300 lakhs in 1956-57 should be distributed among the eight States in proportion to the number of children of school-going age not attending school at that time. The grants were arranged on an ascending scale to assist the States in planning for their proper utilisation. The grants shown in the Table (See p 1511) were provided to the States under Distribution of Revenues Order, 1953, para 5(1) b and the States were free to utilise them, in any manner, for the purpose of primary education.

Neglected Factors

In recommending these grants the Commission kept in view the num-



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ber of children of school-going age not attending school. This factor, of course, is important for determining the quantum of grants-in-aid. But there are other important determinants, such as, sparsity of population in a State, efforts of the State Governments for the advancement of primary education, etc, which should have been given due consideration. Subject to the availability of data certain criteria like an increase in the number of primary schools and children attending schools during the past five years, the conversion of ordinary primary schools into basic schools, the efforts made to improve the facilities for the training of primary school teachers and measures adopted for avoidance of wastage in regard to primary education should have been given proper weight. To give grants based upon one factor, is unjust, especially to the States which have put in large efforts to promote primary education. Further, some minimum percentage of the school going children and attending the schools, should have been laid down as a standard criterion.

A Paradox

A haphazard treatment of the question, by not giving any grant to any State having a percentage more than 29.3, does not seem advisable. According to the Commission's recommendations, for example, in 1956-57, Bihar with 29.3 per cent of children in the age groups of 6-11 years attending schools is to receive a sum of Rs 83 lakhs, whereas Uttar Pradesh with 34 per cent of such children is not to receive a single penny. Does this mean that Uttar Pradesh being slightly better than Bihar in this respect should altogether be ignored for the period 1953-57, covered by the recommendations of the Finance Commission? It is quite possible that Bihar with Central grants might have improved its position, rather bettered its position, even in the second year of the receipt of such grants. All these implications should be given proper consideration by a technical body like the Finance Commission.

Welfare of Scheduled Tribes

The grants under the Substantive Provision of Article 275(1) were on ascending scale and their amounts increased every year. The grants during 1953-57 were: Rs. 6.65 crores in 1953-54, Rs 7.05 crores in 1954-55, Rs 7.55 crores in 1955-56 (R.E.) and Rs 8.05 crores in 1956-57 (B.E.). The grants under provisos to Article 275(1) are to meet the costs of such schemes of development as may be undertaken by the State with the approval of the Union Government for the purpose of promoting the welfare of Scheduled Tribes in that State or raising the level of administration of the Scheduled area.

According to the Census of 1951, the number of Scheduled Castes people was 5.13 crores and Scheduled Tribes 1.91 crores. According to an estimate of the Criminal Tribes Act Enquiry Committee (1950), the ex-Criminal Tribes numbered 22.7 lakhs in Part A States and in some Part B and Part C States their numbers were large. Since independence an attempt has been made to promote the welfare of these sections, forming about 20 per cent of the total population of India. The Constitution lays down ample safeguards to ameliorate their condition and protect their interests. Seats for these classes have been reserved in the Parliament and State Legislatures. A special provision has been made to reserve posts for them.

Directive Principles

One of the Directive Principles of State Policy lays down that "the State shall promote with special care the educational and economic interests of weaker sections of the people, and, in particular, of the Scheduled Castes and Scheduled Tribes, and shall protect them from social injustice and all forms of exploitation". Under the Constitution the States are primarily responsible for their welfare. But the Union Government is to extend its executive power, under Article 339, to the States in respect of the preparation and execution of welfare schemes for the Scheduled Tribes in the States and under the provisos to Article 275 it is to give grants-in-aid to the States on approved schemes for promoting their welfare. The Government of India have been giving grants for the Scheduled Castes and the Backward Classes since 1945, and for ex-Criminal Tribes since 1953.

The grants under provisos to Article 275(1) amounted to Rs 1.58 crores in 1951-52, Rs 1.59 crores in 1952-53, Rs 2.25 crores in 1953-54, Rs 3.46 crores in 1954-55, Rs 4.73 crores in 1955-56 (R.E.) and Rs 6.06 crores in 1956-57 (B.E.). Except for the State of UP, PEPSU and Travancore-Cochin, all other States of India are receiving grants under this head, whereas in 1950-51 Assam was the only State receiving such grants. More than 50 percent of the grants under this head are being paid to Assam and Orissa. Though under this head grants are given for specific purposes the States are free to finalise the details in the manner they think fit, and thereby these grants are unconditional.

Administrative Changes Needed

The grants-in-aid, under Article 275, in all, amounted to Rs 2.28 crores in 1951-52, Rs 6.77 crores in 1952-53, Rs 9.90 crores in 1953-54, Rs 10.51 crores in 1954-55, Rs 12.28 crores in 1955-56 (R. E.) and Rs 14.11 crores in 1956-57 (B. E.). They formed 7 per cent in 1951-52 and 11.7 per cent in 1956-57 of the total Federal grants-in-aid. They have increased more in absolute terms than in relative terms because in a developing economy the Union Government, under Article 282, is increasingly assisting the States in financing Plan outlays. Thus, Federal grants in India have increased both in depth and in magnitude. There is need at present to develop satisfactory administration whereby the Union Government is assured that its funds are being wisely, economically and efficiently expended.

It is expected that an efficient administration will not only improve the performance of Federal grants-in-aid but it will also improve the

Table Showing Grants-in-aid for Primary Education

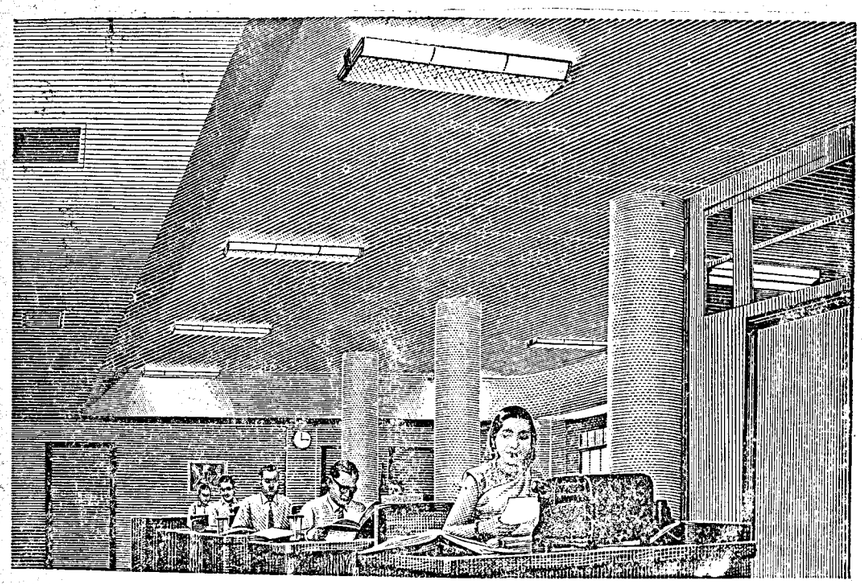
(In lakhs of rupees)

	1953-54	1954-55	1955-56	1956-57
Bihar	41	55	69	83
Madhya Pradesh	25	33	42	50
Hyderabad	20	27	33	40
Rajasthan	20	26	33	40
Orissa	16	22	27	32
Punjab	14	19	23	28
Madhya Bharat	9	12	15	18
PEPSU	5	6	8	9

Source: Report of the Finance Commission, 1952.

standards of State administration. The administration may be given adequate authority to see that the conditions of grants are strictly adhered to. It should have sufficient technically competent staff with practical experience to render various kinds of services and assistance to the State Governments.

It should, however, be kept in view that as long as the State administration is reasonably satisfactory there should be a minimum of Central interference. The Central aid administration staff should distinguish between what is required as a condition of Federal aid and what is merely suggested or recommended. To sum up, grants-in-aid entail some Central control, assistance and co-operation. In view of the increasing size and future role of grants-in-aid the Government of India should adopt a more consistent and rational policy to correct existing defects in the system of grants-in-aid.

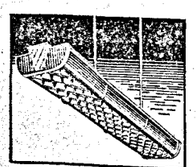


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P 13

Tertiary Production in Economic Development

S Dasgupta

THE purpose of this note is to examine the validity of the widely held view that with the progress of economic development, an increased importance is assumed by the tertiary sector. This popular view owes its origin mainly to Colin Clark's thesis that an important index of a higher level of real income per head is to be found in a high percentage of workers in the tertiary occupations. A transfer of the labour force from the primary to the secondary and from both these to the tertiary sector is thus supposed to be the general morphology of economic growth. (The definition of tertiary production used here is that given by Colin Clark in his Conditions of Economic Progress, 2nd Edition, p 401).

This increased importance of the tertiary sector may mean: either, (1) a rise in the percentage of the country's labour force engaged in tertiary activities; or (2) an increase in the relative share of tertiary products in the volume of national output. Many recent writers have the former meaning in their mind (vide the articles by Messrs Bauer and Yamey, Economic Journal 1951 and 1954 and the discussion by S G Triantis in the same journal 1953). From the point of view of economic progress, however, neglect of the latter is absolutely impermissible. The employment aspect of economic development by itself may signify little, it may merely mean that the tertiary sector has in general a higher absorptive capacity. There is no evidence, however, for us to believe that employment in tertiary activities is necessarily more productive than in primary and secondary activities. In such dissimilar economies as those of Australia, New Zealand, Japan, Britain and Egypt, it appears that per capita output is smaller in tertiary than in primary or secondary activities. The Indian National Income Committee's broad estimates showing the comparatively higher productivity in tertiary production conceal the fact that there are many low income types of tertiary employment in transport, commerce, domestic service, etc.

Had there been no disguised unemployment in various tertiary occupations in under-developed economies, we would have been justified in allocating more labour (or, at any rate, in maintaining the existing volume of employment) to the tertiary sector. The excess capacity in this sector only indicates that the per capita real output here can be increased by making certain improvements in the marketing organisation. But this is likely to necessitate an unchanged or even smaller volume of tertiary employment. Clark's own extrapolations for India show a 104 million increase in secondary employment by 1960, whereas the absolute volume of tertiary employment remains constant. The high percentage of tertiary employment in backward regions is just the opposite of being an index of prosperity.

The meaningfulness of Clark's sector classification is open to question because of the residual nature of the tertiary group which is but a collection of such non-homogeneous activities as distribution, transport and public administration at one end of the scale and domestic service at the other. When, therefore, correlation has been claimed between economic progress and tertiary production in different countries, the different instances of correlation have not qualitatively referred to the same two variables. The term "services" has been used by different authors to designate different items or groups of items. The Bombay Plan, for example, regarded as "services" those activities which are ancillary to industry. This is a narrower (though probably more meaningful) grouping than Clark's tertiary employment, "... but even then a precise relation between the rates of growth of industrial and 'service' employment is difficult to establish and any assumption would be almost as valid as another" (B Datta: Economics of Industrialisation, p 135.)

A G B Fisher's tripartite classification sets income elasticity of demand for products as a criterion: tertiary products are those which have a high income elasticity of demand. This clearly is misleading. For the income elasticity of demand for a product (and for that matter, the concept of tertiary production) will vary according to place and time; in backward countries, particularly, the consumption pattern is very considerably governed by institutional factors. The other important factor is the pattern of income distribution. The larger the share of increased national income accruing to low income groups, the smaller is the chance that the nation's average propensity to consume tertiary products will rise. The impact of the fresh purchasing power is likely to fall on food. In advanced countries, too, no predictable pattern has been observed.

What is therefore important for us to note is that the idea of tertiary production is not only conceptually but also operationally misleading. There may not arise any serious controversy regarding the necessity and desirability of occupational shifts in a developing economy, but the concept of teriary production is absolutely irrelevant in that context. An unqualified shift of activities to the Clarkian tertiary sector may not cause economic development of any significance. Professor Fisher makes it clear when he says that "the fundamental truth that there is no invariable natural 'balance' between types of production, and that the relations between them require never-ending readjustment to changing circumstances".

In planned economic development, accordingly, the relation between various occupations will have to be determined not by whether they are primary or secondary or tertiary, but according to their worthwhileness in respect of the target variables. The allocation of labour therefore would be conditioned by the respective needs of the different branches of production, and not the other way round. This suggests the vulnerability of the case for a tertiary-biased occupational reorganisation.

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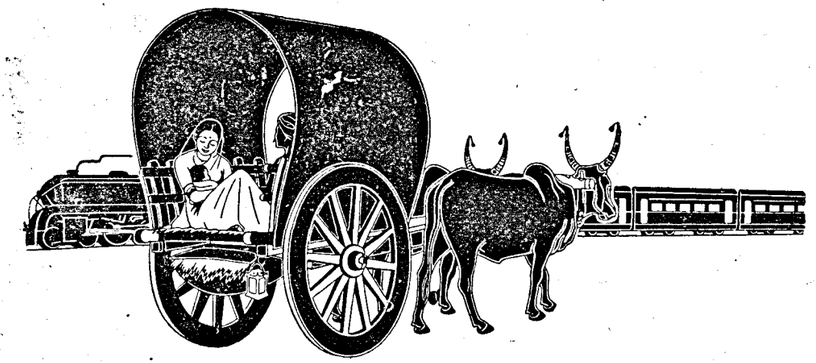
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Nehru-Eisenhower Meeting

(From Our Delhi Correspondent — Delayed in transit)

PANDIT NEHRU'S considerable capacity for backing friends and promoting people is tempered by an unerring instinct. Shri Krishna Menon, Shri S K Dey and, at a lower level, Shri K K Sahni have, in the recent past, needed and received his unwavering support. Significantly however, the Prime Minister's loyalties are limited to persons and do not extend to their policies. The ire roused by Shri Menon in the counsels of the Congress can hardly be compared to the gentle murmurs of disapproval evoked by Shri Dey in some corners of the Planning Commission and the Secretariat. Nor would it be expected that Shri Sahni's proposals for a probe into oil prices and his suggestions for creating a new Ministry for Fuel and Power could easily pass muster.

It must be said to the credit of Pandit Nehru however that he stood by Shri Menon like a rock when the Minister without Portfolio was being criticised trenchantly in the Congress Parliamentary Party and the country for voting against the earlier resolution in the U N General Assembly on Hungary. With some heat, Pandit Nehru told the Congress MP's that Shri Menon's decision was right and India would act on similar lines should occasion arise again. A similar occasion presented itself the very next day and India's vote was different! Since then the views of thinking Indians who have not seen eye to eye with Shri Krishna Menon on this issue have been conveyed to Pandit Nehru at least on two or three occasions. The Prime Minister's answer was invariably bleak silence.

There is no gainsaying that Shri Menon's saturnine personality, his penchant for the brilliant phrase and, his genius for vitriolics excite a certain allergy in the U S State Department. Canada, which has lately been closer to India than most states in the West, does not exactly present a hospitable political front to Shri Menon. And most important of all, the Minister without Portfolio succeeds in irritating quite a few of his country's friends in the Asian-African bloc.

New Delhi is thus looking forward to the Ike-Nehru talks in Washington next week with mixed feelings. It is hoped that proximity of Shri Menon would not weigh heavily on the atmosphere. On the other hand, Mr John Foster Dulles is as unpopular in the uncommitted world as Shri Menon is in certain circles in the United States. That Pandit Nehru and President Eisenhower will be able to get away to Ike's farm in Gettysburg for a day for talks all by themselves, unaccompanied by their advisers, is therefore a prospect that is being regarded with some hope and confidence.

Hungary is bound to figure in the discussions between the two leaders. The Indian views on the Hungarian problem have undergone a wobbly change during the last five weeks and, in the final picture, India today is closer to the West on this issue than on any other in the Cold War. The despatches of Shri K P S Menon and Shri J N Khosla have helped clarify the situation and the fact that Pandit Nehru made a surprise statement in Parliament to reveal their content was evidence of his desire to create a favourable atmosphere for his talks with the U S President.

Pandit Nehru, on his part, is likely to raise the question of military pacts. India is convinced that the Baghdad Pact—a potential source of danger not only to world peace but to peace on her own frontiers—is dead and nothing can revive it except the U S. It is obvious that U S at the moment, is unwilling to join the Pact for fear of splitting the Arab World. America has gained a measure of Arab sympathy because of her stand on the Suez issue; she would forfeit it by aligning herself with Iraq, Iran, Turkey and Pakistan because Syria, Egypt, Saudi Arabia and Jordan would greet the move with positive suspicion if not dire hatred. On the other hand, the U S, which is a member of the Economic Council of the Baghdad pact powers, has recently guaranteed the territorial integrity of the member nations. This virtually means that the U S has underwritten the Pact and whether Pandit Nehru can persuade President Eisenhower to stop at that is a moot point. There seems to be meagre chance however that the U S would regard its recent declaration as merely a "pious wish". Requests for American military aid to the member nations are likely to follow and might even be made on the present if not an enlarged scale. Any defection from the natural course of American policy that Pandit Nehru is able to bring about would be India's gain because there is always a possibility that arms supplied for defence against Communism may actually be used in Kashmir.

If reports that the Indian Prime Minister's good offices may be sought by President Eisenhower for a solution of the Suez problem are correct, as is likely, it would be easier for Pandit Nehru to press home his point: the Baghdad Pact is as much an anathema in Cairo as in New Delhi. On the other hand, a solution of the Suez problem would remove one reason for the State Department's hesitation to join the Pact. India's good offices, if sought, would not however be withheld on that account.



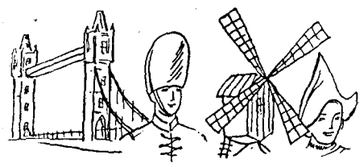
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From the Chair

India Steamship Company Limited

Speech of the Chairman Sir A Ramaswami Mudaliar

THE Twenty-eighth Ordinary General Meeting of the Shareholders of the India Steamship Company Ltd, was held on Wednesday, the 12th December at the Registered Office of the Company, 'India Steamship House' 21, Old Court House Street, Calcutta. Sir A. Ramaswami Mudaliar, K.C.S.I. D.C.L. (Oxon.), Chairman, presided.

The proxies received for the meeting were placed on the table and the notice of the meeting was read by the Assistant Secretary. The Chairman delivered his Speech and thereafter asked the Shareholders whether they had any questions to put with reference to the Directors' Report and the Audited Balance Sheet and Profit and Loss Account for the year ended 31st March, 1956.

In answer to a question regarding the sale of the Company's vessel—the 'INDIAN IMPORTER', the Chairman said that as the vessel was built in 1929 and was due for special survey shortly, the Directors decided to sell this vessel. No loss was incurred by the sale.

Another shareholder wanted to have a statement of the tonnage carried by the vessels of the Company. This information was supplied and further reports will show both the tonnage and freight earnings.

Certain items in the Balance Sheet were referred to by one of the shareholders, who wanted information about these items which were furnished. The increase in the salaries and wages was referred to and this was explained as due to the increase in the number of the vessels of the Company as also the revision of the salaries and wages of the staff and more amenities which had to be provided after negotiation with the Unions concerned.

The following resolutions were unanimously adopted:

The Directors' Report and the Audited Balance Sheet and Profit and Loss Account. The dividend of 5% tax free on Preference Shares and an interim dividend of Rs. -|8|- per share and a final dividend of a further Rs. -|8|- per share on the ordinary shares was adopted.

The Meeting adopted the resolution that Sir A. Ramaswami Mudaliar do continue as a Director of the Company and that the age limit under Section 280 of the Companies Act shall not apply to him.

It was also resolved that both Sir A. Ramaswami Mudaliar and Sir Bijoy Prosad Singh Roy who are Directors and members of the Managing Agency Company do continue as Directors of the India Steamship Company Ltd.

It was further resolved that the Maharajadhiraja Sir Udaychand Mehtab Bahadur of Burdwan, Mr. S. C. Roy and Mr. R. K. Mitra, I.C.S., be elected Directors of the Company.

Messrs. G. Basu & Co., and Messrs. Singhi & Co., Chartered Accountants, were appointed Auditors for the current year and their remuneration fixed.

The vote of thanks to the Chair and to the Managing Agents for their excellent management of the Company were adopted unanimously.

Chairman's Speech

The following is the text of the Chairman's Speech:—

Gentlemen,

The Audited Accounts and Directors' Report for the period ending March 31st 1956, has been in your possession for some time. With your permission, I shall take them as read.

Trading Experience

The Directors' Report shows that the freight earned during the year is Rs. 5,26,11,831 against Rs. 4,01,00,132 the freight earned in the previous year. The increase in freight is partly accounted for by the new ships which were added to the fleet by your Company and partly by the slightly less time taken in the turn-round of the ships. The delay in ports, however, has not materially decreased, a fact to which I shall make reference later. It must, therefore, be a matter of satisfaction to you that in spite of these handicaps the Company made a profit of Rs. 80,22,918 before providing for depreciation and a net profit of Rs. 38,72,859 after providing the full amount of depreciation of Rs. 41,50,059.

Delay in Ports

I referred in my Speech last year to the report of the Vasist Committee which dealt with conditions of Dock Labour in the various ports in India and made certain recommendations to improve the position of Dock Labour and promote the better turn-round of ships in these ports. These recommendations were accepted by the Government of India and most of them have since been implemented. In the port of Bombay the piece-rate system has been introduced and is stated to be working fairly satisfactorily. This system has yet to be introduced in the ports of Calcutta and Madras. To the difficulty of getting a satisfactory out-turn of work from Dock Labour in these ports has been added the further difficulty of finding berths for ships both for import and for export. The capacity of these ports to handle freight and to berth ships is limited. The plans of the Government to increase industrialisation both in the public and in the private sector and to force the pace of progress in other directions has necessarily resulted in a greater volume of traffic which has to be handled at these ports and in a larger number of ships entering these ports for which the ports are not adequately equipped. It is a matter of some satisfaction that the Government has become aware of this aspect of the question and that the Transport Department through its Secretary and other officers and through the Chairmen of the various Port Trusts is taking active steps to improve the capacity of these ports. Mechanical equipment, adequate railway sidings, mobile and electric crane facilities for mechanical handling of certain types of cargo and more berths in all the ports are urgently required and I trust that these will be provided for, at a very early date.

Labour at the ports, both Dock Labour and Port Labour have no doubt to be kept in a contented state and Shipping Companies have expressed their willingness more than once to make any reasonable contribution for the satisfaction of the legitimate demands of labour. It must, however, be regretfully

pointed out that certain sections of labour are prone to put forward what should be considered as unreasonable demands and frequently their alarms and excursions to which the Shipping Companies are subjected have a detrimental effect on the international trade and commerce of the country. I do trust that Labour Leaders and those administrators in charge of labour both in the States and at the Centre will devote equal attention to securing the legitimate rights of Labour and enforcing their patent obligations.

Progress

At the last meeting I referred to the fact that the two ships which had been ordered in 1954 were on commission and were added to your fleet and that two more ships of the same class were under construction. These ships have now been delivered, one in March 1956 and the other in June. The 'INDIAN IMPORTER' a second-hand ship of 1929 has been sold and the loan which was taken from the Government for the purchase of the Coastal vessel, the 'INDIAN COMMERCE' has been fully paid-up. There are, therefore, twelve ships including the 'INDIAN COMMERCE' in the Company's fleet. Your Directors aim at having a fleet of eighteen ships before 1960 all operating on the INDIA U.K. CONTINENT route, and orders have been placed for the construction of six more ships which will be delivered at the rate of two per year during the next three years.

The Company has also placed an order with the Hindustan Shipyard Ltd., for a vessel of 5500 tons which may be utilised either in the Coastal trade or in the trade Overseas.

The assistance which the Government of India has readily given by way of loan has enabled the Directors to plan this programme, and in a period where the ship-building yards in foreign countries are fully booked to take advantage of the offer of the German shipbuilding yard of Howaldtswerke, to order these ships.

Since March, 1956, your Company has also undertaken at the instance of the Government, to put two of your ships regularly on the India|Black Sea route to enable exports to and imports from the Soviet Union and in particular to afford shipping facilities for the large quantity of plant machinery and material required for the Bhilai Steel Plant. This undertaking has naturally reduced the number of ships available for the INDIA|U.K.|CONTINENT trade.

I should like to repeat that the Directors have kept the financial commitments of your Company, in regard to the loans taken from the Government, closely under review and are confident that there will be no difficulty in meeting these commitments provided of course there are no serious upsetting developments beyond our control.

The loans granted by the Government for the construction of ships overseas require exchange facilities for payment of instalments to the ship-building yards as they become due. I should like, however, to point out that ships of Indian companies engaged in Overseas trade earn and save enough foreign exchange to meet the requirements for transmission of the instalments due to the ship-building yards abroad. It is needless to add that this is a continuous source of foreign exchange earning and that, therefore, the sooner the tonnage of the Indian companies expand the greater will be the foreign exchange earned by them. These invisible earnings are a considerable factor for every maritime country in dealing with the exchange problem.

Public and Private Sector

The industrial policy statement of the Government of India declares that sea transport belongs to the second category of industries which will be developed both by private enterprise and by the State, so as to accelerate progress. The need for Indian Shipping to operate on various routes on which at present there are no Indian ships operating is unquestionable. The two Shipping Corporations that have been recently promoted in the public sector have, therefore, a free field in which they can operate without in any way jeopardising the interests of the Shipping companies in the private sector. I am glad, therefore, to bring to your attention that the Hon'ble Minister for Transport has stated at the last Annual Meeting of the Indian National Steamship Owners' Association, as follows:—

"I may state it very clearly that it is not our intention that Shipping in the public sector should run in competition on routes in which existing private Shipping companies have established themselves."

I trust this categories statement of the Hon'ble Minister will continue to be a basic policy in the expansion of Shipping in the public sector.

Suez Crisis

I feel bound to refer to the serious problem which has emerged during the last few weeks owing to the fact that the route through the Suez Canal is not now available and will not be available for some considerable period. It will be inappropriate for me on this occasion to deal with the political and other aspects of the crisis which resulted in the closure of the Suez Canal. The Company has had, however, to face a series of problems of readjustment of the sailing schedules of your fleet, problems of insurance and of obtaining bunkers and water at new ports of call consequent on the diversion of your ships to the longer route via Africa. These problems, I am glad to state are being satisfactorily dealt with by your Company.

The policy of your Directors in providing a speed of 17 to 20 knots in the new ships has not only contributed considerably to increased freight earnings but has also enabled the Company to keep its sailing schedules fairly in line with the requirements, a factor which is of so vital importance at a time like the present when the Company's vessels have to take a longer route on account of international developments.

The events which have led to the Suez Canal problem, the conferences that have been convened from time to time to consider the issue, and the position that certain maritime countries have taken with reference to the Suez Canal, all emphasize the need for building up the country's fleet as rapidly as possible. Our status and our dignity as a maritime country seem to require possession of a sufficiently large mercantile fleet despite our position in the international trade of the world, if we desire to have tangible share in the settlement of these grave problems.

I feel certain that the expanding policy which your Directors have adopted will be appreciated whereby there will be at least 18 ships on the INDIA|U.K.|CONTINENT trade apart from the two ships earmarked for the Black Sea Trade by the end of 1960.

Government Loans

I have referred to the loans that have been sanctioned by the Government enabling us to launch on the expansion of your fleet. We are grateful to the Government for the assistance given so far and we trust that this assistance will continue in the same measure for a further and quicker expansion of the fleet of Indian companies. It is further hoped that some of the terms and conditions of these loans may be liberalised to a reasonable extent. I must take this opportunity of stating that the achievements of the Indian Mercantile Marine have been by no means inconsiderable. National Shipping has established itself in the Overseas trade, against heavy odds, by maintaining a high standard of efficiency and service and has in no small measure assisted the development of India's National Overseas trade.

In the matter of training Indian personnel as well, for key positions in the Mercantile Marine, the Indian companies have done their best and in the coming years the dearth of technical personnel I am sure, would not be so seriously felt in this industry. In these circumstances, I have no doubt that the development of National Shipping in the private sector will continue to be encouraged by the Government and any suggestions which would adversely affect such development will not be looked upon with favour by the authorities.

Earnings and Dividend

The earnings of the Company have been noted in the Directors' Report. I have had during the last two years the not very pleasant duty of informing the shareholders that the Directors were unable to declare dividends on Ordinary shares. It is, therefore, some relief and consolation to me that this year we are able to announce the payment of an interim dividend of Rs. -|8|- per share and are now proposing to pay a further final dividend of Rs. -|8|- per share on Ordinary shares.

I should like to take this opportunity of thanking the shippers both here and abroad, for the very generous support that they have given to your Company. Thanks to the fast ships which form our fleet and to the courteous and prompt service which is forthcoming at all ports, the India Steamship Company holds a very high position in the esteem of shippers in different parts of the world. Our shippers have recognised this by their patronage.

Transport Minister's Resignation

I cannot conclude this Speech without reference to the resignation of Shri Lal Bahadur Shastri, Minister-in-Charge of Railways and Transport. I do not wish to make any comments on the constitutional propriety which necessitated such resignation or on the parliamentary traditions which it is stated to have helped in building up. I can only refer to the deep regret which is felt almost universally in India at this resignation. The contribution which Sri Shastri has made to the cause of Indian Shipping, his earnest and enthusiastic support in expanding the Indian fleet and his deep understanding of the problems of Indian Shipping companies has been widely recognised. The personal characteristics of Sri Shastri, his modesty, unassuming manners and his desire to avoid publicity have been appreciated widely. I have no doubt that he will shortly be called upon to fill again high and important posts in the Cabinet of the Government of India. I should like to extend to him on your behalf our good wishes.

New Director

It gives me great pleasure to inform you that the Board has been strengthened by the addition of another Director Mr. R. K. Mitra, I.C.S., Chairman of the Commissioners for the Port of Calcutta. His knowledge of port working and its conditions has been of great help to the Board.

Tribute

The Company has been well served by all its officers afloat and ashore of all ranks and by its Agents and brokers. On your behalf and on behalf of the Directors I wish to convey our thanks to all of them for their good and enthusiastic work throughout the year.

It only remains for me now to thank you gentlemen for your attendance at this meeting and to join you in the hope that the Company will prosper in the years to come thanks to the good and enthusiastic work of our staff.

I shall be glad to answer any questions which shareholders may wish to ask regarding the Accounts.

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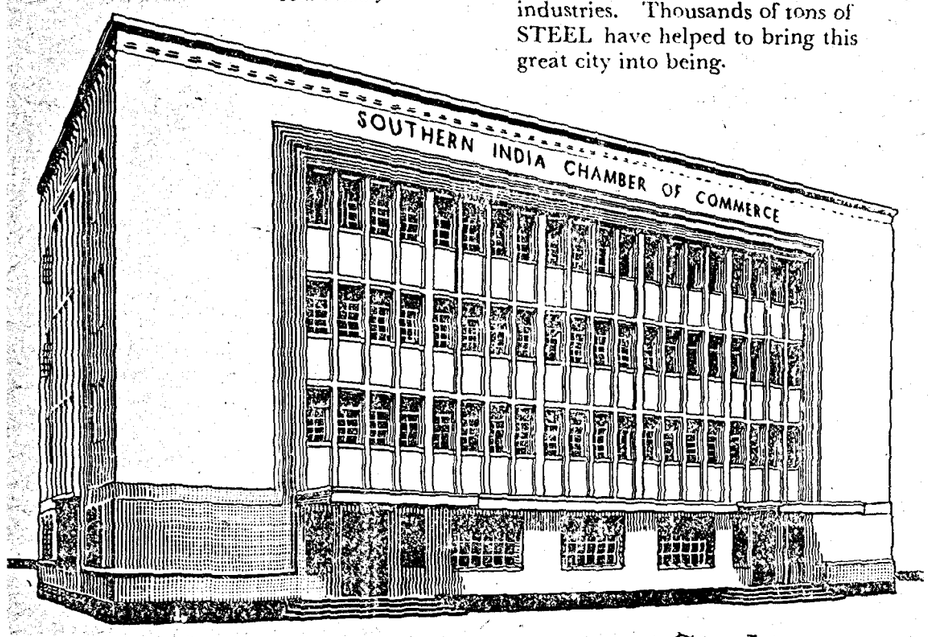
there was once naught but the city's site." OVID

Madras



Madras street scene —18th Century

February 1640. Sailing along the Eastern coast of India Francis Day reached a tiny village of a few scattered huts. In a short time human hands raised a small town of palm-thatched mud houses. In the course of the centuries on this very site has arisen a modern city with well laid-out roads, palatial buildings, a busy port and harbour, and flourishing industries. Thousands of tons of STEEL have helped to bring this great city into being.



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Company Meeting

The Delhi Cloth & General Mills Co. Ltd.

Speech of the Chairman Sir Shri Ram

SPEAKING to the shareholders of the Delhi Cloth & General Mills Co, Ltd, at their Annual General Meeting held on the 18th December, 1956, Sir Shri Ram, Chairman of the Company, stated that the profits continued to be satisfactory. The Company also continued their policy of steady expansion and modernisation the investment on these during the year being of the order of two and a half crores of rupees. During the year, the new textile Mill at Hissar went into fuller production. The Silk unit at Delhi went into production too, and capacity was expanded in the Vanaspati, Caustic Soda and Sugar plants. Proceeding, Sir Shri Ram said:

As constituents of a nation determined to raise its living standards, each one of us has a duty to perform vis-a-vis the Plan. And it is in this spirit of constructive co-operation that I will draw your attention to a few aspects. And I would, in all humility, suggest to brother industrialists that they might give up raising the question of the private sector versus the public sector, in season and out of season, as instead of doing any good, probably it does harm. Enough room has been left for the private sector, I believe, even in the Second Plan.

Cloth Exports

For reasons well-known the gap in foreign exchange resources anticipated in the course of the Second Plan period has further widened. Under the circumstances, even greater responsibility devolves upon the cotton textile industry, one of the more important foreign exchange earners.

I believe that the export of cotton textiles can be raised to 1,000 million yards, and perhaps even higher. For solving the various problems involved in achieving an expansion of our export trade in textiles, I would suggest a meeting of all the interests concerned—the Ministries of Commerce, Industry, Finance, Railways and Labour and the representatives of industrialists and leaders of labour.

While the production of mill-made cloth has gone up year after year, as may be seen from the figures I give below, it is regrettable that the exports have been declining, and have consistently fallen short of the First Plan target of 1,000 million yards. This state of affairs must cause concern to the industry as much as to the Government.

Production and Exports of Mill-made Cloth
(M yards)

	Production of Mill-made cloth	Exports of Mill-made cloth
1953-54 ..	4,964	740
1954-55 ..	5,034	761
1955-56 ..	5,101	680

In other words, on the basis of current indications in 1956-57 India will export only about 127 out of every 1,000 yards of mill-cloth produced as compared to 151 yards in 1954-55.

While on the subject, I am glad to say that the D C M have not only maintained the volume of their exports, but even increased it substantially, very often at profit considerably lower than could have been earned by the sale of the same cloth in India.

D C M Cloth Exports

	Value of D C M Exports (Lakh Rupees)	Index (1953=100)
1953 ..	76	100
1954 ..	156	205
1955 ..	184	242
1956 (approx.)	220	289

Why are exports declining when it is crucial to ensure that exports expand to substantially higher levels? The answers are simple enough. On the one hand, demand in the home market has shot up tremendously making it more profitable for mills to sell in the home market. On the other hand, the Government policy of not allowing the expansion of the mill industry on the weaving side has prevented the supply of mill-cloth from expanding in proportion to the growth of internal demand and has tended to exert a general, upward pressure on prices. The statistics given below bring out the nature of the impact of the higher home demand.

Pressure of Home Demand

In other words, in spite of the limitation on weaving capacity inside mills, the country absorbed in these years nearly twice as much extra mill-made coth as it produced, and secured this excess over the rise in production from two sources—stocks and exports. In 1956-57 alone, as compared to 1955-56, the rise in the demand for mill-cloth will be of the order of 475 m. yards, almost double the growth —250 m. yards—in 1955-56 over the preceding year. May I point out that since stocks have been already reduced drastically, future increases in home demand may affect the level of exports even more decisively?

Attention must be directed to the resolution of this paradox of the imperative need for more cloth exports, on the one hand, and the continuing diversion of exports, on the other to the home market pressed for ever-larger supplies.

The gravity of the situation has now been recognised by the Government, who have already announced an upward revision of the

Table Showing Impact of Higher Home Demand
(M Yards)

	1954-55	1956-57*	Change
1. Production of Mill-cloth	5,034	5,350	+316
2. Exports of Mill-cloth	761	670	— 89
3. Stocks (with mills) of Mill-cloth	(approx) 460	Less than 200	—260

*Estimated on the basis of current trends.

cloth target to 18.5 yards per capita and also promised a further review of this figure. The Government, as you know, have also decided to license the installation of 14,600 automatic looms whose output will be channelised more or less fully into export. I welcome these measures. However, with all humility, I would like to point out that marginal raising of the per capita target by half a yard over its original level of 18 yards is not enough. The target must be raised to at least 20 yards in 1960-61, for reasons now adduced often enough, and all arrangements for attaining the target, inclusive of sanctioning of new weaving capacity for the home market, about 30,000 looms—both pain & automatic, must be taken in hand well in time. The country cannot afford to risk shortage of cloth, next in importance only to foodgrains in the average consumer's budget. And equally, we cannot risk the loss of our export markets.

Handloom Industry

The fear that the increase in mill capacity will adversely affect the handloom industry, is, in my opinion, unwarranted. Anway, to the extent to which it is necessary in the opinion of the Government to augment handloom production, it can be done by fixing annual targets of total cloth requirements, and allowing to the handloom industry a progressively rising proportion of the target in each succeeding year, provided the handloom industry can undertake the necessary productive effort. I will even suggest that if production inside mills is found at any stage to be restrictive of output in handlooms, resort can be had to sealing of a small percentage of mill looms. But in working out our policies in the matter of cloth production, we cannot avoid the the compelling consequence of reduced exports so long as output of mill cloth does not expand more or less in proportion to the growth in home demand, the magnitude of which I indicated earlier.

I am sure that the policy of the Government to allow installation of automatic looms, earmarked for export, will afford some relief, but it is obvious that this relief will take a long time to materialise. In fact, I apprehend that about 18 months will lapse between now and the time when the output of these new looms becomes fully available for export. The granting of these licences, I think, is hedged in with too many restrictions, and in view of the much higher capital cost of automatic looms and other required equipment, the level of returns on the investment appears to be unsatisfactory. More so, when viewed in conjunction with the fact that the export price realisation will be definitely on the lower side. It is possible that this will affect adversely the total implementation of this policy in the time desired. I may also point out that time lags are already in evidence in the obtaining of machinery from abroad, a factor of particular importance in the case of automatic looms.

Export Quota

Moreover, under this policy the obligation to maintain the previous level of export rests only on those mills which are sanctioned looms under this new scheme. There is no such obligation on other mills. In the result, it is possible that to a large extent, the effect on the volume of exports will be only substitutive and not additive, as is to be desired in the interest of the country.

While this policy to increase the production of mill cloth is being worked out, it is necessary to maintain and add to the exports. In my opinion, the interest of the country will be served better if the task of exporting cloth is distributed more equitably among all composite mills by insisting on the export of a certain minimum percentage of output of cloth. In the first instance, the percentage might be fixed lower but as soon as possible it should be revised upward, as is required in the overall interest of the exchange position of the country, of course keeping in mind the broad conditions affecting the international trade in textiles. The provision of transferability of quota from mill to mill will generally meet the particular difficulties of any individual producer, without affecting the desired volume of exports in a period of rising and more profitable home demand. The time has come when our export performance must not merely be the sum total of the efforts of a few units but the reflection of an industry-wide effort in the national cause of earning the needed foreign exchange.

Cost Increases

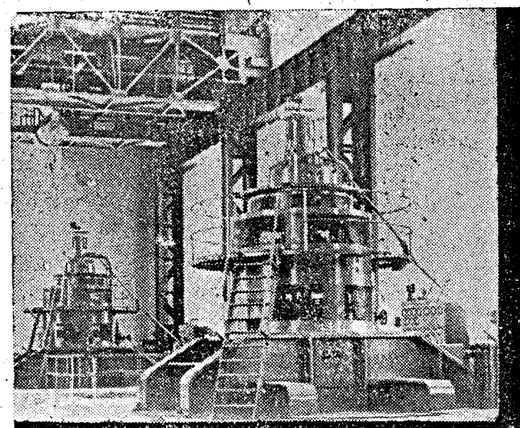
A general impression appears to have arisen that the increase in the prices of cotton cloth during the last one year or so is due to the expansion of the margins of mill profit. I would like to point out that at the same time that profit margins have widened the industry has been faced with the general problem of costs rising in almost every major aspect of its operation. Thus, in the course of the last season cotton prices rose by 20 to 40% for different varieties. Labour costs have risen, dearness allowance rates having gone up by 10 to 25% in different centres in October 1956 as compared to May 1955. And the quantum of the increase may be judged from the fact that the Dearness Allowance payable to a worker in our textile units in Delhi rose from Rs. 48-14 in May 1955 to Rs. 62-12 in December 1956. Likewise, coal rates have increased by nearly 25%; and railway freight charges were revised upward in the last budget by 6-1/4%.

The upward price trend in the cloth market during 1955-56 is thus a reflection, for the most part, of cost increases, and not of unduly extended profit margins for the producer.

I welcome the assurance given by the Finance Minister that in the administration of the recently enacted provisions regarding the compulsory deposit of varying proportions of current and accumulated reserves with the Government no hardship will be caused in the current operations of Companies. Speaking as the Chairman of the Board of Directors of a Company where almost every Board Meeting deals with some sanctions for capital expenditure, I know that fixed capital expenditure in any established concern will be a more or less current flow in time. In administering the new regulations about deposits, care will have to be taken to see that delays do not obstruct the even flow of investment. I am confident that in the actual operation of the scheme by the Finance Ministry, this aspect will receive due attention.

Before I conclude, ladies & gentlemen, let me express my appreciation of the efforts of all my colleagues, big or small. I convey my thanks to them.

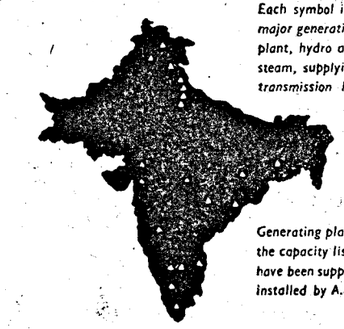
Note: This does not purport to be a record of the proceedings of the Annual General Meeting.



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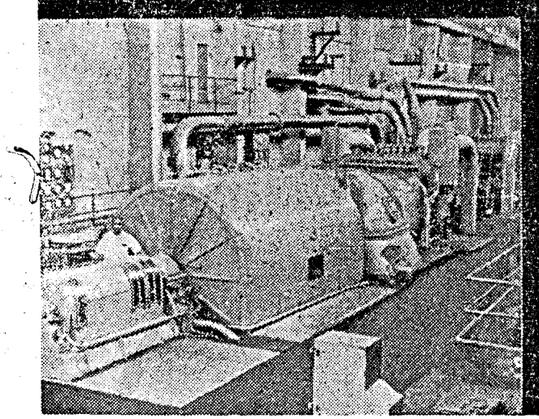
- Khaperkheda 30,000 KW
- Ramgundam 37,500 KW
- Ahmedabad 1,35,000 KW
- Surat 15,000 KW
- Visakhapatnam 6,750 KW
- Tatanagar 55,000 KW
- Kashmir 6,000 KW
- Jogindarnagar 48,000 KW
- Greater Calcutta 1,61,000 KW
- Madras (Basin Bridge), Pykara, Mettur, Papanasam and Moyar 2,15,450 KW
- Mysore (Jog) 48,000 KW
- Travancore 22,500 KW
- U. P. (Harduagang), Bahadrabad, Bhola, Sumera & Muhammadpur 40,600 KW
- Bhakra dam 500,000 KVA

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Around Calcutta Markets

Hopes and Fears

Wednesday Evening

As TTK sought authority from the Lok Sabha to raise the existing excise duties, subject to a maximum of 50 per cent of the present rates, equities sagged further earlier in the week. At the time of this writing, equities are slightly above the lowest levels touched recently. But investors remain away from the market. And the improvement, whenever it occurs, is mainly due to replacement buying by speculative interests. Speculators are hoping that, as equities remain steady for some days, investors will be induced to enter the market.

That remains to be seen. Meanwhile, the technical position continues to be intriguing. There has been some liquidation by investors since the higher super-tax on dividends and the capital gains tax. But the sharp fall in equities cannot be due to liquidation alone. Indeed, there is absolutely no reason why holders of, say Indian Iron, should have sold out, as the IISCO dividend remains unaffected by the latest tax proposals.

"Short" Interest

Slump in clearing shares is mainly due to the speculative selling pressure. In the recent fall, the technical position has been reversed. In Indian Iron, for instance, there was a considerable "long" interest some time ago. This "bull" position was maintained, despite the adverse interpretation of the Government's policy relating to dividend and to the premium for the right issue. But, in the last three weeks, weak "bulls" have been eliminated.

Not only is there no longer a "long" position in Indian Iron and in some other clearing shares. It is evident that, in active speculative scrips, there is now a "bear" position. If the speculative selling pressure has accentuated that recent fall, the existence of a heavy "short" interest is a reminder that, in the absence of any further untoward development, "bear" covering may push equities up. "Shorts" have not yet covered their sales. When they square-up their positions, equity levels may temporarily move up.

World Bank Loans

Two factors helped the slight recovery in equities in the last two days. Reports about possible loans by the World Bank came at a time when stock markets were in a mood to respond to encouraging news. One World Bank mission will soon visit India. A bigger mission is expected some time later. Press reports indicate that New Delhi is optimistic about World Bank loans for the Second Plan. It is doubtful whether market expectations that World Bank loans will total Rs 500 crores will materialise.

But it was not without significance that stock markets preferred to be optimistic about World Bank loans in justifying a slight recovery in equities. Even those who do not share the optimism of stock markets will concede the importance of World Bank loans for the Second Plan. Nor will it be denied that liberal World Bank loans will have healthy effects on the economy and, hence, on stock markets.

Excise Duties

Another favourable development was the assurance by TTK that he had no intention to use immediately the powers sought by him to raise the existing excise duties. It may be questioned why, or whether, equities should drop on the possibility of increases in excise duties. These excise duties have been justified on many grounds. Higher excise duties may check consumption, and, thus, affect savings. This is debatable so far as excise duties on life's necessities are concerned.

New Delhi is blunt about its intentions. One of the objects of the Bill, which seeks Parliament's authority for raising excise duties, is that, "in the present price situation, it may be necessary both for encouraging exports and for mopping up excessive profits." Stock markets cannot be unconcerned about any move to mop up excess profits. Nor can stock markets be blamed if equities drop when the Government seeks such powers.

Bonus Shares

There is a section of the market which is hopeful that the latest tax proposals will encourage the issue of bonus shares. There are two arguments in support of such an assumption. One is that the tax on bonus issues has not been raised along with the increase in dividend taxes. Another is that bonus shares are not to be treated as capital gains for the purpose of the capital gains tax. So long as the present capital gains tax is not amended, and with no increase in the tax on bonus shares, market expectations cannot be regarded as illogical.

But those who are banking on bonus shares need the reminder that some adjustments in the capital gains tax are inevitable by the next budget time. Here, it is relevant to emphasise that bonus shares are likely to be treated as capital gains when the capital gains tax is properly readjusted. Meanwhile, there is not likely to be a spate of issues of bonus shares.

Engineering Shares

Recovery, in Tea shares has proved to be short-lived. It is still presumed that many tea companies will rather pay the higher dividend taxes than reduce dividend payments. But the hesitant trend in Tea shares seems to be partly due to the irregularly lower trend in weekly auction prices. Despite the continued steadiness in jute goods, jute shares remain inactive. So are Paper and Coal shares. Hesitancy in these groups of shares is not surprising because of the general downward trend in equities.

Inactivity in Miscellaneous and Engineering shares is, no doubt, a reflection of the prevailing nervous feeling in stock markets. But these groups had remained subdued even before the imposition of the latest taxes. This would seem rather surprising. For, it is widely conceded that engineering industries, along with the iron, and steel industry, have expended considerably in the last two years. All this expansion has not yet been reflected in the values of Engineering shares. If and when the stock market moves up Engineering shares should lead the recovery.

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Around Bombay Markets

Confidence at Low Ebb

Thursday, Morning

THROUGHOUT the week under review, sentiment in the stock market was distinctly bearish due largely to the Union Finance Minister's emphatic reiteration about further taxation. His obsession for more and more taxes and his promise to assume the role of Robin Hood, if need be, and ask for more taxation, twice, three times or even four times in the course of a year was sufficient to unnerve the bulls. As a result there was a perceptible decline of values early in the week. Of course, there was an attempt at recovery towards the middle of the week, only to be followed, at the close, by a fresh setback which underlined the inherent weakness of the market.

The bearish trend of the market, as we have been stressing in these columns, is destined to continue as long as operators have to contend with (i) continued tightness of money; (ii) labour demands for increased wages; and (iii) more and more taxation in the months to come. The only silver lining in an otherwise gloomy prospect is the promise of a chain of bonus issues. This might support the market at these critical times and provide a semblance of recovery. In fact, during the middle of the week, there was a perceptible improvement in share values, on reports of a bonus issue by Calico Mills of Ahmedabad (which was also expected to declare a handsome dividend). Bulls ventured into the arena once again when it was also strongly suggested in market circles that Pandit Nehru's historic visit to the U. S. would result, among others, in India getting a sizeable loan from the World Bank. These factors would naturally give some occasional support to the general level of scrips in the market, while growth scrips, where excellent prospects following huge expansion programmes are taken for granted, could be expected to maintain a more or less steady trend without being unduly affected by the bearish bias elsewhere. In this class come companies like Tata Steel, Tata Locomotives, Indian Iron, ACC, National Carbon, Indian Aluminium, etc.

Tata Steel opened the week at around Rs 178, and after improving to Rs 178-8-0 closed relatively weak at Rs 177. Indian fared no better. In fact, in the course of the week's trading a new low level of Rs 28-9-6 ex. div. was registered before the scrip managed to lift itself up by its bootstrap, as it were, to close, with a modest recovery, at Rs 29-4-0.

In the textile section, despite anticipation of bonus issues in some scrips, the general trend was bearish. Centuries ruled weak despite bonus issues, while Dyeings were quiet although there are still market rumours about a bonus by this Company. The unprecedented manner of the Government of India desiring to assume powers by a notification, to raise the existing excise duties subject to a maximum of 50 per cent of the existing rates, has been a vital factor adversely affecting sentiment in the textile section. Marketmen were completely nonplussed by the Union Finance Minister's extremely unconventional means of meeting his needs. There is every evidence now to show that Shri T T K means business when he says that he is going to assume the role of a Robin Hood! In the circumstances, even the assurance given by the Minister earlier that the February Budget would be a lame-duck session has failed to console the marketman. They feel themselves already properly fleeced. Right now investment confidence is at a very low ebb, and Government is unfortunately bent on its being kept so!

Cotton

Change in By-laws

IN THE cotton futures market, conditions of trading were far from satisfactory. Prices tended to rule around the low levels. A notable event of the week was the decision of the East India Cotton Association in respect of its by-law 55 relating to the fixation of tendering differentials. There had been frequent complaints from leading cotton houses in the city that there was need to amend this by-law to remove the distinctly bearish bias from which the current contracts were evidently suffering since futures trading was resumed in Bombay. The by-law in question has been amended whereby the E. I. C. A. has empowered the Board to fix the room rates on the basis of spot prices instead of futures values as prevailing hitherto. The market naturally welcomed this decision by a rise of two to three points, but on the same day that the decision was taken, sentiment suffered towards the close. This was due to two reasons. In the first place, the market was not quite happy over the Board's decision to keep by-law 61 which in effect cancelled out the bullish potential of the change in the other by-law. Secondly, operators were disappointed at the EICA's decision to make the amendment of the by-law 55 effective only from the next settlement and not the current contracts.

In the spot market too, sentiment was generally bearish. Arrivals from upcountry were regular and sizeable, while mill buying was confined to only exportable varieties. Towards the end of the week, even when the Union Finance Minister hinted at the possibility of levy of import duty on foreign cotton, sentiment continued to remain unaffected and the inherent weakness of the cotton market, both spot and futures, was further emphasised.

There has been some speculation as to whether Government would sanction the import of East African cotton. Usually, India accounts for the lion's share of the import of East African cotton. This year, however, though East Africa has already disposed of nearly fifty per cent. of the crop in the four auctions held thus far at Kampala, Government has yet to clarify the position with regard to the import of this cotton. Demand for it has, however, become more keen in the absence of a fair volume of Egyptian cotton owing to the Suez crisis. Unless Government comes out with an announcement immediately, it is felt that India may not at all be able to participate in the Kampala auctions.

Oilseeds

Groundnut Reacts

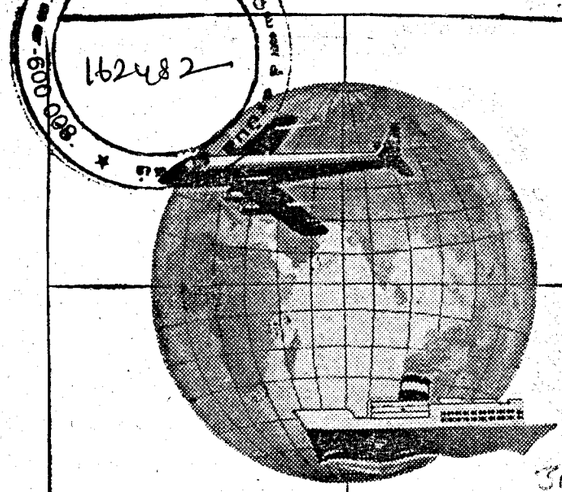
During the week under review the oilseeds market clearly demonstrated that it would be playing into the hands of Government if prices were allowed to hover around higher levels for longer periods. Groundnut prices had been seeking fresh high levels for some time, both due to the statistical position of the crop as well as on expectation of a large export quota for groundnut oil. During the middle of the week, there was some irregular trend in the groundnut section but this was corrected on Monday when, under the leadership of groundnut, the entire oilseeds market forged ahead, with heavy business in groundnut. Ideas about the crop were being revised downward while actual arrivals were far below the market expectations. Over and above these factors, whatever arrivals were there, were soon absorbed by eager crushers and vanaspati interests. What more was needed for a distinctly bullish trend? There was, of course, the demand and the expectation for an export quota for groundnut oil.

Things then took a turn for the worse with the visit of the Union Minister for Commerce and Consumer Industries to the city. Shri Morarji declared categorically, at a function organised by the Bombay Oilseeds and Oil Exchange, that "if any of the merchants still hoped that the export of oilseeds would be allowed, he would have to suffer". He warned the trade further that if they did not take steps to bring down the prices of oil, a prime necessity of life, Government would have to intervene. This very statement brought about the desired result, namely, a decline in seeds and oil prices all round, without either Government or the trade having to take any steps! Groundnut February, which was around Rs 159-12-0 at the opening of the week, forged ahead on Tuesday to as high as Rs 161 only to suffer a decline on the same day at the kerb to Rs 156-8-0. The actual closing for the week was still lower at Rs 155-4-0. In the same way, sentiment in the castor section, which was sympathetically favourable earlier in the week, suffered adversely towards the close.

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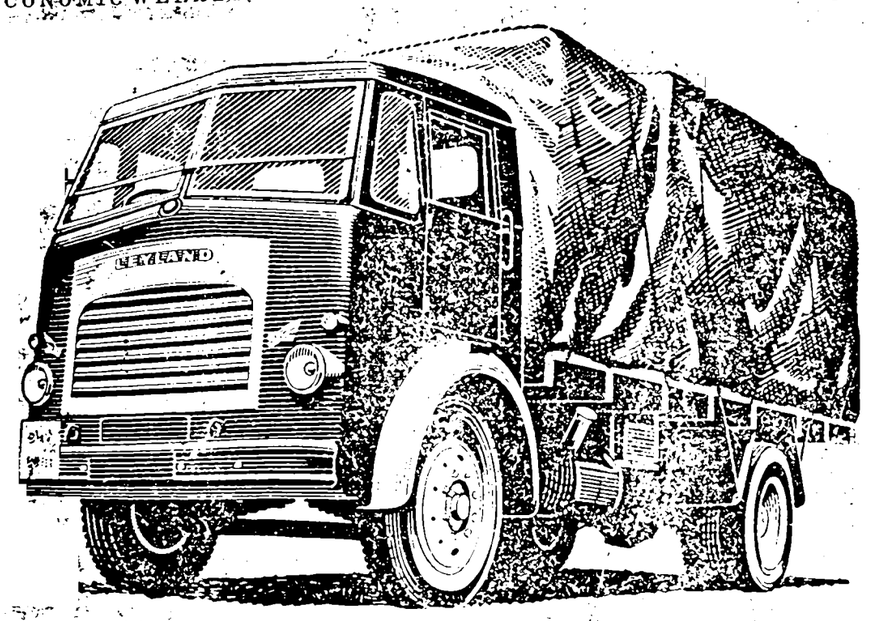
At the adjourned Annual General Meeting of the Indian Iron & Steel Co, Ltd, held on Friday, the 7th December, 1956, the following resolution was passed:

"That a dividend of Re 1/- per share without deduction of Income Tax be declared in respect of each of the Company's 51,83,708 Ordinary Shares of Rs 10/- each and that such dividend (other than that retained by the Company under the agreement dated 6th December, 1952, relative to the shares held on Investment Realisation A/c.) be paid on or after the 17th December, 1956, to Ordinary shareholders whose names appear on the Company's Register on the 30th day of November, 1956, or to their mandatees."

The Shareholders added a rider to the above resolution that they wish to place on record that they passed the dividend resolution under protest and without prejudice to their case to be put forward by a representative deputation of shareholders which will shortly present itself to Government in Delhi for the purpose of fully explaining their views.

THE INDIAN IRON & STEEL CO LTD,
MARTIN BURN LTD
A. G. GIDLEY
Secretary,
Managing Agents.

Regd. No. B.5489

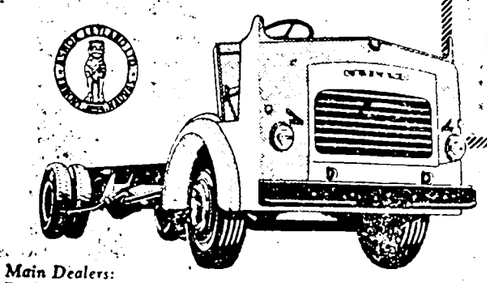


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ECOS2. 4R	14ft. 8in.	24ft. 0in.
ECPO2. 1R	16ft. 11in.	27ft. 0in.
*ECPO2. 2R	14ft. 8in.	24ft. 0in.

*Passenger models

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Prithvi Mansions, Asaf Ali Road, New Delhi

For Andhra, Madras, Mysore and Travancore-Cochin:
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For Assam:
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For Uttar Pradesh:
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25 Bhopal House, Lal Bagh, Lucknow and
Messrs. Agarwala Brothers
The Mall, Kanpur

For Vindhya Pradesh:
Messrs. Agarwala Brothers
The Mall, Kanpur

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